Buy-Sell Agreements

According to the Small Business Administration, there are 30.2 million small businesses in the United States. If you are among these legions, there may come a time when you want to sell your firm — especially if nearing retirement age in the next decade.

To make the most from a potential sale, which funds a good part of many owners' retirements, you may want to create a plan long before leaving your company. For many, this strategy will include a buy-sell agreement, which addresses the events that could trigger a sale.

Why Bother

A buy-sell agreement provides a preset way to sell your business when you move on. Without a plan, you could find it difficult to sell your business for top dollar and, in less vibrant economic times, you might even have to conduct a fire sale of sorts due to a lack of buyers.

A comprehensive agreement can help anticipate these and other challenges and may include measures to address them. The agreement, for example, should include all the events that could trigger the sale of your business. They include voluntary events such as retirement and disagreement, and involuntary events like death and disability.

Include Safeguards

You may want to include other language to protect your rights and those of any partners. Provisions to address include the method used to value the business, who would conduct the valuation and guarantees that give partners or other stakeholders first rights to purchase the business or a share of it from the departing owner.

Funding Methods

Importantly, you also may want to pre-fund a future sale. Your company might consider life insurance benefits to fund business succession in the event of an owner's death. Putting aside money and investing periodically toward this end are two other ways to prepare for a future sale. Using company profits after-the-fact could be precarious because it could make needed capital less available and may put the previous owner investment in the company at risk.

Consult with your legal, tax and financial professionals to develop a buy-sell solution that is right for you and your business.
Plan Ahead for Summertime College Visits

If you ever had a child entering senior year of high school, you know the drill: Time to make the rounds to different colleges your child is interested in. But before you begin your trek, make sure you take the time to come up with a list of schools that fit your wallet and your child's interests.

**Plan Early**
Read everything you can about the colleges of interest. Follow them on social media to learn how they interact in today's connected world and how they're assessed by current students and alumni. Take a comprehensive look at each college's website, and take a virtual tour if the website features one.

**Crunch the Numbers**
Don't even waste your time visiting a college or university if the costs, after financial aid, are more than you plan to pay. Also remember that parents and students typically have to pay back two of the three types of financial aid.

Financial aid may be a package of loans, which will require repayment, and work study, in which case the student works to pay for college. You don't, however, pay back grants. Once you have the numbers and a completed FAFSA (Free Application for Federal Student Aid) form, you can get an idea of how much your top-rated schools' aid will reduce your current and future costs.

**Keep it Manageable**
Get serious about planning to visit three to five top-choice colleges and universities, plus keep your schedule open to visit one or two fallback institutions — including your home state’s school, where tuition is likely less expensive.
When You Need More Than a Will

While you can create a will yourself through an online legal service (see accompanying infographic), consulting with your legal, tax and financial professionals may help you uncover financial challenges that a will alone cannot address. A trust may help you meet these challenges. Whether you have a modest estate you wish to shield from the public glare of probate or you want to reduce estate and inheritance taxes on a large estate, there is a trust to meet almost any estate planning challenge.

Two Types of Trusts

While there are many trusts, they all fall into two categories: revocable and irrevocable. They are what their names imply: You can amend and terminate a revocable trust, two things that are extremely difficult to do with an irrevocable trust. A revocable trust is designed for control and to keep financial affairs out of probate, not to reduce estate taxes.

Life Insurance Trust

One common type of irrevocable trust is a life insurance trust. While life insurance death benefits are usually income tax-free, they are subject to estate taxes. The threshold at which federal estate income taxes begin is more than most estates’ value, but state inheritance taxes could kick in at much lower levels in some locations.

A life insurance trust, not the estate, is the owner and beneficiary of the life insurance, and distributes its death benefit to beneficiaries named in the trust tax-free after the insured person dies.

How Much Life Insurance Do You Need?

If you have loved ones, you likely understand the importance of life insurance. Choosing the appropriate type of life insurance for your situation is important but choosing the appropriate amount may be the most crucial decision you make.

Rules of Thumb

There are generally two ways financial consumers figure their potential life insurance needs. One way is to simply multiply estimated annual income by a factor, usually between six- and 12-times income. These formulas are not exact but offer an easy way to calculate income replacement.

Customize It

A more exact way to figure out your needs is to use projections. Take your annual income and subtract income that would replace it, such as a spouse working and Social Security benefits. Subtract this added income from your current income to find the annual deficit. Or figure your expenses, especially large ones including a mortgage, childcare and college costs, and then subtract your replacement income from them for your annual net expense.

Multiply the projected annual income deficit or the annual net expense by the number of years you need to make up the shortfall, and you’ll have a better idea how much you need.

Five Reasons You Need a Will

Having an up-to-date will is one of the most important planning steps you can take in any area of your life. If you don’t believe this, consider these reasons why you might change your mind. Through a will, you can:

1. Name legal guardians for your minor children
2. Direct who will receive your assets after you pass
3. Designate your executor, who will help distribute assets and settle your estate
4. Help prevent misunderstandings
5. Donate to charity
Best Practices for Seasonal Businesses

Summer’s coming and for many businesses, these 100 or so days will comprise the vast majority of their income. How do you get the most from this short season?

Manage Your Cash

When your sales are concentrated into a six-month or smaller window, you need to follow best practices in cash management. This includes keeping a lid on expenses and making purchases when items you need go on sale. Because consumer attitudes change, storing leftover inventory in the offseason could be costly, so avoid overbuying supplies and make sure you have room to store them. Also, pay close attention to outstanding invoices and maintain a cash cushion.

If possible, create an alternative income stream or two that would profit if your main business falters. For example, a business that rents bicycles at a shore location might also repair other people’s bikes. Landscapers might turn to snow removal during the off-season in areas of the country with four seasons. Or turn a hobby into a part-time gig during your offseason to keep the cash flowing.

Anticipate Bumps

Keeping a cash cushion becomes vital when a natural or manmade disaster slows your business to a crawl during peak season. This is common at summer resorts in the mid-Atlantic and northeast, where a few weekends of bad weather can take a huge bite out of what may only be a three-month high season.

While you manage your risk, you can also manage your cost of risk by carrying property, liability and flood insurance.

Get Creative

Plan for success by hiring retirees or semi-retirees looking to work a few months a year every year. Or hire hardworking teens looking to earn extra cash. Work with neighbors and complementary industries to offer discounts and other deals to your customers. A restaurant owner, for example, might offer discount meal coupons to a local motel owner as an enticement for motel customers.

What About You?

While your business may be seasonal, your financial wellbeing should be maintained year-round. Leverage business dollars, when possible, to buy appropriate insurance and to invest for your future in retirement. Talk to a financial professional to learn more.

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ADVERTISING REGULATION DEPARTMENT REVIEW LETTER

January 10, 2019

Reference: FR2018-1210-0148/E

Org Id: 8408

1. 2019 LTM May-June Business
   Rule: FIN 2210
   5 Pages
   Total Fee: $125

The communication submitted appears consistent with applicable standards.

Reviewed by,

Thomas G. Dineen, III
Associate Principal Analyst
tgd

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