Things to Consider as you plan for Retirement - Beyond Savings

When a business owner thinks about retirement, he typically settles on one of two plans- sell the business or gift to his children. The choice between the two are usually very personal and will coincide with the goals of the business owner. For each option, there are different considerations, and necessitates the implementation of a comprehensive business succession plan. A business succession plan allows the business owner to make prior arrangements for the continuation of the business in the event of disability, retirement or death. It also accounts for the possibility or eventuality of the sale of the business to co-owners or to a third party. In this article, we will take a look at each option, and briefly discuss some of the issues that arise through the use of a fictional but typical scenario.

Joe has owned JM Plumbing, a limited liability company for 25 years. He co-owns it with his brother Philip and his best friend, Dean. Joe has been married to his wife, Patricia for almost 40 years, and they have 3 children, Joanna (40), Patrick (36) and Susan (33). Patrick currently works with JM Plumbing as a manager. Let’s explore Joe’s retirement options: (1) Joe can sell his share of the company to Philip and Dean, outright. For this to happen, both Dean and Philip, together or separately, would need to have the cash flow to buy Joe’s share, whether from the business assets or personal funds. (2) Alternatively, Joe can sell his share to an entirely unrelated person. Considerations in this instance would be whether both Dean and Philip would want to be in business with an unrelated person. (2) Joe can gift his share to Patrick, who currently works with him. This can be done through an outright gift, without consideration or through a profit-sharing agreement for a particular time frame or for the remainder of Joe’s life. Dean and Philip may not want be in business with Patrick; Joanna and Susan may have wanted to be part of the family business, and as a result, may be angry with Joe and Patrick, for being excluded. Furthermore, Patrick may not want this responsibility, or may not even possess the necessary skills, experience or desire to co-own the family business.

Here are a few more questions that every business owner should first consider before settling on whether to sell the business or to pass it on to his children. Is the business the family’s main source of income? If the business owner and his family will continue to have alternative sources of income sufficient enough to maintain their standard of living, then gifting the business to family might be more attractive than selling because the need for an immediate lump sum might not be there. Also, if the business owner’s retirement is imminent, he might need to sell especially if he hasn’t saved enough for retirement. The business owner might also have more sentimental reasons for choosing whether to sell or gift. If the business owner always envisioned building a legacy, and worked hard with that particular goal in mind, selling the business might be difficult, even where there is a need for retirement funds.

An effective business succession plan is a collaboration of different professionals – CPA, financial advisor, business attorney and estate planning attorney. The CPA and/or financial advisor will help the business owner develop reasonable expectations of future financial need as well as future tax considerations. The business attorney will work with the business owner on creating the plan as well as assessing the needs of the business. The estate planning attorney is armed with different vehicles that when used individually or together will ensure that the business owner’s retirement objectives are achieved, whatever the end goal. Build a power team of professionals and start planning because “to fail to plan is to plan to fail.”