

**EDELHEIT &
EDELHEIT, LTD.**
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS & PERSONAL CONSULTANTS

5836 LINCOLN AVENUE ■ MORTON GROVE, IL 60053
PHONE 847.967.9999 ■ FAX 847.967.0440 ■ WWW.EDELHEITCPA.COM

There's no better time than the present to plan your agency's future
How perpetuation planning can benefit your insurance agency

By: Steven Edelheit, CPA, CVA and Lawrence Edelheit, CPA, MBA

You've spent a lifetime building a successful insurance agency, and now you're starting to look forward to the freedom of retirement. To ensure a worry-free exit from work, you need to plan for the continuance of your agency.

Know where you stand

Before you can plan where you — and your agency — are going, you need to know where you stand today. First, you'll need to prepare a detailed financial analysis of your business. This typically involves reviewing historical data and ratios for the past several years. Because the value you as an owner would assign the agency probably differs from what the fair market value is, you should consider a professional business valuation. This will allow an "outsider" to provide you with a fair market value under different circumstances.

Before you get too far along in the process, you also need to make sure your agency is transferable. Are there any restrictions on transferring your business, such as, Insurance company agreements, lending agreements or other types of contracts? Take time to analyze operations and procedures and examine all contracts and agreements, which may help you determine whether there are restrictions or limitations on transfer or other factors that may affect the transition.

Your exit strategy and choice of a successor may also be affected if you have little in the way of documentation for operations, organizational structure, and financial systems. While a formal business structure

may not be needed by you on a daily basis to run your agency, it will be critical to your perpetuation plan. That's because you need to assume that the next person who runs/owns your agency will not have the experience that you have with its day to day operations, records and systems.

In addition to establishing where you are and where you want to go, you'll need to thoughtfully consider your retirement goals and income needs. After all, your financial requirements and timing will drive your choice of exit strategies and shape the cornerstones of your perpetuation plan.

Possible scenarios

For many agency owners, the successor of choice to complete the perpetuation plan is a family member — or, perhaps more than one. Or, if you already have co-owners, they may be able to take over your ownership interest via terms provided in a shareholder agreement or other agreement between the owners.

If there are no qualified family members or co-owners to fill your shoes, you may want to sell the agency to a key employee. Because even a key employee may not have the funds to purchase the business outright, the purchase might be financed, at least in part, by payments from business profits.

Alternatively, you may want to transfer ownership to a key employee while you're still at the agency. This can be accomplished with incentive compensation that periodically

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transfers an interest in the company directly or that provides the employee with cash to purchase a partial interest. You can also transfer company ownership to one, or more, employees through a buyout.

Another option is to sell your business to an outsider. An easy sell might be to one of your competitors. Often, similar insurance agencies, or those in related lines of business, will view your agency as a good expansion vehicle. Evaluate whether the business would generate more proceeds if sold intact, or broken down into asset groups. Your business could also be acquired in a merger-type of transaction, which could leave you with stock in the acquiring company.

Set up your team

Planning your exit strategy and perpetuation isn't a simple task. So, carefully choose a team of advisors to help you through the process. Typically, you'll need an accountant for the business valuation, tax and estate planning needs, and to advise you of potential tax consequences. You'll also need an attorney to draft the necessary agreements and documents. In addition you may potentially need a personal financial planner to review the financial impact of certain scenarios. In many cases the accountant serves as the head advisor or "quarterback" to ensure that all parties are working together effectively and in your best interest. The various advisors can also help you determine your overall needs and objectives – and help you consider things you may have forgotten.

This may sound like a lot of experts (and a lot of money), but, remember, this is your retirement, the financial security of your heirs and the continuation of your business. That's a lot to cover, and it pays to make sure it's done right.

Don't make your plans in a vacuum

Talk to family members and key employees to ensure you aren't misinterpreting their desires or interests. While you don't need to divulge all aspects of your perpetuation plan, affected persons should be aware of plan elements that

will affect them. For example, providing key employees with both information about the plan and a bonus tied to the business transfer may help ensure a seamless transition.

Plan while there's still time

Because you'll undoubtedly need a transition plan at some point, put it in place before it's actually needed. Developing your perpetuation plan now can provide benefits beyond the orderly transition of ownership. For example, as your team of experts goes through the exercise of developing your plan, they may also be able to advise you of current business opportunities or problems.

And, planning the steps involved in your perpetuation plan will help focus you on where the business may be headed and whether your goals will likely be met. Remember: The key to a successful transition is to define your exit goals, consider the options and plan accordingly.

Edelheit & Edelheit, Ltd, works with insurance agencies and their owners to maximize their profitability, minimize their tax liability, and develop effective transition and perpetuation plans. Our client base includes dozens of insurance agencies across the Midwest, and we are an active member of the PIIAI. Steven or Larry can be reached at insuranceagency@edelheitcpa.com or 847.967.9999.