

Get Positioned for Transition

CHANGE ISN'T EASY. Just ask England's Queen Elizabeth. Her heir, Prince Charles, is now 60 years old — an age when many men and women are getting ready for retirement. So, what is the Queen waiting for? Where is this monarch's succession plan?

The idea of moving on from day-to-day management can be downright scary. Driven by fear and anxiety, many business owners put off important discussions and decisions. Yet, at some point, the individual must leave his or her "baby" to the next generation of leadership.

Here are five steps owners can take to get "transition ready."

1. Communicate regularly. Family members deserve to know what's ahead for the business. Whether the transition is five years or five months out, it's wise to remind family members and coworkers that you won't be around forever. This honest, forthright approach creates a feeling of trust in the next generation. If the owner's attitude is encouraging and confident, it will filter through the rest of the company.

2. Delegate responsibilities. How can the next generation be prepared to lead if they've never been given the opportunity to learn how to make good decisions? Delegate responsibility early and often, and help guide young leaders in gathering data, processing information and weighing alternatives. A few not-so-great decisions are sure to occur, but these mistakes can become powerful, teachable moments.

3. Mentor the next generation. Successful mentoring can work wonders by molding young people into capable leaders. The process is most effective when the younger person's leadership or knowledge gaps are identified and addressed via an ongoing relationship with a positive role model. The key is one-on-one, purposeful interaction designed to affect change.

4. Address organizational issues. Don't leave a mess for the next generation to clean up. Tackle the tough problems now, while management is seasoned and stable. Are there vendor re-

lationships that must be fixed? Major equipment purchases to make? An operational overhaul? Now's the time to dig in and get things done. It's wise to involve the next generation so that they feel ownership in the decisions being made.

5. Engage in self-reflection. How are you going to spend the next 20 years? Do you have hobbies and interests that will keep you busy? Will your personal relationships withstand the increased togetherness afforded by retirement? Think about all the things you never had time to do, and make a plan to do them. Of course, maintaining good health should be at the top of the list.

While this change may be difficult, it is inevitable. Don't let ambivalence or fear stand in the way of a good transition out of the company. It may be helpful to talk with other family business owners who have successfully gone through this process. Ask for their advice about what went well and what didn't.



If your business is planning a transition, please contact Kathy Graessle, CPA at (573) 635-6196

The Basics of Buy-Sell Agreements

A SURPRISING NUMBER of business owners are working without a buy-sell agreement. If your business is lacking this crucial document, here's what you need to know.

Who? Every business should have a buy-sell agreement. Doing business without one puts the owners and the business at risk in case of one owner's departure, death, disability, bankruptcy or divorce.

continued on reverse.

Owner Outlook

ILITs Valuable for Estate Planning

MOST BUSINESS OWNERS have life insurance policies intended to benefit their families after they're gone. While it is prudent to own life insurance, it is critical to consider how the insurance proceeds will impact the owner's estate.

To avoid paying estate tax on life insurance proceeds, many owners choose to create an irrevocable life insurance trust (ILIT). Properly managed, an ILIT will keep life insurance proceeds out of the estate.

ILITs are easy to set up and manage, but an attorney should draft the trust documents. Properly structured, an ILIT becomes the owner of a life insurance policy. The insured makes annual "gifts" to the ILIT, which uses the gift dollars to pay premiums.

The trust's beneficiaries are typically the insured's children, who will eventually receive the life insurance proceeds. But because death benefits are paid to the trust, they are excluded from the insured's estate.

There are some serious housekeeping requirements inherent in ILITs, including "Crummey letters" that must be sent to the beneficiaries each time a gift is made to the trust. These gifts, if under the \$12,000 annual exemption per beneficiary, are excluded from gift tax, and do not count toward the insured's \$1 million lifetime gift exclusion.

Crummey letters (named for Clifford Crummey's 1968 court case) notify beneficiaries that a gift has been made and remind them of their withdrawal rights. It is imperative to follow the rules regarding these letters and their timing. Otherwise, the IRS may disallow the annual gift exemption for the gifts to the trust.

Like other irrevocable trusts, ILITs cannot be changed or cancelled after they are created. Be sure to discuss all the details of such a trust with a qualified financial advisor before moving forward.



Contact Mariel Liggett at (573) 442-6171 for more information regarding ILITs.

The Basics, *continued from front*

What? A buy-sell agreement is a written contract detailing how and when an owner can sell his or her interest in the business. Sometimes known as a shareholder agreement, this document outlines how the business interest will be valued, and to whom the interest may be sold.

When? Most financial experts believe that a buy-sell agreement should be drafted along with the company's articles of incorporation. In other words, you need a buy-sell agreement the day you go into business.

How? The agreement should document key decisions in several areas. For example, it should detail a process by which the owner's shares will be valued. It should define triggering events and include definitions of "disability" or "insolvency." It should also detail the agreed-upon buy-out method — stock redemption or cross-purchase, for example — and a funding mechanism, which is often a life insurance policy.

Why? At the most basic level, buy-sell agreements can ensure continuity of ownership and prevent unwanted ownership. For example, if one partner dies, the buy-sell agreement would give the remaining partners an opportunity to buy the deceased's shares, rather than take on their late partner's surviving spouse or children as new partners. Owners can also avoid costly litigation if a partner wants to leave the business because the buy-sell agreement spells out exactly how that process can be accomplished.

Note that all shareholders and their spouses should be bound by the buy-sell agreement.



Contact Debbie Mathes at (573) 442-6171 for more information regarding the buy-sell agreement.

Follow WK
on Twitter and
Facebook

This summer, WK joined the Twitterverse and set up a profile on Facebook. We use these pages to learn more about the people and businesses in our community and to distribute news and information that affect your personal and business finances. Twitter and Facebook are great tools for sharing information (and don't worry, we don't post what we had for breakfast).

To find us, go to www.twitter.com/WilliamsKeepers or search for Williams-Keepers LLC on Facebook.