CASE STUDY:

Mr. & Mrs. Green Preserve and Transfer the Family Business and Retire With Confidence- A Case Study

I. THE PICTURE

A client of RSI referred a fellow business associate and successful entrepreneur to RSI for an initial consultation. During this first meeting, RSI learned the following information about the Greens and their objectives:

- The Greens had built a successful family business valued at approximately $6 million.
- Additionally, they had qualified plan assets of $4.5 million and non-qualified assets and real property of $3.7 million.
- Mr. Green admitted that he had done little long-term planning with regard to his estate and personal finances due to the demands of building and running his business.
- Mr. Green's primary concern was limiting or avoiding transfer taxes and expenses that were obstacles to keeping the business in the family. Also, he was concerned that Mrs. Green wouldn't know exactly what to do with the business and other assets if he died prematurely.
- Mr. Green's son now ran the business, and Mr. Green was also concerned that his son's death or disability would risk the continuation of the company.
- He was not sure how to structure assets to provide cash flow for his income needs during retirement, or if he could or should continue to take income from the company.
- Most of the value of the business was still in Mr. Green's estate, with the exception of a small percentage he had gifted to his children.
- He also had two daughters to consider and wondered if they should become partners in the business and how to be fair to them without impairing the relationships among his three children. "I want to do what I can to create harmony if possible; not the disharmony I see in so many other families."
- He shared that both he and his wife had difficulty sorting through and discussing these issues, and when they tried, it became "overly emotional".

II. ISSUES AND CONCERNS

After the Greens verified the accuracy and priority of their objectives through *RSI's Goal Confirmation Summary* ™, RSI engaged in a complete analysis of their current financial situation, considering and quantifying the side-effects and trade-offs of various strategies. The study revealed the following issues and concerns:

- Current continuation strategy for the business was out-of-date and would not work effectively.

- The IRS would have likely valued the business higher than what could have been established with properly structured strategies. This would have dramatically increased the probability of large estate taxes being levied and reduced the probability of the business staying in the family.
- Substantial estate and/or capital gains taxes would have been levied on the business.
- There were insufficient liquid assets to cover estate transfer costs and charitable giving goals.
- As it stood, the estate would have transferred to heirs disproportionally, creating the potential for family disharmony which the Greens clearly hoped to avoid.
- Investment objectives and asset class ranges for neither their qualified nor non-qualified assets had ever been established in an Investment Policy Statement.
- No method had been implemented to systematically manage portfolio risks.
- There was no methodology to provide income from the current assets during retirement. In fact, Mr. Green thought he would need to somehow take money out of his business for the rest of his life (even if he wasn't working in the business) and was worried about how Mrs. Green could do this after he was gone.
- Assets in the qualified retirement plan would only be worth 30 cents per dollar after being subjected to both income and estate taxes.

III. A CLEAR AND CONFIDENT FUTURE

Through the implementation of the agreed-upon strategies outlined by *The RSI Analysis and Recommendations™* and the leadership provided by RSI's professionals, the Greens achieved a sense of trust, confidence and peace of mind by:

- **Implementing** of strategies that transferred the family business assets to their son without gift, estate, or capital gains taxes. Ownership previously gifted to their daughters was acquired by their son
  - » Values were successfully discounted prior to transfer, and transfer taxes were avoided.
- **Allowing** the future appreciation of the business to grow without an adverse impact on their estate tax liability.
- **Establishing** a plan for fair and equal distribution of assets to their daughters.
- **Protecting** the continuation of the business by providing liquidity in the event of an unforeseen death or disability to key employees or his son.
- **Adopting** an *Investment Policy Statement*, setting forth appropriate asset class ranges and a method for evaluating and reporting performance.
- **Implementing** a *Strategic Asset Allocation* to his portfolio that participated in the financial markets while protecting the investments from the risk of loss of purchasing power and the risk of lack of diversification.

- **Leveraging** the qualified plan assets to avoid a drastic loss to taxes.
- **Determining** a desired level of spendable retirement cash flow.
- **Learning** from where and how retirement income would be delivered, and implementing strategies to deliver that income.
- **Seeing** the "Big Picture" and understanding how risks would be managed over time.
- **Tracking** future progress toward their goals through the *RSI Goal-Linked Progress and Performance Report™.*

*Note: Both Mr. and Mrs. Green explained that, for the first time ever, they gained a **sense of clarity and direction** about the future of the business, their cash flow, and their financial affairs.*