

THREE CRITICAL CHALLENGES FOR THE FAMILY BUSINESS OWNER

How to Keep Key People

- Identify your key people and their needs.
- Determine/anticipate your business needs.
- Develop a competitive compensation and benefit package.
- Communicate your benefits.

Employment Trends

- A changing employer/employee relationship (consultants)
- Multiple jobs/careers
- Less benefit and retirement security

Compensation and Benefit Options

- Salary and bonus plans
- Group benefits/qualified plans
- Nonqualified plans
- Equity ownership/stock options
- Buy-Sell plans
- Other benefits

Salary and Bonus Programs

- Competitive base salaries/raises
- Bonus programs
- Fixed/variable compensation
- Current/Deferred Compensation

Group Benefits

- Active/retiree benefits
- Defined contribution trends
- Life insurance/disability carve-out plans

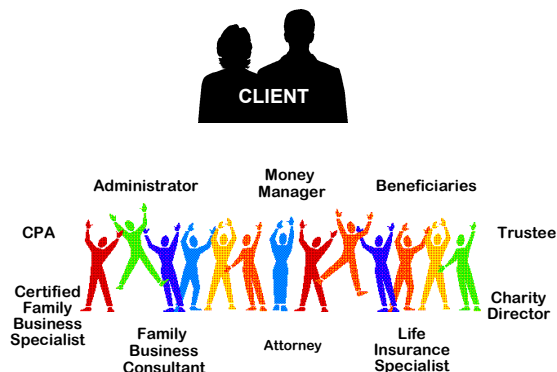
Qualified Plans

- The importance of retirement income
- Defined benefit/defined contribution
- Reverse discrimination
- ERISA restoration plans (nonqualified benefits)

Nonqualified Plans

- Selective benefits for key employees
- Accumulation and/or protection benefits
- Investment and/or insurance products
- Tax-deductible and/or cost recovery options
- Risks of forfeiture (control options)

Family Business Succession Planning Multidisciplinary Team of Advisors



**Reward/retain your key people.
Develop your succession plan.
Plan for financial security.**

Bonus Plans

- Investment and/or insurance products
- Taxable income to the employee
- Tax-deductible to the employer
- Limited "Golden Handcuff" potential

Split Dollar Plans

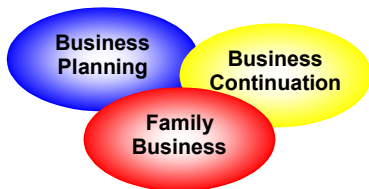
- Low cost life insurance protection
- Premium, cash value, death benefit flexibility
- Employer cost recovery options
- Nondeductible employer outlay

Deferred Compensation

- More retirement income
- Supplemental plans (phantom stock plans)
- Salary (bonus) deferral plans
- Tax-deductible when paid
- General creditor status

Equity Ownership

- Stock
- Stock options
- Control
- Tax issues



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Buy-Sell Plans

- Some key employees desire ownership
- Market, price and payment terms
- Lifetime/death sales
- Win-win situation

Understanding Your Options

- Sales to outsiders
- Sales to family members
- Gifts to family members
- Liquidation

The Sale Option

- Valuation
- Lifetime/death sales
- Cash/installment sales
- ESOPs
- Buy-Sell Agreements

The Gift Option

- A capable successor
- Retirement income
- Valuation
- Lifetime/death transfers
- Gift/estate taxation
- Inactive children

The Liquidation Option

- Succession plans may not work.
- Liquidation value vs. fair market value
- Personal/business planning is essential.

Build/Utilize Your Team of Professionals



Developing Your Successor

- Entrepreneur chooses and develops successor
- Successor prepares mentally and financially for transition
- Entrepreneur transfers control over time and manages the process

Managing the Process

- It's achievable, but you can't do it alone.
- Consider the plan's impact on your overall retirement and estate plans.
- Crunch the numbers early and often
- Plan for the best, but prepare for the worst.

Ten Tips on How to Achieve Financial Security

1. Write down your goals and objectives.
2. Develop reasonable personal and business budgets.
3. Build/utilize your team of professionals.
4. Develop comprehensive tax strategies.
5. Pay attention to your business and its succession plan.
6. Improve your compensation and benefit programs.
7. Review personal and business debts.
8. Review your savings and investment programs.
9. Review your insurance needs and coverage.
10. Begin your challenge today.

Summary

- Reward/retain your key people.
- Develop your succession plan.
- Plan for financial security.