The small business owner's retirement dilemma.

You've poured a lifetime of sweat, time, and capital into building your business. You've begun thinking about retirement, and your strategy is to sell your company for a good price, settle back, and enjoy a financially secure retirement. But, like many business owners, you've made the mistake of assuming this scenario will happen, and you haven't bothered to make any other retirement plans.

You need to be realistic.
What are the odds of a person showing up at the right time with cash in hand to buy the company for 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 maybe possible buyers equate retirement sale with a 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.

Select and develop a successor.
That's why it's so important to prime a replacement—someone who will buy your company when you're ready to retire. Maybe this is a current co-owner (but be careful if he or she is about the same age as you, and planning to retire around the same time.) Or it's your 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's no room for error at the point of retirement.

Here are some steps you should take:

- **Be cautious.** Make sure your heir apparent is the right person in terms of temperament, personality, competence, and personal goals.
- **Set up a probation period so you can terminate the relationship if you find that this person will not work out.** During that period, keep everything informal, strictly verbal. Even when you go to a formal agreement, make sure it contains a termination provision.
- **Offer incentives to ensure that your 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 your retirement. This provides both parties with something to win by sticking to the agreement, and something to lose if it falls apart.
- **Create a buy-sell agreement.** With the help of your attorney, lock in who does and gets what, spelling out all details and caveats, including how to establish the final valuation of the business. This formal agreement protects everybody.
- **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, consider a funding vehicle that protects your family in the event of your disability or premature death, such as life and disability income insurance.*

- **Have a Plan B.** 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 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.

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 work with you to help you develop a sound business strategy.

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