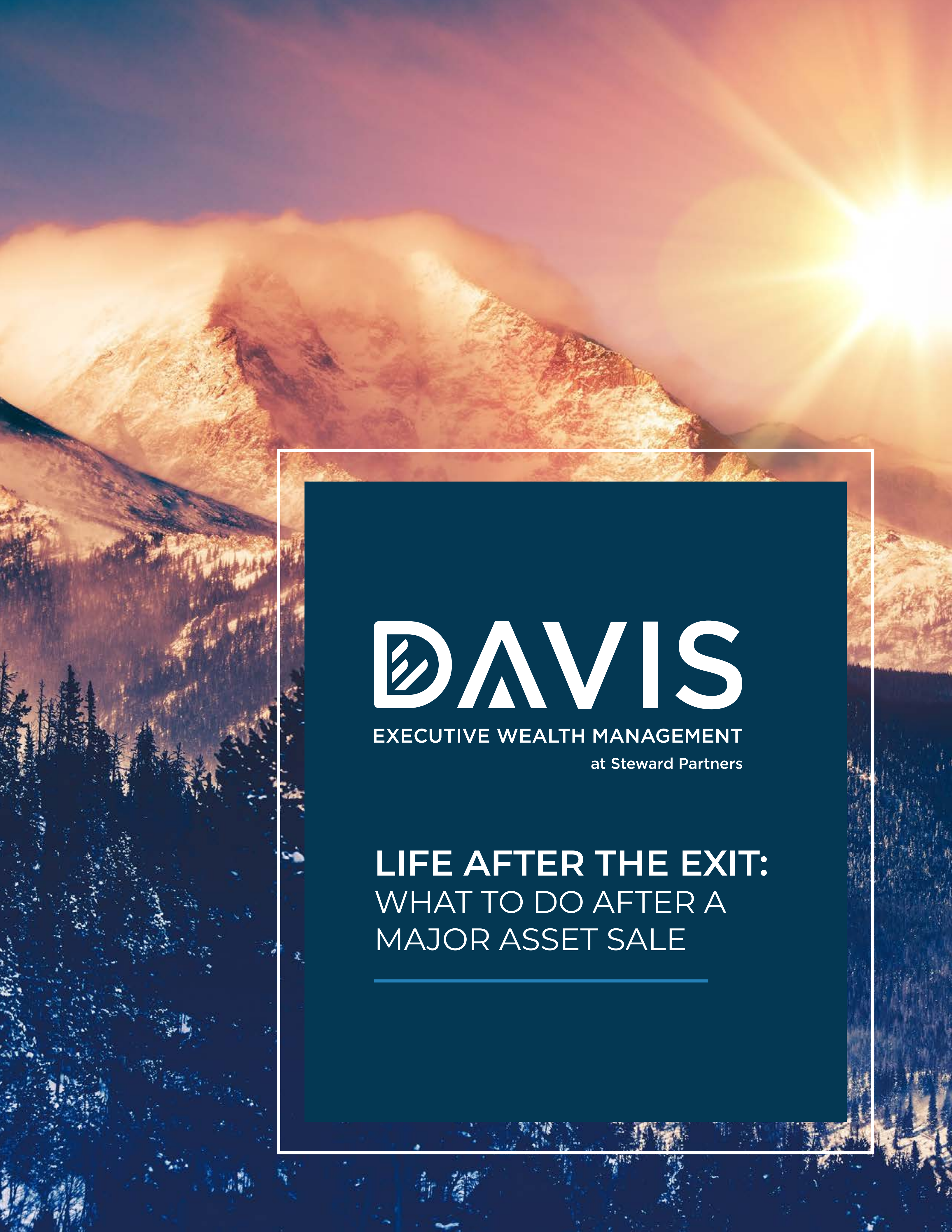


DAVIS

EXECUTIVE WEALTH MANAGEMENT

at Steward Partners

LIFE AFTER THE EXIT:
WHAT TO DO AFTER A MAJOR ASSET SALE

What do you do when you realize you never have to work again?

It's a dream for many, but the reality can be daunting, especially when you're in your prime working years. Most people who find themselves in this position do so because they've spent decades working hard toward a meaningful goal, and it can be difficult to change gears, slowdown, and reset your priorities.

This paper is for former business owners under the age of 50 who have recently sold their companies for a significant amount of money and are now in a position where work is optional. We spoke to three such individuals about their experiences, regrets, and lessons learned, and together with my experience have compiled a guide to "Life After the Exit."

PERSONAL CONSIDERATIONS

Experiencing a financial windfall is exciting, but the sheer amount of change involved can also be overwhelming. That's why it's important to be intentional about how you navigate life after exiting your business. Here are some words of advice:

Let the Dust Settle

In my opinion, Perhaps the most important thing you can do is wait. Resist the urge to make major life changes immediately. Transitioning from an active business owner to someone who doesn't work is jarring, no matter how rewarding the eventual outcome. Your brain needs time to acclimate, so take at least three months (a full year is also appropriate) to get used to your new life.

This is especially important for financial decisions. Unless you have an urgent need (like an inoperable vehicle), avoid large purchases in the months immediately following the sale. Not only is it unwise to spend money before it's in your account, but you'll need to create a plan and establish your financial priorities before you begin spending.

Create a Financial Plan

If you didn't have one before, now I believe it is undeniably crucial to have a detailed financial plan. Coming into new wealth can be stressful, particularly at the beginning, and a personalized plan can empower you and your family to enjoy your money without worrying about how everything will shake out in the future. Find a professional who has experience working with entrepreneurs and high-net-worth families, and ensure they understand your values and priorities at the outset.

Reestablish Your Purpose

Just like your finances require a detailed plan, so does your time. It my view, one of the most prevalent challenges for former business owners and retirees are finding their purpose outside of work. Their business was such a large part of their life for so long, and suddenly it is (for all intents and purposes) gone.

That's why it's important to pause and evaluate your desires, priorities, and goals outside of your business. From my perspective, many people struggle in the beginning not because they miss their work, but because they miss having a goal and a purpose, a reason to get up in the morning. This is likely why some individuals struggle with depression and anxiety after experiencing a financial windfall—not only is managing the wealth daunting, but their time is suddenly unaccounted for, and they lose their drive. If you want fulfillment after your exit, find something you're passionate about and pursue it. For most, family time takes center stage in a way it couldn't when they owned a business. You may want to volunteer, or even start a new venture. In fact, of the three individuals we spoke with, two remained completely retired years later while one not only bought back their company (for pennies on the dollar) but started a second company.

So while it may sound cliché, remember that the sale of your business is not just the end of an era; it's the start of a new chapter with greater opportunities.

RAISING KIDS WITH MONEY

Some parents, particularly those who experience a large windfall when they're young, worry about how a "privileged" lifestyle will impact their children. That's why your self-discovery post-sale is crucial not only for your wellbeing but your family's. One of the most valuable things you can do as a parent is stay grounded and exemplify the behaviors and lifestyle you desire for your kids.

Be a Role Model

Just because your net worth has changed, that doesn't mean your values should. You are the same person with or without money, so resist the urge to alter your standards or priorities simply because you can. It sounds simple, but this is a trap many people subconsciously fall into when they receive a large sum of money. Suddenly the emblem on the hood of their car takes on a significance it never had before; friends are forgotten while superficial goals are pursued. It's sad and decidedly unfulfilling, and it can be especially disorienting for loved ones.

You—more than money, social media, or friends—set the standard for your children. Your behavior and attitude impact their view of wealth and society, so be an intentional role model. Show them that one doesn't become lazy or selfish because he or she is wealthy, and that it is always important to be kind, thoughtful, and wise.

Reinforce Your Family Values

On a similar note, be intentional about teaching your children your values. Have focused conversations about why your family operates the way it does and what you expect from your children as they grow. You may not want them to follow in your footsteps, but you can teach them the principles that brought you where you are today.

Instill Valuable Financial Principles

Chip Fisher, an expert on family dynamics and wealth, notes that children of wealthy parents will never be able to grasp how hard their parents worked for their place in life. They will not have an experiential understanding of "the grind." The opportunities you've afforded your children can be a great advantage to them, but that privilege also requires you as their parent be intentional about teaching them the value of money, hard work, and responsibility. Show your kids how hard it is to earn a dollar compared to the ease of spending it. Give them lessons in how to save and ample opportunities to work. Be a role model not only with your personal values, but in the way you manage money (remain thoughtful and selective; explain why some purchases are worth it and others aren't, even when you can afford them). Help them appreciate what they have by exposing them to different lifestyles.

Create a Tiered Inheritance Plan

Receiving a financial windfall is overwhelming enough for an adult who has earned it, so it's important to consider the emotional repercussions for your children and how you can prepare them for their inheritance. In addition to reinforcing your values and teaching them wise financial principles, you can create stipulations for how and when they receive financial distributions by instating an incentive trust. Another common strategy parents use is a scheduled release of assets. For example, you might release 20% of your child's inheritance at age 21, and then 20% at age 25, 30% at age 35, and the remaining 30% at age 40.[1]

20%
at age 25

30%
at age 35

and the remaining
30%
at age 40.

Allow Them to Fail

You can teach your children everything you know about wise financial management, but they will make mistakes—and when they do, resist the urge to bail them out. As any business owner knows, it's the mistakes that sting that make the best teachers.

That doesn't mean you can't help your children when they're in a bind, but don't make that the default response to poor decisions. This sets a false precedent that failure doesn't matter, and that someone will always be there to rescue them. Not to mention, it eliminates the opportunity for your child to learn how to get themselves out of a tough spot.

ESTATE PLANNING

Strategic estate planning can be crucial to minimize tax liability, protect your wealth, and maintain family harmony. An estate planning attorney who specializes in high-net-worth families will be able to guide you through the necessary documentation, and an experienced financial advisor can provide a holistic overview of the process to help ensure each part of your estate plan is cohesive with your current financial goals and needs.

Here are a few important things to note:

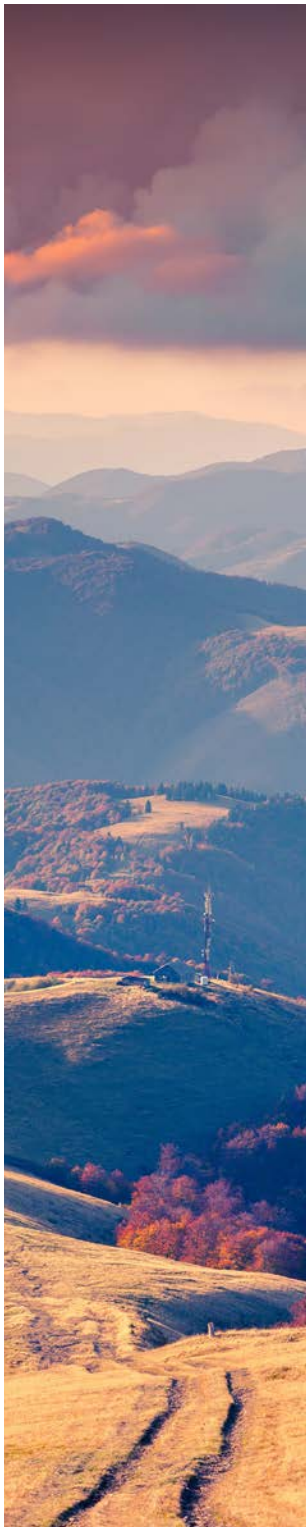
The Value of a Trust

Trusts play a valuable role in intentional wealth distribution; they can reduce estate taxes, protect beneficiaries from creditors, guard your family's privacy, and allow you as the benefactor to set conditions for inheritance.

There are several types of trusts, and each offers unique benefits in the estate planning process.[2]

- **Revocable Trust (aka Living Trust):** This type of trust is unique in that a grantor can modify, amend, or revoke the trust at any point during their lifetime (whereas irrevocable trusts are much more restrictive once established). With a revocable trust, grantees can control the assets, serve as the trustee, and make adjustments during their lifetime as personal or financial situations change.
- **Irrevocable Life Insurance Trust (ILIT):** These trusts hold and manage life insurance policies outside of the insured's estate to avoid estate taxes on the policy proceeds and provide liquidity to pay estate costs or support beneficiaries..
- **Exemption Trust (aka Bypass Trust):** This type of trust helps married couples reduce estate taxes by placing assets into a trust upon the first spouse's death, providing income to the surviving spouse while preserving the estate tax exemption for beneficiaries.
- **Grantor Retained Annuity Trust (GRAT):** GRATs allow a grantor to transfer assets to beneficiaries while retaining fixed annuity payments for a set term, reducing gift taxes if the assets appreciate beyond the IRS-assumed interest rate during the trust's term.
- **Qualified Personal Residence Trust (QPRT):** This allows a homeowner to transfer their residence to beneficiaries at a reduced gift tax value while retaining the right to live in the home for a specified term.
- **Charitable Lead Annuity Trust (CLAT):** CLATs provide a fixed annuity payment to a charity for a set period, after which the remaining assets are transferred to non-charitable beneficiaries, potentially reducing estate and gift taxes.

This list is far from exhaustive, but it provides insight into the bevy of options available to strategically transfer one's wealth. When organizing your estate, it's also important to address key legal documents such as your Power of Attorney for Property, Power of Attorney for Healthcare (or Healthcare Proxy), and your Will. To ensure there are no gaps in your plan and that your legacy is everything you hope it to be, partner with an advisor and estate planning attorney who have experience working with high-net-worth families.



[1]Charles"Chip" Fisher - Principal at Ursus Advisory
[2]Chris Nason-- McDermott Will & Emery

CONCLUSION

Life after a major liquidity event is complex, but it is also an opportune time to redefine your goals and discover new purpose. The more intentional you are with your time and finances, the more likely you are to fully enjoy your experience as a successful former business owner. By partnering with experienced professionals, you can translate your newfound wealth into a secure and fulfilling future for yourself and your family

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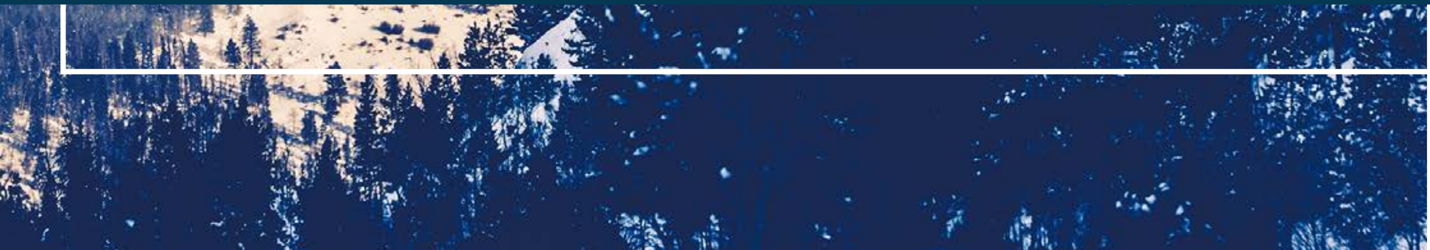

Tim Davis is a Wealth Manager with Steward Partners in Boston. Any information presented is general in nature and not intended to provide individually tailored investment advice. The strategies referenced may not be suitable for all investors as the appropriateness of a particular strategy will depend on an investor's individual circumstances and objectives. Investing involves risks and there is always the potential of losing money when you invest. The views expressed herein are those of the author and may not necessarily reflect the views of Steward Partners or its affiliates. Information contained herein has been obtained from sources considered to be reliable, but we do not guarantee their accuracy or completeness.

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