

Introduction



Sandra Heusinkveld

A familiar voice on the other end of the telephone line asked, “Is this call being recorded?” “No, why?” “Well, it should be,” he answered. “You’re going to want to relay this story again.”

I was prepared for neither the sad news nor the bravery behind the telling of his story.

Ken was my first client and a dear man to my staff and me. It was early in the development of his business when we had first spoken. “I’m too small for you to spend your time on,” he said with genuine humility. “That’s a risk I’m willing to take,” I replied.

His situation was a classic and a great experience for a planner fresh from the chute. He needed the work; I needed the experience. He had limited resources because everything he had was tied up in his business. I had the talent and the resources of a premier financial consulting organization behind me. We addressed the challenges with classic planning strategies and with creativity. Together, we made it work – virtually, on a shoestring.

No one could have asked for a more perfect first client.

His voice was clear and calm as he continued on the other end of the line. “I called to thank you for all that you helped me accomplish.” I was puzzled by why he was calling now, apparently out of the blue. He continued, “I’ve been diagnosed with liver cancer and I don’t have long to live. I just wanted you to know that I’m okay; I don’t have any worries. Theresa is taken care of, and we’ve arranged how the business will go to the boys.”

While Ken was ready, I was not. That night at dinner I was sharing the news of the day and how much I wished I could see Ken again. I decided to fly over to visit him and his family that Saturday. My flight would arrive about 8 a.m. and the visit would give me a chance to meet with the sons in the business and catch up. Little did I know when I got off the plane that I needed to be there for more than a social visit.

Every family business has its own dramas, and this family was in the middle of a double drama. One of the sons had issued an ultimatum to the others about his continued involvement in the business. His demands were not acceptable to the others. This turmoil created a secondary crisis that evolved at the worst possible time. Ken was in hospice care, and the family wanted a simple solution.

Ken's body was failing him, though his mind was still sharp. The family decided that it was necessary to buy out the dissenting son. Thinking that changing the insurance was a good way to do so, they made some innocent changes on the life insurance funding the transition of the business.

I was listening to their story with mixed emotions. Here was a family in the midst of one of the toughest things a family can face, and they were facing yet another urgent, critical and unsettling matter. I marveled at how self-assured they seemed in contending with the changes they were making. When I look back at it now, I think they were actually numb, but at the time they seemed confident.

As it turned out, they were actually quite *overconfident*.

Something was bothering me about the plans they described. I wanted to make sure that I understood correctly, so I had them run through the details again. When they finished describing moving the insurance from one son to another, I said, "Transfer for value!" They had just created a huge income tax bill for themselves. "How can that be? Isn't life insurance income tax-free?"

Under most circumstances, life insurance is income tax-free. However, what they had done, unwittingly, was make it immediately subject to income tax. The IRS would view the transfer as a gift of a large asset. In simply transferring insurance from one brother to another, they made a nontaxable asset *income-taxable*. Immediately taxable. The taxes might have to be paid before the impending death claim was made. The brother making the gift was going to owe a lot of taxes in less than four months if we didn't act, and act fast. How much could the taxes possibly be, you ask?

The tax bill would have been *twice his annual salary* at the time.

It was a few days before Christmas, with year-end rapidly approaching – a busy season for all parties involved. I knew I had to get the matter unraveled rapidly, but doing so was neither a simple nor an easy job. Thank heaven I had a team of professionals that worked well together and got the project done in time, just as everyone headed off to holiday gatherings.

Ken had the comfort of being aware that the problem was resolved. For me, the biggest joys of the season were restoring my client's peace of mind, preserving the family harmony, and saving his son from having to pay a potentially devastating tax bill. Even the dissenting son got what he wanted.

Having his estate in order gave Ken and his family the peace of mind that would allow them to tend to more important things during the last year of his life. It also helped me understand the true meaning of my mission as a financial planner.

It wasn't in all the documents and details of having his wishes spelled out. It wasn't in having his resources properly arranged and funding in place to carry out what he wanted and needed to have happen. It wasn't in achieving appropriate rates of return, efficient use of tax brackets, or exclusions and exemptions.

It was in his *peace of mind* – the peace of mind that allowed Ken and his family to do what they needed to do at a terrible time: Spend time together. Cry. Comfort one another. Grieve. And carry on financially without him.

As a professional, I had understood these things intellectually, although I had not yet experienced them firsthand. Thanks to the family that welcomed me into the process, I was able to experience it along with them. While Ken is gone, his story lives on. So does his business.

Estate planning and business succession planning are very much for the living. Why do so many business owners avoid planning like the plague? Why do they push it to “the back burner” rather than dealing directly with it? Is it their daily preoccupation with the business? With so many businesses dependent on good planning for their survival, isn't tending to one's estate and succession needs a crucial part of “taking care of business”?

Perhaps the primary reason for procrastination is that such planning is complex and there are many misconceptions about it. Common sense often does not apply. What seems reasonable frequently

does not work. Tax laws and interpretations appear to utterly defy logic. Even when the logic seems clear, it often conflicts with what seems right.

Over the years I have come to appreciate the need for an integrated approach to financial planning, one that takes into account both the head and the heart. As so many of my clients have discovered, the facts need to make sense “above the neck” yet the decisions must feel right “below the neck”.

It is my hope that *Strictly Business* will help reconcile some of the conflicts that many people encounter in the decision-making process. I hope that it will help you focus your energies on taking care of business: the business of caring for your family, your business, and its employees. Ultimately, I hope it will help you resume the business of living.

Acknowledgements

I dedicate this edition of *Strictly Business* to Mom and Dad, the first business owners I had the privilege to know; to Joann MacKenzie, who got me started and guided my progress that first year; and to Terry Sanders, Patricia Herman, Kimberly Curtis, and Eric Peters, whose support and professionalism I appreciate and admire. Finally, to each of my clients for sharing their dreams and ideals, cares and concerns, during the planning process: Without your candor, the process would not have been so effective.

May each of your stories live on.

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Sandra Heusinkveld, CLU, focuses her practice on transition planning for owners of closely held companies. Drawing on her extensive background in business and her college teaching experience, she brings to her practice an understanding of business owners’ needs and the ability to explain things to them and their families. While much of her work is motivated by tax advantages, the results ensure the stability of the business and the security of family members.

Sandra speaks to business groups and the affluent, and she conducts continuing education training for attorneys and accountants. Although Columbus, Ohio, is the home of her practice, she maintains long-term relationships with clients in several states.

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