

# Why Every Business Owner Needs a Business Succession Plan



There are 30.7 million small businesses representing 99.9 percent of all businesses in the United States.<sup>1</sup> Yet it is estimated that 58 percent of business owners do not have a business succession plan in place.<sup>2</sup> Business succession planning can be summed up with the following phrase: "As with most things, it's better to be proactive instead of reactive. Don't wait until retirement—or worse, until you're unexpectedly forced to exit the business—to put a plan in place."<sup>3</sup>

If you're a small-business owner, whether a sole proprietor, member of a limited liability company, partner in a partnership, or shareholder of a corporation, you've worked tirelessly to build your business and invested much of your profits to keep it growing. Your financial needs and those of your family are highly dependent upon the continuing success of the business, and that will continue when you decide to slow down or retire because business owners often rely upon the sale of their business for retirement income, rather than relying on a qualified retirement plan. It is estimated that only 28 percent of businesses with less than 10 employees offer an employer-sponsored qualified retirement plan. Only about half with 10 to 24 employees offer a retirement plan.<sup>4</sup> So now is the time to make sure that you have a business succession plan for financial protection.

Business succession plans allow for the orderly transition of a business on terms that are fair and amicable when a business owner is ready to, or forced to, exit the business. Events that may cause an exit from a business include retirement, divorce, death, disability, major disagreements with co-owners, and others. The plan will guarantee a buyer, set a fair selling price, and if properly funded, create liquidity to complete the implementation of the plan. The plan will also ensure that the remaining owners are not forced into a relationship with an unknown third party. Done properly, a business succession plan may also fix the value of the business for estate tax purposes.

Succession plans are typically done when the business is operating smoothly, there are no major disagreements among owners, and everyone is relatively satisfied with the way business is going. This helps ensure that cooler heads prevail when the plan is developed and that terms are reasonable and mutually satisfactory.

These succession plans are also referred to as buy-sell plans. They are commonly embodied in a stand-alone agreement, or there may be provisions set out in a shareholders' agreement, partnership agreement or LLC operating agreement.

There are several different variations of buy-sell plans depending upon a variety of factors, including:

- the number of owners.
- the potential purchasers.
- income tax ramifications.
- creditor issues.
- trust issues among owners.
- varying ages and health of business owners.
- the legal structure of the business entity (i.e., C or S corporation, limited liability company, partnerships and sole proprietorships).
- taxation of the business entity.

Common buy-sell variations are cross purchase plans, entity purchase plans, stock redemptions and hybrid wait-and-see buy-sell plans.

In family businesses where the intent is to have the business remain in the family, in addition to buy-sell agreements, the succession plan may be dependent upon estate planning wealth transfer techniques, including gifts of business interests, transfers through inheritance or sales to trusts. Consideration must also be given to children and heirs who are not involved in the business, emotional dynamics among family members, and control issues that the current owner may have and desire to retain.

Your Security Mutual life insurance advisor is trained to help small-business owners wade through the myriad of issues that business succession planning brings to the forefront. Working with your legal and tax advisors, your Security Mutual life insurance advisor can help you design the appropriate plan for your business and situation. So don't procrastinate any longer. Help ensure that your business continues in good hands, even after you have left it. At the same time, you will help to financially secure your family and your future including the years when you slow down or enjoy retirement.

**Contact your Security Mutual life insurance advisor today for more information and to discuss how a business succession plan may be right for your unique circumstances.**

<sup>1</sup> U.S. Small Business Administration Office of Advocacy, "2019 Small Business Profile," sba.gov.  
<https://cdn.advocacy.sba.gov/wp-content/uploads/2019/04/23142719/2019-Small-Business-Profiles-US.pdf> (accessed March 16, 2020).

<sup>2</sup> Massimo, Charles, "Business Owners, What's Your Succession Plan?" forbes.com.  
<https://www.forbes.com/sites/forbesnycouncil/2019/06/05/business-owners-whats-your-succession-plan/#3f4d2c4a5f5f> (accessed March 16, 2020).

<sup>3</sup> Ibid.

<sup>4</sup> "Small Business Retirement - Investing in Your Future," SCORE, April 9, 2019.  
<https://www.score.org/resource/infographic-small-business-retirement-investing-your-future> (accessed March 16, 2020).

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