

Exit Planning for Actuarial Consultants:

The Sooner You Begin, the Better!

By Michael Oleksak

As owner of your own actuarial consulting firm, decisions about succession, control and ownership occur all the time. As you advance toward traditional retirement age, it becomes time to evaluate your options and make preparations early so as to ensure continuity of business value and transfer of wealth currently tied up in your business. The sooner you begin this process, the better prepared you'll be—financially and emotionally when the time comes to actually transfer ownership.

First and foremost, every consultant should have a will in place today which must be always kept up to date in case of unforeseen events. Too many stories abound of estates and families devastated by poor preparation and planning.

How do you start the planning process for ownership transfer? First, identify your goals. What do you want to be doing in five years? Do you still want to be involved in the business? Whom do you want to own your practice after you? How much will you need to live on after transferring ownership? Of course, if you have saved and invested well, you may have more options.

There are a number of common options before you when deciding to sell or transfer ownership, such as selling to a third party, selling to your management team (if your firm is large enough), selling to an Employee Stock Ownership Plan or gifting to next generation of family owners.

Selling to a third party, for example, often brings about the highest proceeds of any transaction. Selling to an owner already in the industry, called a strategic buyer, may yield the highest gross price because of the perceived synergies and cost savings from combining operations that are similar.

If your practice is large enough to include an experienced and capable management team (or person), you could do a sale that will likely require bank financing, for a large part of the payment secured by the assets of the business plus personal guarantees of the managers. The bank loan would be paid out of cash flow from the operations. A similar option is an Employee Stock Ownership Plan, or ESOP, but again your practice would obviously need to be large enough to contain a significant number of employees to make this practical.



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A third option, desirable to many solo or small practices, would be to transfer ownership to the next generation, if your son/daughter or a combination of relatives possesses sufficient experience and motivation to continue the business.

In this case, gifting of company shares can be an excellent way of effectively transferring ownership, with you the original owner maintaining both voting and operational control during a transfer over time.

Though gifting may mean the lowest financial payout to the owner, an owner can stay on the payroll as an employee and continue receiving salary and

benefits. This thus can be an effective way to minimize tax exposure because the valuation will be lower than if sold to a third party. Gifting inevitably raises issues of what is “fair” to relatives in the next generation causing questions to be asked about who has worked in the business effectively and who is

capable of running it profitably for years into the future.

The exit planning process and the demographics of retiring baby boomers have given birth to professional consultants who specialize in helping business owners like you prepare for ownership transition. Consider bringing such a specialist in if

you feel the time has come to review the above options and start planning for your exit. Again, the earlier your planning process begins, the better chance for a smooth transition and for fulfillment of your hard-earned retirement goals.