

Successful Succession Planning Strategies for Your Family Business

by **Henry Montag, CFP, CLTC**

You've spent your time and devoted your passion to creating a business that has not only provided you and your spouse with an ongoing stream of Income but if your fortunate enough may also provide your kids and their future generations with the same goose that lays the golden eggs.

Since this aspect of your life is such an important part of your Legacy it makes sense that you would do whatever it took to guarantee its continued success. But unfortunately this is not true for the great majority of family owned businesses for several reasons. Among the most prevalent I've found over the last 32 years of advising clients is that many people spend more time planning their vacations than they do planning for their own futures let alone the future continuation of their business.

Many times its just the obvious reason that the owner simply doesn't want to face his/her own mortality. Many others believe they'll simply retire before anyone will pass away prematurely and mess up their plans. Other business owners will even go so far as to acknowledge that it may happen to them and they even discuss what they would like to see happen if anything were to occur to one of the partners, but they don't write it down for others to know of their intentions should a death occur. The more fortunate ones are those that not only discuss those facts, but also take the time to see an attorney and have a formal agreement drafted to let others know what they'd like to see happen with their shares of the business.

The most fortunate however are those that also make certain that the funds needed to buy out a deceased's partner share will actually be there to pay the family a predetermined lumps sum of cash in exchange for their shares in the business, be it a partnership or a corporation. In that way the surviving shareholders or partner will be able to retain 100% control in the business without interruption, while the deceased's family will be able to use the proceeds to have their family continue to live in the lifestyle the owner of the business had intended for them.

Needless to say that if you're fortunate enough to have built a successful business you'd not only like to have it provide for you and your family while you're working but you'd also like to have it provide for your retirement years. This protection should also extend to you and your spouse being protected against the risk of a long term care illness upsetting those golden retirement years. You would of course also want to continue to provide that same protection to the owners' spouse in the event of a premature death.

Ideally you would want that business to continue to provide that same benefit to the next generation. These wishes can only be fulfilled if they're thought about in advance and plans are made to allocate the necessary dollars to fund each and everyone of those contingencies. Often times a Life Insurance contract on a partner or shareholder paid for by the business can be made payable to the partner or to the business to guarantee that the funds necessary to conduct the transfer or transaction will be there exactly when they will be needed.

In the event that there is no partner able to continue to run the business similar steps can and should be taken to cultivate a key person who will have a strong enough incentive to step in and continue operating the business for your heirs if they are not yet able to do so and prevent him /her from leaving your company and opening up down the street as a competitor. This strategy is typically referred to as Golden Handcuffs and can be paid for as an employee benefit directly from the business, for the benefit of the business and the business owners Family.

Who will run the business, where will the money come from, how should money best be set aside to pay for retirement, at what point should there be a buyout in the event that one of the partners become disabled are all extremely important matters that need to be discussed years before the problem arises. Otherwise it will be too late and an important opportunity to extend your legacy to your family and or future generations will be lost forever.

About the Author: Henry Montag is an Independent Certified Financial Planner as well as a CLTC. He's been in practice since 1976. He is a contributing writer for *The Moneypaper*, a national financial publication, and sourced by *Investors business Daily*, *Long Island Business News*, *Newsday*, *Wall St Journal*, *The Moneypaper*, *Investment News*, *Senior Lifestyles* and has held insurance and securities licenses for over thirty years.