The Exit Strategies Newsletter

THE "BOOTS FIRST' EXIT PLAN

One of the key drivers in the emerging world of business owner exit planning is the realization that there are many options for an owner to exit their business. Typically the problem isn't having an option, it is knowing which of these options is best for you and which will produce the optimal result for your exit. However, amongst many of the exit options that are commonly discussed, there is one that is not too often analyzed and is what we will call the 'Boots First' exit plan. This is the intentional plan to one day be carried out of your office - that you are simply going to work until you cannot work anymore.

A Default Strategy for Many

The sad reality is that most baby boomer business owners do not have a plan for the exit or succession of their business. As a result, the 'Boots First' strategy is their default strategy. This simply means that since these owners have not proactively planned for their exit, the default planning inside an outdated will or trust or, worse yet, the estate distribution laws (and tax rates) will apply to your estate - business assets and all.

How to Proactively Choose the 'Boots First' Exit

One of the common misconceptions is that 'exit planning' is about selling your business. This is simply not the case. The truth is that exit planning is all about learning the options for your exit and finding a customized solution that works best for you, your company and your family situation. If working in your business until you cannot work anymore sounds like it is the best strategy for you, then we are suggesting that this is a form of exit planning that can be proactively addressed. To implement a 'Boots First' exit plan, you need to start by determining the things that you do <u>not</u> want to happen as a result of 'over-staying' your time in your business.

The following is a list of potential negative outcomes that can result from an unplanned, 'Boots First' exit plan. Review this list and identify the things that you do <u>not</u> want to be remembered for:

- Leaving a mess for your spouse
- Paying excessive taxes
- Having the business fail
- Having employees lose their jobs
- Having family members fight over the company
- Having future ownership transfer to family members who don't want it

- Having your wealth disappear to advisory fees

Potential Solutions to Accompany Your 'Boots First' Strategy

One of the first items that you can address if you plan to be carried out of your desk is your *estate planning*. By updating your estate planning, you can state your intentions for the future ownership of the business. Hopefully your named successor to the business actually wants to own it, run it and has the skills to do so. While you are planning your estate, be sure to make certain that the *proper amount of insurance* is purchased and held and titled properly (this includes disability insurance). In doing so, you can at least provide for your family with insurance proceeds to compensate for the loss of your business income and the dissipation of wealth that occurs from leaving your primary, business asset illiquid at your passing.

Beyond estate and insurance planning, the next best thing that you can do with a 'Boots First' strategy is start moving more and more assets out of the company, growing your personal liquid wealth. The 'Boots First' strategy assumes that your business will essentially end when you stop running it. Therefore, you can avoid the loss of some of your wealth by taking that wealth out of the business over the many years that you continue to run it. This form of diversification assists you both with your personal lifestyle as well as with any form of legacy planning or gifting that you would like to do. Remember that illiquid stock remains worthless until someone is willing to pay you for it. Therefore, gifting stock to children and heirs when you've predetermined your company's demise with this strategy is essentially an exercise in futility.

Closing Thoughts

If you are going to choose the 'Boots First' exit plan, at least take the time to fully understand what you are choosing. Many business owners who take this time to reflect on their decision typically realize that they have worked too long and too hard on their business to not reap the financial rewards or to not have a say in how that business will continue into the future. Hopefully you've gained an understanding that an 'exit' isn't really a final step, but rather the finish line that you and your business should be inline with and working towards.

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