

Wealth Management Case Study

Achieving Business Transition and Retirement Goals through Integrated Planning

Crowe Wealth

Crowe Wealth Management, LLC

Owners of closely held companies face unique wealth management challenges. They need to establish an adequate personal retirement plan. They also often want to ensure that their business continues. Crowe Wealth Management helped one owner and his wife achieve these goals—and, in the process, reduce their estate tax by \$4 million.*

Situation

It appeared that John and Jane had it all. Now in their early 60s, they had accumulated a net worth of more than \$10 million. They had close relationships with their three adult children—two married sons involved in the family auto dealership business and a daughter in graduate school. They had a beautiful home, as well as a vacation house on a pristine lake. They were in good health.

Despite their good fortune, John and Jane faced significant financial challenges. John wanted to retire from the family business within 10 years. All of the couple's liquid assets had gone into building the business and, recently, a new facility. They had no savings. Their retirement accounts totaled just \$300,000.

While John and Jane had recently updated their estate plan, there were two problems. Gifts that John and Jane had made (or were planning to make) to their children would have a negligible impact on their estate over the long-term. More troubling, the estate plan focused on creating a healthy financial scenario upon John or Jane's death. It did little to ensure that John and Jane would be able to live comfortably during their retirement years.

Solution

Working closely with Crowe Wealth Management advisors, John and Jane set out to create a plan with two primary components. One focused on achieving personal financial security for retirement. The other aimed at transitioning ownership of the business to their children within a 10-year timeframe. The first step in developing the plan involved helping John and Jane articulate their personal, business, and family wealth accumulation goals. These included:

- Achieving personal financial security and liquidity for John and Jane
- Building an investment portfolio that would enable a comfortable retirement
- Retiring all personal debt and the majority of business debt within 10 years
- Keeping the business and real estate in the family
- Enabling John or Jane to maintain control of the business for 10 years
- Retaining enough capital in the business to finance its growth
- Dividing John and Jane's net worth equally among their children

Next, Crowe Wealth Management Advisors presented several planning options that would allow the couple to achieve these goals. Once John and Jane had agreed to a plan, the children were informed and given the opportunity to ask questions and voice any concerns. The plan has been implemented and will be modified, as needed, over the next 10 years.

Recommendations & Results

With Crowe Wealth Management's help, John and Jane created a plan that satisfies their retirement goals and allows them to transfer ownership of the business to their children. Under the new plan, John has recapitalized the business with 80 percent non-voting and 20 percent voting stock. He has also

adjusted ownership in the business as follows:

- 20 percent of the company's stock—non-voting shares valued at approximately \$1.5 million—has been given to his two sons (10 percent each). This allows the sons to become shareholders in the family business. It also immediately reduced John's estate. For the next 10 years, the sons will place dividends from this stock into an investment account. This account will fund the future buy-out of their father's remaining business interest.
- 60 percent of the company's stock—non-voting shares valued at approximately \$4.4 million—has been placed in two Grantor Retained Annuity Trusts (GRATs) for John (30 percent) and Jane (30 percent). For the next 10 years, John and Jane will be the income beneficiaries of these trusts. Forty percent of the trusts' distributions will be applied to taxes. Thirty percent will be retained for business purposes. The remaining 30 percent will be placed in an investment account. This account will be used to build John and Jane's retirement assets. After 10 years, the assets of the GRATs will transfer to the sons. Because the sons are future beneficiaries of these trusts, the contributions John and Jane make to them are considered gifts. However, because the net present value of the trusts' distributions over a 10-year period will exceed the value of what was originally contributed, the gift value becomes zero. If John or Jane should die prior to completion of the GRAT terms, the children will be able to use the proceeds of an irrevocable life insurance trust to purchase the GRAT stock from the estate.
- John will retain all of the company's voting stock, which is 20% of the company's total stock ownership, valued at \$1.5 million. This will allow him to retain complete control of the business over the next 10 years. As with the GRATs, John will place 30 percent of the stock dividends into an investment account for retirement. At the end of the 10-year period, the sons will purchase their father's voting shares. Because they will have placed dividends from their non-voting stock in an investment account, the sons will have a sizeable down payment to make that purchase possible. In this way, John and Jane will ultimately receive 100 percent of the company's stock distributions over the next 10 years—even though they have transferred 20 percent of the business' stock to their sons.

One of the couple's goals was to create an equitable financial scenario for each of their three children. The sons will receive ownership interest in the dealership. The daughter will receive a 50 percent ownership stake in a limited liability company that leases real estate to the dealership. The value of this portion of ownership approximates the value of the sons' current interest in the dealership. To avoid having his children negotiate the value of the property in the future, John established a 10-year lease with two five-year renewal options. He also established a fair market value (FMV) rental rate that will increase automatically to reflect increases in the consumer price index. The rate will enable the paying down of real estate debt over the next 10 years. If the dealership does well, extra rental payments may be made to retire the debt even earlier.

John and Jane have met all their planning goals. They are transferring all of their business interests and half of their real estate interests to the children over 10 years. During that period, they will retain 100 percent of the cash flow from the business. Based on their own conservative projections of business income and investment returns, John and Jane will be able to retire their debt and build retirement assets of \$6-\$8 million. The couple will also reduce their immediate estate by more than \$2 million and their future estate by \$17 million. This translates into future estate tax savings of more than \$4 million*.

* Fees and other related expenses were considered in these calculations.

Contact Information

Rob Geyer can be reached at 616-752-4203 or rgeyer@crowechizek.com.

This Case Study is based on a fact pattern and circumstances that pertain only to this particular client. Every individual's financial situation, circumstances and objectives are different. It is not possible to project results similar to those described in this Case Study for other engagements. The results described in this Case Study are not guaranteed and are stated net of fees and other related expenses. There is risk in any financial tool and technique.