Estate Planning: A Small Slice of a Bigger Pie

Business owners commonly associate Exit Planning with estate planning, and they aren't too far off. Good Exit Plans and estate plans both aim to assure that the owner's family is provided for after the owner is gone. Both an Exit Plan and an estate plan might address a transfer of ownership to an intended recipient following the death of the business owner.

But one thing that owners may overlook when committing to estate planning is the notion of *transferable value*. While transferring ownership can be relatively straightforward, creating transferable value so that an ownership interest carries the benefits the owner hopes for can be a greater challenge. Transferable value is the value a company has without its owner, and it's incredibly important to consider when we are looking at what ownership is expected to provide once it's transferred through an Exit Plan or estate plan.

It's this aspect that makes estate planning a small but significant slice of a larger planning pie.

Estate plans focus on transferring assets upon an owner's death. They typically assume that the owner will live past his or her expected exit date and thus have the opportunity to transfer all assets as planned. But what happens when an owner dies prematurely? What happens when the business—which is most likely the most valuable asset to be transferred—relies so heavily on the owner's presence that its value plummets when the owner dies? How can you help your family receive real value rather than just ownership rights?

That's where Exit Planning picks up the slack, because Exit Planning focuses on three key elements that estate plans often overlook.

1. **Transferable Value:** Exit Plans include action items to help ensure that the business runs smoothly whether the owner lives, dies, or becomes incapacitated.
2. **Financial Security:** Exit Plans implement strategies to give owners the best shot at financial security regardless of the unexpected.
3. **Choice of Successor:** The Exit Planning process encourages owners to choose a successor long before the business needs that successor.

Estate plans may presume survival and integrity of business value, whereas Exit Plans anticipate the unexpected. When the unexpected occurs, businesses with strong transferable value (i.e., those businesses that don't rely entirely on the owner's presence) usually position themselves to deliver greater value to the owner's family. Businesses without transferable value tend to die along with their owners, which can cause much-needed financial security for the owner's family to evaporate. For owners who derive most of their wealth from their businesses, the Exit Plan's emphasis on transferable value can be a critical component of a successful estate plan.

If you'd like help incorporating your estate plan into the larger pie of Exit Planning, contact us today. We have experience in helping owners establish the processes they need to give themselves and their families an opportunity at financial security, regardless of the circumstances.

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