The Journey Ahead: Map Out Succession, Retirement, and Estate Plans Before You Exit Your Business

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You've worked for many years to build a successful business, and now you're starting to think about retirement. To ensure a smooth exit from the workplace, establish your retirement and estate plans now — well before you're ready to sell or transfer.

Early planning will help ensure that you adequately provide for your retirement needs and the financial security of your heirs. It will also foster the continued success of your company and its employees.

Assess Where You Are

Before determining where you want to be when you're ready to retire, assess where you —- and your business — are financially today. It sounds like a large undertaking, but you can start by preparing a detailed financial analysis of your business with the help of a valuation professional at VR. This expert will review historical data to determine your company's current value. You will also need to examine all contracts and agreements to make sure your business is transferable. Transfer restrictions, such as professional license restrictions, franchise agreements, lending agreements, shareholder agreements or other types of contracts, can slow down the process significantly.

Plan for Success (ion)

Next, develop a succession plan that outlines how your business will be sold or transferred. If you have business partners, they will most likely be able to buy your ownership interests according to the terms of your company's shareholder agreement or other agreements established among you. Or you might choose to groom one of your children to eventually take the helm. To ensure a smooth transition, however, your successor should assume significant management duties and at least partial ownership before you retire.

If you have no qualified family members or partners, consider selling the business to a key employee or group of employees. Employee buyers may have several financing options, including private equity partners, bank loans, and Employee Stock Ownership Plans (ESOPs). ESOPs are fairly complex structures and will require valuation and tax planning — as well as employees who are committed to the company for the long haul.

Think Retirement

The first considerations for retirement planning are your health, lifestyle, and any financial obligations. You will use these to determine your required revenue stream.

In addition to qualifying for Social Security benefits, you likely have retirement accounts such as IRAs or 401(k), Keogh, or Simplified Employee Pension (SEP) plans. When tapping these accounts, be sure to avoid actions that could have negative tax consequences. Also bear in mind that minimum distribution rules govern many tax-deferred retirement accounts. Traditional IRAs, for example, compel you to begin taking distributions after age 70 ½ or face significant penalties.

Also, certain corporate entity formations may provide options for additional distributions and more favorable tax treatments. Consider changing your corporate structure and placing assets where they facilitate the most cost-efficient succession. This is where a professional investment advisor is essential.

Even if you've managed your own investments thus far, a financial planning expert and tax advisor can help determine whether your retirement funds are likely to support your plans.

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These experts also help you ensure your assets are well diversified in a way that doesn't put your nest egg at unnecessary risk. A high concentration in one asset, such as your business, could result in a precarious financial situation if the asset were to decline significantly in value.

You might also want to consider staying with your company after the sale — perhaps as a paid consultant or salaried employee. Doing so may provide extra income that allows you to put off tapping your retirement accounts and investments, and you'll be able to continue contributing to your tax-advantaged retirement plans. But working part-time also has tax consequences, so be sure to discuss any such plans with your financial advisor.

Protect Your Estate

Just as important as succession and retirement plans is an estate plan. If you haven't already, write a will and appoint an executor to oversee the distribution of your assets when you die.

Trusts can help you avoid the costs and inconvenience of probate. Trusts may also protect assets from creditors, provide privacy, and come with professional investment management services. Your circumstances — including your assets' estimated value, their allocation, and your beneficiaries — will help determine the structure and tax implications of your ideal trust.

Trusts can also be designed with special provisions. You might, for example, want to:
• Manage wealth through fiduciaries for living family members,
• Ensure the support of a child with special needs,
• Make a gift to a favorite charity, or
• Create tax-friendly structures.

If you decide to make a trust a component of your estate plan, be sure to appoint a trustee who's a neutral party you can trust.

Pick Your Partners

Planning your exit strategy, retirement revenue and estate distribution isn't a simple task. At this critical juncture of your life, legal and financial professionals are essential partners.