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Regions Wealth Podcast

Episode 45: Preparing For Life After the Sale of Your Business

For many entrepreneurs, life after the sale of a business can feel like uncharted territory —particularly for those whose identity has become tied to their work. In this episode of Regions Wealth Podcast, Senior Wealth Strategist Dennis Tygart joins us to discuss the emotional hurdles many business owners face after the sale of their business. From finding purpose to addressing three key pillars, we'll discuss what business owners can do to ensure they're well-prepared for their next act.

Episode Transcript

Sarah Fister Gale, Host:

Welcome to Regions Wealth Podcast, the podcast that tackles life's challenges with financial experience. I'm your host. Sarah Fister Gale.

For many entrepreneurs, life after retirement is uncharted territory—particularly for those whose identity has become tied to their business. According to a survey conducted by the Exit Planning Institute, 75% of entrepreneurs experience "profound regret" within one year of exiting their business. So, what can business owners do to ensure they're both mentally and emotionally prepared for a successful transition?

Joining me remotely is Dennis Tygart. He's a Senior Wealth Strategist at Regions Bank. Dennis, thanks for joining us today.

Dennis Tygart, Senior Wealth Strategist:

Happy to be here.

Sarah:

And we are happy to have you. So, Dennis, in this episode of Regions Wealth Podcast, we'd like to discuss what business owners can do to ensure they're well-prepared for life *after* the sale of their business. We've taken some frequently asked questions and developed a character who's seeking some guidance. Let's listen to his story.

Lawrence:

"Well, hello there. My name's Lawrence, and I've been a small business owner for the better part of three decades now. I purchased the business from my uncle when he retired back in '94 and have been running it ever since. I love what I do, but I gotta say, all those years of 60-hour work

weeks have just about caught up with me. I've been talking with my wife about the possibility of retiring for, gosh, a few years now. So last year, when a major competitor offered to acquire my business, I took the leap. I gotta, say, I've really lucked out with the terms of their offer. However, I'm starting to lose sleep at night thinking about everything that will come after this deal is done. I've been so focused on the acquisition, I haven't had a chance to get advice on anything that's been on my mind."

Sarah:

So, Dennis, what are some of the common challenges faced by entrepreneurs after they sell or transition away from their business? Particularly someone in Lawrence's case, who's been managing their business for a significant portion of their adult life.

Dennis:

Oftentimes the biggest hurdle is the identity crisis. So, who will I be on Monday if I sell the business on Friday? Business owners have put their life, their personality, their sense of purpose into the business. And oftentimes what happens is the focus has been, like Lawrence says, around the transaction and not really around, so what will that next chapter look like? So, what we always recommend with our clients is first and foremost, make sure you have a purpose for why you're doing this. Next, make sure that you have all the financial preparedness for this to be a successful outcome. And be moving towards something, not just moving away from being the business owner — be ready and excited about writing that next chapter in your life.

Sarah:

That's really interesting because those conversations feel like more emotional in nature and planning, but in your opinion, what types of conversations should a business owner have with their wealth advisor before, during and after the sale of the business?

Dennis:

We will never minimize how important the emotional conversations are because that's truly what drives all of this. So, before the transition, again, make sure there's clarity around the reason: what are you moving towards? And that's really the emotional. Secondly, we have our clients talk through achieving success in three financial buckets. The first is, what do you want that lifestyle to look like? The reality is when you're running the business, the business is your life, both financially and emotionally. When you step back or out of the business, the role of the business changes, it now becomes a launching point for that next chapter and it becomes the provider for your financial lifestyle.

So, we want our clients to think about financially, what do you want that lifestyle to look like? And when clients start to tell me the things they need, you know, here are the bills I have to pay, we stop right there because it isn't about the needs anymore. It's all about the wants. So, we're gonna push for our clients to be aspirational on that lifestyle. What do you truly want it to be? And so we wanna make sure that there will be sufficient assets in that lifestyle bucket to lead a very, very comfortable life. The next is the opportunity bucket, and with the current generation of business owners thinking about transitioning, they are not going to sit on the porch and do nothing. They're going to do something, and that something may be driven by the financial rewards it provides them, but more often than not, it's around the personal and emotional rewards that it provides them. We wanna make sure that they have ample assets available and resources available to fund that opportunity bucket. And just to give you a quick example, I have a business owner who is very successful in the franchise world. And when he stepped outta that business and for him, it was 60 to 80 hours a week, but he had had a number of conversations with his wife, with friends, with his advisors prior to that. And his opportunity was he loved to do woodworking. So, on a barn on his property, he built a fabulous woodworking shop. Now, he didn't do it because he was gonna make a living selling his art, his craft, but he did it because that was what motivated him. And that's what would give him personal satisfaction going forward.

So lifestyle bucket, opportunity bucket, and then ultimately your legacy bucket: what do you want to have happen to your wealth when you're done with it? Which doesn't mean you've died. It just means literally you are ready to share some of that with the future generations. So we wanna make sure that our clients have those three buckets addressed. We do that through what we call a gap analysis and that gap analysis says based on those goals, based on the lifestyle, the opportunity planning and your legacy planning, how much of those buckets financially need to be filled by the proceeds from the sale.

What that does for our clients is gives them a high degree of confidence. That one, they have a minimum net threshold on what that business needs to provide them. And two, they have thought out and pre-positioned planning to make sure that they can live those lifestyle objectives. They can build their woodworking barn and that they have a legacy plan in place that will help them provide wealth and values for future generations.

Sarah:

These seem like really important conversations to have. Should individuals be talking with their advisors before they start thinking about selling their business?

Dennis:

We always think that you should be looking at this seriously easily, two to three years in advance. The other thing that we always talk to our business owner clients about is, you want to be in the position that at any point in time, you are in the best spot to make a decision. So the sooner you start to think in those terms, the more likely you're going to be best prepared if that moment arises.

Sarah:

And are there any additional considerations that come into play for those who are transitioning their business to a family member as opposed to selling it?

Dennis:

Yeah. So when you're considering a succession plan within the family, it's a very different process and very different approach. You should plan on a much longer timeline to prepare that next generation to take over the business. There should be a development plan in place for them to move through the logical and critical areas of the business so that they have the best experience, expertise and competence in running that business as you have run it. The next thing you wanna do is think about your role going forward. Will you maintain a role in the business? Will you step out completely? I have a number of business owners who they sort of move into the chairman role. They continue to use their influence in the community, their reputation to benefit the business, but they do it on a much more limited timeframe.

The next thing to think about is, a fair versus equal allocation of the business. And that comes into play when you have, let's say you have four children, and one of them is in the business, the other three are not. So the way you treat the child in the business and the way you treat the children outside of the business, it may be different and it may not arguably be equal. But what you wanna do is you wanna create a level of fairness that recognizes that the child in the business will take a dollar and know that he has to invest back in the business to generate $2. A child outside of the business may look at it very differently and say, how do I get a dollar out of the business? So what you don't wanna do is, you don't want to give the child in the business equal partners who have a very different perspective. And one is not right, and one is not wrong. They're just different and it's logical for them to be different. So you wanna make sure that you have thought through those processes, and that takes time. And that takes a lot of conversation with your advisors, but also conversation frankly, with your family.

Sarah:

It sounds like it requires a lot of thinking and planning upfront. How important is it for business owners to go through this process to build a plan for life after retirement?

Dennis:

Well, we think it's critically important. Again, if you are not moving towards something emotionally, and if you're not prepared for it financially, you're gonna fall in that camp of individuals who regret their decision shortly after the transitions occurred. And there are a number of studies out there that speak to that, but anywhere from 60 to 75% of business owners one year after the transition say they would've done it differently. And the single largest category of what they would've done differently is to bring in more of an advisory team to help them think through this, to help them avoid the pitfalls that can happen. So it's critically important to make sure that you have planned for life after transition, because again, you know, in this day and age, there isn't any true traditional definition of retirement anymore.

Sarah:

That really speaks to the importance of preparing for this type of transition, doesn't it? So with that in mind, let's go back to Lawrence and hear a bit more about what aspects he's struggling with.

Lawrence:

"There are so many concerns running through my head, from the serious like tax considerations — to things that I suppose feel a bit silly for me to even be worrying about, like how I'm going to cope with so much free time on my hands. The thing that's really keeping me up at night is the money. While my wife and I have lived very comfortably, much of my net worth has been tied up in the business, so this level of wealth will be quite new for me. I've got a big family — four kids and 12 grandkids — so I want this money to support them, too, especially after I'm gone.

Then there's all of these little logistical things that pop into my head, like health insurance. My wife and I won't be eligible for Medicare for another six years, and she's got a few significant health issues that make coverage absolutely essential. I guess what's keeping me up at night is this fear that I'll make a mistake or accidentally mismanage something, and my years of hard work will be lost."

Sarah:

So Lawrence mentions tax concerns. How important is it for business owners to work with a team of advisors during this time?

Dennis:

As we discuss a little earlier, you know, the studies that have been done have shown that owners are more satisfied with the success of the transition when they're supported by a team. And that team is typically their CPA, attorney, their wealth advisor, and their M&A advisor. And taxes really are a critical component, and they come into play in a number of different ways. Possibly the biggest at the point of transition is, is the tax effect of the type of structure that you use for the sale of your business, an asset sale versus a stock sale. That's a huge difference between ~~a~~ potentially a capital gains tax treatment and an ordinary income tax treatment.

Equally importantly, over time is, one managing the tax efficiency of those proceeds so that you are minimizing the tax and maximizing the return and the ability for you to achieve, again, the lifestyle, the opportunity, and then ultimately the legacy objectives. And third is managing these assets in a way that you are most comfortable with as an individual. And, you know, we obviously use the term risk tolerance to address that for business owners who have most of their wealth tied up in their business. They have a level of comfort with risk related to the business, and they know the business better than anybody else knows. So when they take a risk there, it's a very educated, informed level of risk. When that transitions to a portfolio of other assets, whether it's investments, real estate, whatever it may be, they may not be as experienced in that. Therefore the risk exposure for them could feel higher and more of a challenge. So you wanna think about taxes in terms of the best tax structure for the sale, the best tax structure for achieving your income and lifestyle goals, and the best tax structure and return structure for living a comfortable life without waking up in the morning going, you know, am I gonna be okay?

Sarah:

So like many business owners, Lawrence mentions that his net worth has been tied up in his business. What considerations should come into play as he makes this transition?

Dennis:

Two really significant ones and one I would say more prior to the transition than at the time of, but for most business owners, the business is their single largest asset. And it's an illiquid asset just by the pure nature of a business. You can't go to the ATM and pull a chunk of business out. So there are liquidity issues. And so up until the day that you no longer own the business, you wanna make sure that you have risk management strategies in place to say that if something were to happen to you, and the business needed to be sold, that you'd not have to do it in a fire sale manner. The second is, as you move forward and you move from your wealth being in the business to your wealth, being a provider for lifestyle legacy, et cetera, make sure you have professional support in place to help you analyze those objectives, determine the most effective and efficient and confident way for you to address those, and to help you, prepare for changes that come. I mean, all we have to do is look at the last couple years to know that things we might not have expected to ever happen might happen. And so you wanna make sure that you have a good team around you that understands you, understands your goals, understands your preferences, experience and comfort level and helps you make informed decisions around those.

Sarah:

So Lawrence also mentions a desire to create a legacy for his children and grandchildren. Are there any estate planning considerations business owners should address during this sort of transitionary period?

Dennis:

Definitely. You know, again, if your goal as a parent business owner is to provide some form of legacy, for future generations and your largest asset is your business, the business is going to play some form of a role in that. If you start early enough, there are strategies that would allow you to look at methods of transferring through gifting interests in the business and moving those out of your taxable estate and potentially into estate planning vehicles that could benefit your children, either at the time of sale or at a future date. So gifting strategies of interest in the business is certainly a consideration. You wanna be looking at that well before you're ready to sell the business. Next consideration is just making sure that you have thought through if your lifestyle bucket is addressed, whether through existing assets, income producing assets, existing income sources, in some amount of proceeds from the business and your opportunity bucket is also filled.

And a critical thing when people talk about legacy: legacy is two things. It is not just wealth, it is also values. So depending on how you structure your planning for future generations, you'll be able to both address the efficient distribution of wealth and do it in such a way that reinforces the values that you developed over your lifetime that you wanna pass on to your children.

Sarah:

I love that. Lawrence also mentioned concerns about health coverage. Given that both he and his wife are below the age of eligibility for Medicare, should he also be developing plans for healthcare in retirement and what factors should come into play in those decisions?

Dennis:

Sure, healthcare expenses can be a significant financial obligation, certainly up until the time that you qualify for Medicare. So we always factor that into the lifestyle bucket. And I mentioned, you know, you wanna live in the world of wants. Well, there are arguably certain needs and one of the needs would be healthcare coverage. Within that lifestyle bucket you should think about, what do you want your healthcare world and environment to look like? Is it the provider of your choice? Is it the bare minimum? Is it self-insuring? So we're gonna talk through all of those factors with our clients and help them look at what that would take to accomplish that. And not just a snapshot in time of, well, what are the costs today, because depending on your age, it may be a number of years before you get to the point where Medicare is either available or makes the most sense for you. So we're also going to look at what should we assume for a cost inflation factor over that period as well, but when it comes to things such as healthcare, insurance, whether it's property, auto, life, those kind of things, all of that has to be factored in on top of, or alongside the discretionary spending that you would want in that lifestyle bucket.

Sarah:

Those are all very important considerations. So Dennis, let’s pause here and listen to the final portion of Lawrence’s story.

Lawrence:

“I have to admit: I’m also grappling with the mental and emotional side of this transition. Having worked so hard for the last three decades, I’m worried I’ll lose that sense of purpose – the thing that gets me out of bed in the morning. This is going to be a significant change for me. My wife and I have plans to see the world while we’re both still active, but I sense the transition will be

difficult. While this is a significant accomplishment and I have a lot to be grateful for, the future is a blank slate, and that's been difficult for me to wrap my head around."

Sarah:

So how common is it for business owners to experience emotions like these?

Dennis:

It is arguably one of the most common concerns that business owners have. Again, success comes from moving towards a new purpose, as opposed to moving away from the last chapter you wrote. There can be truly a tremendous loss of identity and sense of community when you step out of that role. But on the positive side, planning ahead, visioning for where this could go, your life after business, that can be very appealing and very motivating. And I talked about the opportunity bucket, you know, it's that, what will you do? And will you do it because of what it puts in your wallet or what it puts in your heart?

What we recommend is start to think about it, start to talk about it, but more importantly, start to do it. If it's woodworking, buy that first piece of equipment, start to whittle, take a little bit of time now, even if it's an hour a week, you know, an hour a day, start doing it. If it's teaching, start to explore where you could teach, what you could teach. If it's charity, start to volunteer, or if you're already volunteering, expand your involvement in it. But when this works best, when you can address those emotions is when you convert them from a fear to a passion. Where you're going and what you're gonna do when you get there.

Sarah :

So it sounds like Lawrence would benefit from having a solid plan in place for his emotional transition, too. What are some strategies he can use to feel a greater sense of control over the situation?

Dennis:

Yep. I think it really ties back into some of the conversation we've already had, but emotionally, have a purpose and a passion for that next chapter. Be moving towards something. Financially, have a solid strategic wealth plan in place. Know that as you make this transition, not only do you have an emotional purpose ahead of you, but you have a solid financial framework to support you in moving in that direction.

Sarah:

So Dennis, at the end of each episode of Regions Wealth Podcast, we like to offer our listeners some key takeaways. What insights would you share with someone as they prepare for the sale of their business?

Dennis:

First know what that next chapter is. Plan well ahead. Give yourself sufficient time and preparedness to be ready for a successful outcome. Know what your lifestyle goals are, know what your opportunity goals are, know what you want for legacy, for your family. Make sure that you have surrounded yourself with a quality set of advisors to help you work through the process, and live a really good life.

Sarah:

Thank you so much, Dennis. We appreciate your time today.

Dennis:

My pleasure. Thank you.

Sarah:

And thank *you* for listening today. For more on this topic, be sure to check out Episode 42 of Regions Wealth Podcast: Transition Planning for Business Owners at Every Age and Stage. You can find this and other past episodes by visiting regions.com/wealthpodcast.