Serious About Succession

Jenny Nicolau, Almond Board of California (Moderator)

Kevin Spafford, Legacy by Design, LLC
SERIOUS ABOUT SUCCESSION
and want a better outcome?
CONSEQUENCES:
Out of business
Absorbed
Want to become **significantly wealthier**

- Yes: 92.8%
- No: 7.2%

N = 513 Business Owners, Source: AES Nation
Want to make sure loved ones are financially secure

N = 513 Business Owners, Source: AES Nation
Want to make do more to support **worthy and charitable causes**

- Yes: 31.8%
- No: 68.2%

N = 513 Business Owners, Source: AES Nation
WANT A BETTER OUTCOME?
Better outcome => Defined Planning Process
COMPREHENSIVE SUCCESSION SOLUTION
Financial Plan

• Create retirement choices
• Diversify investments
• Manage debt
• Maintain lifestyle
Want to become **significantly wealthier**

N = 513 Business Owners, Source: AES Nation
To put the most in your pocket

FAMILY WEALTH

Succession Planning

Wealth Management

Sale or Transition

Negotiation

Business Preparation
Ownership Transition

- Choose entity structure
- Explore financing options
- Mitigate taxes on sale or transfer
- Negotiate buy-sell provisions
Interested in ways to **lower personal taxes**

- Yes: 94.3%
- No: 5.7%

N = 513 Business Owners, Source: AES Nation
Working with professionals to **lower personal taxes**

- **76.4%**: Taking Action
- **23.6%**: No/Doing Nothing

N = 484 Business Owners, Source: AES Nation
Have taken action to mitigate taxes owed on the sale of their business

N = 549 Business Owners, Source: AES Nation

14.7% Yes
85.3% No
Leadership Structure

• Adopt management structure
• Define roles & responsibilities
• Agree on compensation & benefits
• Assess readiness; hire to start
Concerned about being involved in unjust lawsuits or divorce settlements

N = 513 Business Owners, Source: AES Nation
Have an **asset protection plan**

- Yes: 15.1%
- No: 84.9%

N = 405 Business Owners, Source: AES Nation
Why no asset protection plan

- Not understood: 61.3%
- Not available: 26.5%
- Too expensive: 7%
- Too complicated: 5.2%

N = 344 Business Owners, Source: AES Nation
Estate Tax

- Eliminate estate tax
- Minimize transfer costs
- Make equitable distributions
- Provide Income replacement
Have an estate plan

N = 513 Business Owners, Source: AES Nation
Why no estate plan

- Too difficult: 8%
- No need: 50.7%
- No time: 29.7%
- Too expensive: 11.6%

N = 513 Business Owners, Source: AES Nation
Age of existing estate plan

- > 5 years: 65.6%
- 2 - 5 years: 22.4%
- < 2 years: 12%

N = 375 Business Owners, Source: AES Nation
Experienced a life changing event since estate plan

N = 375 Business Owners, Source: AES Nation
A CASE STUDY: John & Sara

John’s & Sara’s Personal/business holdings

Liquid Assets
Approximately: $1,000,000

Land Entities
Approximately: $7,500,000

Operation
Approximately: $1,500,000
A CASE STUDY: John & Sara

- Create a retirement option with a secure source of income.

- Control lands asset for benefit of John and Sara and lineal descendants.

- Design an ownership transition and protect the land asset from divorce, creditors, and predators.

- Provide an equitable benefit for all children and leave a meaningful legacy for grandchildren.

- Mitigate or eliminate exposure to the estate tax and other transfer obligations.
A CASE STUDY: John & Sara

John & Sara’s Retirement

- Liquid Assets
  - Approximately: $1,000,000
  - Invest appropriately
    - Income in retirement
- Land Entities
  - Approximately: $7,500,000
- Operation
  - Approximately: $1,500,000
  - Sale to Active Next Generation
    - Income in retirement

Retain General Partnership[s]
- Income in retirement
  - Example: $500,000
- General Partnership[s] and remaining liquid assets may pass directly to heirs outside Dynasty Trust.

Installment Sale Limited Partnerships
- Income in retirement
  - Example: $7,000,000
- Intentionally Defective Irrevocable Trust with Dynasty provisions using Self-Cancelling Installment Note

[name] Family assets remain in trust to benefit future generations free of estate tax.

Mindy
Janie
Chris

Phippen Family assets remain in trust to benefit future generations free of estate tax.

Intentionally Defective Irrevocable Trust with Dynasty provisions using Self-Cancelling Installment Note

John & Sara’s Child 1
John & Sara’s Child 2
John & Sara’s Child 3
### A CASE STUDY: John & Sara

**Without a Dynasty Trust @ 4% growth**

<table>
<thead>
<tr>
<th>Generation</th>
<th>$ Taxable Estate</th>
<th>$ Tax</th>
<th>Net $ to Heirs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grantor</td>
<td>10,000,000</td>
<td>0</td>
<td>10,000,000</td>
</tr>
<tr>
<td>Children</td>
<td>22,000,000</td>
<td>9,000,000</td>
<td>13,000,000</td>
</tr>
<tr>
<td>Grandchildren</td>
<td>28,000,000</td>
<td>11,000,000</td>
<td>17,000,000</td>
</tr>
<tr>
<td>Great Grandchildren</td>
<td>37,000,000</td>
<td>15,000,000</td>
<td>22,000,000</td>
</tr>
</tbody>
</table>

**With a Dynasty Trust @ 4% growth**

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<th>Net $ to Heirs</th>
</tr>
</thead>
<tbody>
<tr>
<td>John &amp; Sara</td>
<td>10,000,000</td>
<td>0</td>
<td>10,000,000</td>
</tr>
<tr>
<td>Children of J &amp; S</td>
<td>22,000,000</td>
<td>0</td>
<td>22,000,000</td>
</tr>
<tr>
<td>Descendants of J &amp; S</td>
<td>48,000,000</td>
<td>0</td>
<td>48,000,000</td>
</tr>
<tr>
<td>Family Legacy from J &amp; S</td>
<td>105,000,000</td>
<td>0</td>
<td>105,000,000</td>
</tr>
</tbody>
</table>

**Notes:**
- Assumes grantor is married couple, each using $5 million exemption.
- Each generation 20 years with trust assets growing at a compounded rate of 4%.
- Assumes a $10 million gift. Results rounded to nearest $1 million.
- Estate tax rate assumed 40%, does not include state or local estate tax.
Better outcome

1. Financial Plan
2. Ownership Transition
3. Leadership Structure
4. Estate Tax

Time

Value

Maximum Value
FOR SELECTING A HIGH CALIBER ADVANCED PLANNER

Five Criteria
Proven integrity
Operational transparency
Extensive technical experience
Access to niche specialists
Sensitivity to and experience with business owners
TAKE AWAYS

1. Owners will want to become wealthy.
2. Businesses will be biggest source of wealth.
3. Death, taxes, and litigation will never go away.
4. Advanced planning strategies will continue to evolve.
5. There will be more financial predators and incompetents.
6. Maximizing personal wealth will depend on competent wealth management.
7. You should seek a second opinion.
WANT A SECOND OPINION?

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