

## So You Think You Can Retire?

### Successful exit planning begins the day you commence business

By Michael J. Lee, CPA



A comfortable retirement is the ultimate goal of a business owner. Whether you imagine yourself on a golf course, traveling to exotic locations, or falling asleep with a fishing pole in your hand, you most certainly deserve to reap the rewards of your labor.

Are you ready? Or are you too busy working *in* the business to work *on* the business.

Prosperous business owners know that success does not occur without planning and hard work. Yet most owners have absolutely no strategy for leaving the business they worked so hard to create. This precarious position directly conflicts with the risk-averse nature of the typical business owner. Exit planning is precisely what the prudent entrepreneur should consider given that the principle purpose is to provide assurance – both personal and professional – in times of transition.

The reality is that you and your business are constantly changing, and sooner or later the pursuit of more leisurely activities will conflict with the demands of your business. When the Company requires too much of your time, will you know how to remove yourself from day-to-day management? To what extent will you want to remain involved in the business, if at all? To whom would you entrust it? The questions are numerous and not easily answered.

On the other hand, suppose the unexpected happens. How do you ensure continuity and stability if you become disabled, go through a divorce, or die? And, if you have a business partner, the situation becomes even more complicated. While these circumstances may be unpleasant to think about, you cannot ignore their possibility and risk an unwelcome consequence. Caught off guard, your options are instantly limited and you have placed yourself and your family in a position that will likely yield an undesirable result — liquidation, financial uncertainty, family squabbles — to name a few. For the best possible outcome, you cannot wait for a crisis to begin your planning your exit.

A comprehensive succession strategy will cover both voluntary and unexpected departures. If you have a business partner, you should also have a solid buy-sell agreement that deals with the expected or the unexpected. It should also sort out the circumstances involved if you and your partner want to take the business in different directions.

In the process of planning, you will need to consider the following:

- *Your mental preparedness for retirement.* Allow yourself time to develop interests outside the business. Will you be ready to step away and hand over the reins?

- *Creating wealth outside your business.* You should diversify your wealth by taking advantage of the tax benefits of retirement accounts in addition to other investment instruments such as, securities or real estate. Do not put yourself in a position where your business is your only retirement fund.
- *Adequacy of insurance.* You need to assess the adequacy of your life and disability insurance as well as health coverage that carries forward into retirement.
- *Your personal needs in retirement.* You need to determine your financial needs in retirement in order to determine if you can gift the business to your successor or need to sell it. Or, perhaps you want remain a passive investor.
- *Identifying the right successor.* Your best choice for a successor may not be a child. You need to determine who has the ability, motivation and the commitment to take the reins.
- *Grooming your successor.* Once identified, you will need to provide training for your successor in every aspect of the business.
- *Keeping your family and key employees in the loop.* To avoid misunderstandings, you must communicate your intentions.
- *Determining the value of your business.* The best method used to calculate the value of your business will depend on its disposition (i.e., gift or sale).
- *Review the plan.* Whenever any major change occurs in the business or with those associated with it, your plan will need to be updated. At a minimum, an annual assessment is recommended.

There's plenty to consider, so you should not go it alone. To adequately develop a plan that meets your objectives and addresses all your concerns, it is wise to make use of advisors to help you through the process. Experienced financial and legal professionals will ensure all your personal circumstances are considered and addressed. They will help you identify your goals, formulate the legal and business strategies to achieve those goals, and implement the plan. Moreover, advisors keep it objective and keep it focused, a vital service for a business owner who is invested emotionally as well as financially.

It is never too soon to plan for business departure. You want to be prepared for the day when you trade your laptop for golf clubs, a plane ticket, or a fishing pole. You want to be able to say with confidence, "I am ready."

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