

## **Passing the Torch**

You've poured your soul into building a successful business. In fact, it's probably hard to imagine your business without you at the helm. One day, however, you'll determine that the time has come to step back and hand the responsibility for the day-to-day operations to someone else.

It's very likely your business is the most valuable asset you own. There's also a good chance you'll want to pass it on to one or more members of your family. Succession planning, however, raises a number of difficult questions.

If there's a family member who is both willing to take over the business and capable of running it, you're already part of the way there. The next question is to decide how to finance the transfer. Will the new owner purchase an interest in the business—and if so, will him or her pay fair market value for it?

If you plan on leaving the shares to one person—say, a child—are there enough other assets in your estate to leave to other children? If not, you may want to consider life insurance as a means of providing an inheritance to others. If you are considering leaving your business to siblings, proceed with care.

Many families have suffered through strained relationships after rifts have developed on business questions or in situations where one sibling feels they're contributing more than others. Also, if the plan calls for one sibling to take a more active role in the day-to-day operation of the business, will there be additional rewards for assuming added responsibilities? You'll want to avoid a situation where the active child spends the rest of their life working for their siblings.

Finally, encourage your successors to implement a buy-sell agreement to replace yours. You may want to ensure in advance that eventualities such as a child's marriage are planned for.

## **The Pillars of Succession Planning**

- **Buy-sell agreement** — These agreements establish the terms and conditions under which your share of the business or partnership will be acquired by your co-owners in the event of such contingencies as your death or disability.
- **Financial considerations** — If you've chosen a successor, or signed a buy-sell agreement, you need to ensure that whoever will be taking over for you has the

capital required to buy your interest. Insurance can ensure that the capital required in these situations is available when it's needed.

- **Legal documentation** — Make sure your will and power of attorney coincide with the terms of the buy-sell agreement.
- **Managing the proceeds of your sale** — Should you sell your business, you'll likely find yourself with a large sum of money in hand. The question is, how can those proceeds be invested to balance the need to minimize future tax concerns and still deliver respectable returns? We can help you construct a properly diversified portfolio with the proceeds, based on your objectives and tolerance for risk.