

Succession Planning

Are You Honing Next-Generation Leaders?

An estimated 10,000 baby boomers are now turning 65 years old every day. Many of these boomers are owners of family businesses who plan to retire in the near future and pass on their companies to the next generation.

But is the next generation ready to assume the mantle of business leadership? In many family enterprises, the unfortunate answer is no. While

owners may have done a good job of planning transition details like ownership structure, estate tax reduction and business profitability, they sometimes neglect what is often the most important component of a successful transition: developing the next generation of family business leadership.

A Threat to Long-Term Success

In one study of family business generational transitions, weak next-generation leadership was viewed as one of the primary threats to long-term family business success. This makes future leadership development one of the most important tasks for owners who want to successfully transition their companies to the next generation.

Family businesses face some unique challenges when it comes to future leadership development. For example, family roles and birth order sometimes play a bigger role in determining future leadership responsibilities than family members' actual skills, talents and abilities. The subtle nuances of lifelong family relationships, both good and bad, can also have unintended and damaging effects on leadership development.

So one of the first steps in developing next-generation leaders is identifying the best candidates for

future leadership positions. These decisions should be based not on age or seniority, but on which family members are best qualified and most capable of leading the organization.

Making these decisions objectively can be difficult from your perspective as the leader of both your family and your business. Therefore, it might be wise to turn to advisors outside the business — like members of your board, for example — for their input and advice.

Start the Grooming Process

Once you have identified the best candidates for future leadership positions, it's time to start grooming them for leadership responsibilities. Doing so requires a conscious effort on the part of both you and the future leaders — it's not something that's going to just happen by osmosis. You both must make a commitment to the leadership development process.

For you, it's going to take time, energy and attention. Many business owners spend most or all of their time on bottom-line oriented tasks like driving sales, building infrastructure or crunching financial numbers. Leadership development is different — it requires you to pour *yourself* into those who will determine the success or failure of your business after you're gone.

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Estate Planning: Don't Ignore It

Many individuals, including business owners, tune out when the discussion turns to estate planning because they don't think they have enough assets to worry about it. After all, with a lifetime gift and estate tax exclusion of \$5.45 million, a married couple can leave their heirs an estate worth \$10.9 million before gift and estate taxes kick in.

But this kind of thinking ignores the fact that estate planning is about much more than just minimizing estate taxes. The main purpose of a comprehensive estate plan is to ensure that your assets and personal possessions are distributed according to your wishes after you die.

Dangers of Failing to Plan

In a worst-case scenario, failure to create an estate plan can result in your assets being distributed per your state's probate laws, instead of as you desire. For example, state law might require that your spouse and minor children all receive a share of your estate. This could potentially put your surviving spouse in a cash flow squeeze when it comes to having enough liquid cash to meet daily living expenses.

Other critical aspects of estate planning include:

- Naming a guardian for your minor children.
- Laying out plans for your personal care if you ever become disabled.
- Arranging for the smooth transfer of your business ownership interests and responsibilities upon your death or disability.
- Detailing the role of life insurance in providing income for your family and helping transfer your business to partners or successor owners.
- Minimizing estate taxes, legal fees and court costs.

The first step in creating a comprehensive estate plan is a relatively simple one that a surprising number of people neglect: creating a last will

and testament. This document will detail plans for how your assets and possessions will be given to your heirs and charitable causes you'd like to support after your death.

Other important estate planning documents you should also have prepared along with your last will and testament include a living will, durable power of attorney and healthcare power of attorney.

The living will explains how medical treatment decisions to sustain your life should be made if you're incapacitated. The durable power of attorney and healthcare power of attorney, meanwhile, assign responsibility to someone to handle your financial affairs if you are incapacitated, terminal or in a vegetative state. These three documents together are referred to as an advanced healthcare directive.

Finally, consider including a revocable living trust in your comprehensive estate plan. Doing so will ensure that your assets avoid going through probate after you die — a time-consuming and expensive process that opens up the details of your estate to the public, destroying privacy for your heirs.

Minimizing Estate Taxes

With these core estate planning documents in place, you can now turn your attention to minimizing the gift

and estate taxes your heirs might have to pay. Here are a few points to keep in mind:

- **The lifetime gift and estate tax exclusion is up slightly in 2016.** The exclusion rose from \$5.43 million last year to \$5.45 million this year. This is the combined amount of money you can give away during your lifetime and transfer to heirs upon your death before gift and estate taxes apply.

- **The annual gift exclusion remains the same in 2016.** This exclusion, which is the amount of money you can give away each year before gift taxes kick in, remains \$14,000 this year.

- **The effective gift and estate tax rate is 40 percent.** This also remains unchanged in 2016.

- **Lifetime exclusion portability for spouses remains a viable strategy.** Exclusion portability enables surviving spouses to use any lifetime exclusion that was unused by their deceased spouse's estate. Therefore, married couples can transfer a total of \$10.9 million to their heirs in 2016 free from gift and estate taxes.

Now is a good time to get serious about creating a comprehensive estate plan, or updating your existing plan if you have one. ■

Give us a call for assistance in creating or updating your estate plan.



What's Next?

Why Owners Hang On Too Long

When it's time to go, it's time to go. But if you're a business owner, it's often hard to let go of your "baby" — the business you, your parents or grandparents may have started.

Indeed, many owners hang on a little too long, depriving the company of fresh thinking and growth opportunities and frustrating the next generation of executives.

Why does this happen?

Here are a few common reasons:

Identity: If you've worked your whole life building the

company, it may have become an integral part of your identity. Exiting may make you wonder how you will define yourself.

Power: Being in charge entails a lot of responsibility, but it's also fun. You are respected for your experience and opinions. People are interested in what you have to say. If you leave, your prestige may diminish.

Relationships: You've made great friends during your career — not just with coworkers, but also with clients, vendors and industry peers. If you retire, you'll likely miss these friends and mentors.

Fear: Perhaps you're not very confident in the next generation of leadership and are concerned that they're not ready to take the reins. You're afraid the company will stop performing to your expectations, which may not only be disappointing but may also have financial implications.

Boredom: Your work is tough, but it keeps your brain active and engaged. What will you do all day if you're not going to the office?

The solution to all of these problems comes down to planning, for both yourself and your company.

Taking Care of Yourself

Knowing what's ahead will help quell the anxiety associated with

exiting the company. This means you'll have to figure out exactly what's next for you. Do you want to retire or move away? Is starting another company appealing? Can you consult with or lend a hand to other entrepreneurs?

Be deliberate about setting aside time to consider your future.

Many business owners turn to career psychologists or executive coaches to brainstorm and solidify next steps. Working with these types of professionals can also identify ways to address many of the owner concerns listed above.

Taking Care of the Company

Succession planning requires time and resources. For example, you must identify who will take over the business. Will you sell to a third party or an employee team? Will you pass the business on to the next generation of family?

Either way, you'll need time to get the company in shape to ensure its success. This will require extending business relationships to your successors, securing new contracts, scrubbing the books, investing in technology, and other endeavors to ensure the longevity of the company.

If you're passing the business on to family members, you'll need to make sure they're ready and able to take over. If they're not yet qualified to lead, you must help them build the skills they will need to succeed. (See our lead article for more details on leadership development.)

Remember, you have options. But the next phase — for you and the company — won't happen without careful planning and enough time to get all the pieces in place. ■

Our team can help with your exit planning. Call us today to get started.

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Your future leaders must also commit to learning all they can from you while you're still around to teach them. Family members who aren't teachable often end up being ill-prepared for the rigors and challenges of leadership when the time comes for them to take the reins.

Here are four strategies to keep in mind as you formulate your leadership development plan:

1. Start the process early. It's never really too early to start grooming your company's future leaders. As soon as you've identified them, begin the leadership development and training process.

2. Give future leaders real responsibility, including risk taking. Allow them to make complex decisions with real risks and consequences — and then let them live with the results. Don't feel like you have to immediately "fix" all their mistakes for them.

3. Provide consistent feedback, both positive and negative. Give praise when it's deserved and constructive criticism when it's needed — always with the goal of making them better leaders.

4. Foster a supportive environment with open, two-way communication. Future leaders should feel free to ask any questions they have at any time to any members of the management team without fear of judgment or reprisal.

Begin Planning Now

Whether you are two months, two years or 20 years away from handing over the reins of your business, you should start thinking about developing the next generation of leadership. This is the best way to help ensure the continued success of your company for generations to come. ■



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Wellness Takes Center Stage in Benefits

Employer-provided health insurance is widely expected these days, although employees are now likely to shoulder more of the cost. What's less expected — but increasingly popular with both employers and employees — are employer-sponsored wellness programs.

According to research conducted by the Society for Human Resource Management, more than two-thirds of U.S. employers now offer some sort of wellness program. Many "best places to work" feature wellness programs among their benefit offerings.

In addition to potentially reducing health insurance costs by improving employees' overall health, the benefits of such programs include reduced

absenteeism, increased productivity, increased employee satisfaction and the perception of a caring corporate culture. Wellness programs can also be an effective recruitment tool, and some states provide tax credits for new wellness programs.

Companies take a variety of approaches to wellness initiatives. Among the most common are sponsoring events such as fun runs, bike treks or health "challenges" lasting several weeks or months. Lunchtime or after-work weight loss, yoga and smoking cessation classes are also popular.

Interestingly, some companies are tying participation in wellness initiatives to employee incentives such as healthcare insurance premium dis-

counts. One employer even designed its self-funded health insurance plan to be available only to employees who participated in specific health-risk assessments and screenings, regardless of the results. The plan was challenged under the Americans with Disabilities Act, yet the employer prevailed. But just to be cautious, legal review of a new plan is always prudent.

As with all new initiatives, it's fine to start small. A meeting with your insurance advisor followed by an employee survey will likely yield some interesting ideas.

Considering adding wellness to your benefits package? We can help you examine your options.



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