

Jason M. Woodward, J.D.
Financial Services Professional
Lowell, MA
finanialattorney@gmail.com

Solving the Small Business Owner's Retirement Dilemma

There's a fatal flaw in the retirement of many small business owners: After pouring a lifetime of sweat, time and capital into building the business, their rough-sketch strategy is to sell out someday for a ton of money... then settle back and enjoy a financially secure retirement. Many business owners are so sure this will happen that they don't bother to make any other retirement plans.

Who is this person who, at just the right moment, is going to show up with cash in hand to buy the company... and pay a fair price? For thousands of small business owners each year, no one steps forward. Perhaps the business is too specialized or is tied too closely to the owner's unique personality and skills. Or perhaps possible buyers equate retirement sale with distress sale and make only low-ball offers. Whatever the reason, many owners find that their company has suddenly become a white elephant that nobody wants.

One Possible Solution

Groom your own replacement, someone who will buy your company when you're ready to retire. Maybe this person is a current co-owner (but be careful if he or she is about the same age as you, who will be counting on retiring around the same time.) Or it could be a son or daughter active in the business, or a younger key employee.

Business Owners Who Successfully Groom Their Own Replacements Leave Nothing to Chance

They realize that there is no room for error at the point of retirement. Here are some examples of steps they might take:

- They are cautious. They make sure their heir apparent is the right person in terms of temperament, personality, competence and personal goals.
- They set up a probation period so they can terminate the relationship if they find this person simply will not work out. During that period, they keep everything informal, strictly verbal. At the same time, even when they go to a formal agreement, they make sure it contains a termination provision.
- They fashion golden handcuffs and incentives to ensure that their replacement stays until the baton is passed. An ambitious successor needs and deserves gradually increasing authority and benefits. Options include deferred compensation or the opportunity to acquire partial ownership prior to their retirement. Both parties need something to win by sticking to the agreement...and something to lose if it falls apart.
- They put it in writing, along with the help of their attorney—locking in who does and gets what, and spelling out all details and caveats, including how to establish

the final valuation of the business. This formal buy/sell agreement protects everybody.

- They build in a funding mechanism. This is crucial. No matter how good the terms of the buy/sell agreement, it will be worthless if the money is not there when needed to carry out the plan. Under one option, the successor may be able to purchase the company from ongoing profits. Other options include setting up a sinking fund or allowing the successor to simply borrow the money. These options may work but they leave much to chance. Instead, the recommended funding vehicle—one that protects your family in the event of your disability or premature death—is life and disability income insurance.
- They have a back-up plan. As a business owner, you know that very few things go exactly as planned. What if your business hits tough times or your successor dies, becomes disabled, or—all too common—leaves because of a personality conflict? Or what if there simply is no heir apparent waiting in the wings? Sometimes, it's simply best to dismantle the business.

Plan Early

Whether or not you have a possible successor for your company, you should begin mapping out your retirement strategy today. Your insurance professional or your independent professional advisors can help you develop this kind of business strategy. For further information on how insurance and other financial solutions can be used in business planning, please contact Jason M. Woodward, J.D. today at finanialattorney@gmail.com.