SUMMIT
FINANCIAL GROUP, LLC

SUMMIT PERSPECTIVE SPRING 2015

8 Pitfalls to Avoid with Succession of a Family Run Business

A staggering 90 percent of American businesses are family owned or controlled. These range in size from two-person partnerships to Fortune 500 firms and together they generate about half of the nation's Gross National Product.[1] Unfortunately, less than one-third of family-owned businesses survive the transition from the first generation of ownership to the second and only 13 percent of family businesses remain in the family over 60 years.

Why such challenging longevity statistics? It could be in part due to the added challenges that come with running a family owned business or, quite possibly, the many hurdles that can come with succession of that business. Following are the top 8 pitfalls that owners of family run businesses should avoid when planning their succession:

1 Transferring when the parents are not financially ready

Being a parent, you want the best for your children. Some business-owner parents who have children that are ready, willing and able to take over their business sometimes put their children's needs above their own and rush into succession. For parents who are not financially stable enough to transfer a business, this premature move could be devastating to their retirement planning and financial security. There are also some business owners who may feel financially ready but have retirement plans that require significant funding, which may draw from the business-impeding possible growth. Waiting until you, the owner, are financially prepared for a transition is of utmost importance to your retirement and the success of the business.

2 Transferring before the parents are mentally ready

Waiting to transition until you are financially ready is one thing – but understanding when you are mentally ready is another story. Before a business owner transfers ownership, they need to assess how mentally prepared they are for an exit. ***Exiting a business that has been built by years of hard work and dedication can be a difficult emotional hurdle.*** How involved are you in the day to day operations of the business? What will you do with your time when you are no longer running the business? These answers will become the key to understanding if you are ready to move forward into the next stage of your life.

3 Transferring to children who do not know how to run a business

It goes without saying that many family members have been involved one way or another in the family business their whole life. But being involved and being in charge are two very different things. Many small business owners forget to realize that the new owners, aka most often their children, must possess or obtain very critical skills and experience to successfully run the business they are taking over. If key skills and responsibilities are missing from the background of a successor, then part of your succession planning needs to be developed with the goal to train and develop that successor into a better and more qualified person.

4 Not taking advantage of gifting opportunities

There are a number of lifetime gifting strategies that can be implemented by the business owner to minimize, or possibly eliminate, estate taxes. For parents who plan to transfer the business by lifetime gifts or at their death, gift and estate taxes will apply based on the value of the assets transferred. To transfer the most assets at the least tax cost, it is important to use all of the discounts that are available. Experienced appraisers, attorneys and accountants can help maximize these discounts for tax purposes with minimal impact on the family. (CONTINUED)

INSIDE THIS ISSUE

*Less than **1/3** of family-owned businesses survive the transition from the first generation of ownership to the second and only **13 %** of family businesses remain in the family over 60 years.* [1]

WHAT WE HEARD

Another fabulous Symposium! *Rene Siegel*

Just wanted to thank you for inviting me to the symposium today. You accomplished your goals. It was informative and entertaining. *Bobbie Whitlock*

GREAT event yesterday. Thanks for all that you did to make it so spectacular!! *Ron Clausen*

I wanted to say thank you to the Summit team for a very well planned and executed event on Saturday. The speakers were great and the venue was terrific. Well done. Thank you for inviting me and my brother. We enjoyed it very much. *Charlie Albertalli*

3rd Annual Summit Symposium

The Third Annual Summit Symposium was held on February 28th at the Palm Event Center and we had a blast! Summit partner Nathan Bennett opened the festivities by sharing that "The WHY behind Summit and the WHY behind planning is the unique opportunity to experience and celebrate the milestones with you on life's journey". Symposium was created to give our clients the opportunity to meet one another and be enriched by something more than the traditional financial planning you've come to expect from us. Judging by your feedback, this year's Symposium left many of you with a takeaway that would help you "do life better."

Dr. Ann Kulze had the audience eating out of her hand as she explained how to Eat Right for Life. The Palm Event Center had a lot of leftover bread after she shared her Great White Hazards – nobody wanted to be the one eating it at lunch!

Robert Genetski helped us understand the Fed and the economy a little better, and gave his perspective on the world markets.

And finally, George Dom blew us all away with video and photos from his time as flight leader of the Blue Angels. His treatise on trust and leadership was fantastic life advice, illustrated perfectly with the video of Blue Angel pilots flying mere inches apart and looking not at the horizon – but at their leader – talk about trust! If you would like a copy of the presentation from any of the speakers, just let us know.

Save The Date for next year's Symposium on **March 5, 2016** at the beautiful Palm Event Center.

13th Annual Charity Golf Tournament

Monday, September 14th
Ruby Hill Golf Club

The Summit Golf Tournament has a proud history of raising money for deserving causes. Over the past 12 years this event has raised over $235,000 for organizations that are making a difference in the East Bay and Tri-Valley community. We are pleased to announce that the proceeds from this year's tournament will go to **Surtec Adopt-A-Family**.

The Surtec Adopt-A-Family Program was founded by Bill Fields in 1991 to provide a happier Christmas to children of needy families in the Bay Area, Tri-Valley and Central Valley areas. The entire program consists of a group of volunteers who have animated Christmas for children of needy families by providing extra-large food boxes and personally wrapped gifts for each child. All of the food and gifts are delivered personally by volunteers on the Saturday before Christmas. Many Summit team members have hands-on experience with Surtec Adopt-A-Family, packaging and delivering joy to families in need. We are ecstatic about the opportunity to help Surtec increase the number of families served in 2015 by an estimated 20% with the funds raised from this event.

To date...
Surtec Adopt-A-Family
has provided for 6,191 families and 17,615 children.
The average cost per family is $200.

A note from Jenn, Director of Relationships:

In researching a charity for Summit's Annual Golf Tournament, I looked at local charities in the East Bay–specifically considering their mission and what impact Summit's donation would have. Not being personally involved in charities previously, this was an eye-opening experience for me, to say the least. I presented a list of local charities to the Summit Partners and got teary-eyed talking about the amazing work these charities do and the compassionate people behind them. When choosing a deserving charity, there is no clean-cut answer, no easy decision. We receive multiple options each year and try to choose accordingly, knowing we can't do it all. Our criteria for choosing a recipient is the following: their work be focused in our community (The Bay Area), that they are small enough that our event can make a meaningful difference, and that they be organized enough to marshal volunteers and handle the administrative duties of our event. We welcome submissions for future recipients, and although we won't be able to choose them all, we hope you keep the recommendations coming.

Get Involved!

- Play golf or join us for the dinner & auction
- Sponsor the event
- Donate an auction item
- Sponsor a family

All proceeds go to Surtec Adopt-A-Family. For more information and to get involved contact: Jenn Rogers at 925-866-7800 or jenn@summitadvisors.com

SOCIAL MEDIA CORNER

We are now on Facebook!

Check us out and like our page to stay up to date on what's happening at Summit.

Yes, we have finally joined the 21st Century!

Summit Little Leaguers - Let's Play Ball

It's baseball and softball season and we could field a team with all the ball players around the office. Check out the Summit Little Leaguers!


Ally Ladrillono 9 yrs

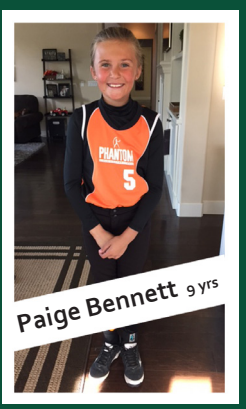

Colton Wilcox 9 yrs

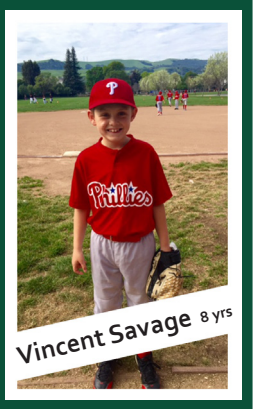

Jason Bennett 6 yrs


Melissa Hookey 16 yrs


Joseph Rogers 5 yrs


Roman Westhoff 5 yrs


Paige Bennett 9 yrs


Vincent Savage 8 yrs

Summit University

Summit University was created to be an educational resource for our clients, their friends, and the local community. Classes are free to attend.

APRIL

16 **The 100 Year Lifestyle**
Thursday, April 16, 6:30pm

Find out simple changes you can make today that will improve your life now and over the long haul.

MAY

5 **Behavioral Finance**
Tuesday, May 5, 6:30pm

JUNE

16 **Social Security**
Tuesday, June 16, 6:30pm

Find more details online at
www.summitadvisors.com or contact
jenn@summitadvisors.com
925-866-7800

8 Pitfalls to Avoid with Succession of a Family Run Business (CONTINUED)

5 Failing to Document the Terms of the Agreement in Writing [2]

Many business owners assume that when dealing with family members there is no real need for a formal agreement, while others find it a difficult subject to broach, so many times there is no written agreement. In the unfortunate event of litigation, more often than not, the family members will find themselves arguing over the terms of their oral agreements.

6 Trying to give everyone an equal share [3]

While this is a nice idea in theory, dividing your business equally may not be in the best interest of your business. Management and ownership are separate business succession planning issues. It may be fairer for the successor(s) you've chosen to run the business to have a larger share of business ownership than family members not active in the business. Or it may be best to transfer both management and ownership to your chosen successor and make other financial arrangements to benefit your other children. Trying to keep everything equal may actually prove to be more unfair in the end.

7 Not adequately preparing the transfer for a potential IRS audit

When preparing the transfer of ownership, it is important to properly value the amount being transferred in the event of a potential audit. The IRS has a statute of limitations of three years to challenge the value gifted. It would be in your best interest to have the business professionally appraised before the transfer to avoid paying more taxes at a future date. If you are audited and cannot document the value of the business at that time, it will be left up to the IRS to determine the market value.

8 Not having your children invest any money into the business

When you started your business you worked hard to invest your time, money and passion to help it grow. Some family business owners may be tempted to offer an easier road for the next generation – but the truth is that a vested interest is a necessity. Families that simply gift their businesses to their children typically destroy their businesses and their families - usually in that order. On the other hand, founders of family businesses that sell their holding to family members are typically poised for success. When a child borrows money to invest in a family business they are assessing their own ability to make money and grow the business.

Conclusion

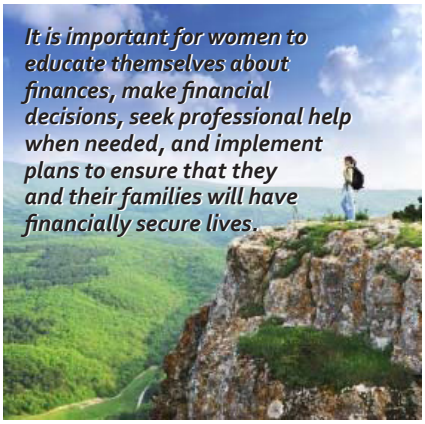
Many of these pitfalls can be avoided with some forethought and some advanced planning towards your family transfer of your business. Don't fall victim to these pitfalls as all-too-many other businesses will. Rather, be proactive with your planning and address these issues in an open and honest manner. In the long-run this will benefit all parties involved with the family business.

Article provided by Pinnacle Equity Solutions, Inc. Sources: 1 Nancy Bowman-Upton in the Small Business Administration publication Transferring Management in the Family-Owned Business. 2 Pepperdine University Business Report, Michael J. Conway, JD, and Stephen J. Baumgartner, MSc(Econ), Volume 10, Issue 2
3 About.com, Susan Ward, Family Business Succession Planning, Part 1

Women vs. Men, Financially Speaking

We all know men and women are different in some fundamental ways. But is this true when it comes to financial planning? In a word, yes. In the financial world, women often find themselves in very different circumstances than their male counterparts. Everyone wants financial security. Yet women often face financial headwinds that can affect their ability to achieve it. The good news is that women today have never been in a better position to achieve financial security for themselves and their families.

More women than ever are successful professionals, business owners, entrepreneurs, and knowledgeable investors. Their economic clout is growing, and women's impact on the traditional workplace is still unfolding positively as women earn college and graduate degrees in record numbers and seek to successfully integrate their work and home lives to provide for their families. So what financial course will you chart?



Some key differences

On the path to financial security, it's important for women to understand what they might be up against, financially speaking: Women live an average of 4.8 years longer than men.[1] A longer life expectancy presents several financial challenges for women:

- Women will need to stretch their retirement dollars further
- Women are more likely to need some type of long-term care, and may have to face some of their health-care needs alone
- Married women are likely to outlive their husbands, which means they could have ultimate responsibility for disposition of the marital estate

Women generally earn less and have fewer savings. According to the Bureau of Labor Statistics, within most occupational categories, women who work full-time, year-round, earn only 81% (on average) of what men earn.[2] This wage gap can significantly impact women's overall savings, Social Security retirement benefits, and pensions.

The dilemma is that while women generally earn less than men, they need those dollars to last longer due to a longer life expectancy. With smaller financial cushions, women are more vulnerable to unexpected economic obstacles, such as a job loss, divorce, or single parenthood. And according to U.S. Census Bureau statistics, women are more likely than men to be living in poverty throughout their lives.[3]

Women are much more likely than men to take time out of their careers to raise children and/or care for aging parents.[4] Sometimes this is by choice. But by moving in and out of the workforce, women face several significant financial implications:

- Lost income, employer-provided health insurance, retirement benefits, and other employee benefits
- Less savings
- A potentially lower Social Security retirement benefit
- Possibly a tougher time finding a job, or a comparable job (in terms of pay and benefits), when reentering the workforce
- Increased vulnerability in the event of divorce or death of a spouse

In addition to stepping out of the workforce more frequently to care for others, women are more likely to try to balance work and family by working part-time, which results in less income, and by requesting flexible work schedules, which can impact their career advancement (and thus the bottom line) if an employer unfairly assumes that women's caregiving responsibilities will come at the expense of dedication to their jobs.

Women are more likely to be living on their own. Whether through choice, divorce, or death of a spouse, more women are living on their own. This means they'll need to take sole responsibility for protecting their income and making financial decisions.

Women sometimes are more conservative investors. Whether they're saving for a home, college, retirement, or a trip around the world, women need their money to work hard for them. Sometimes, though, women tend to be more conservative investors than men,[5] which means their savings might not be on track to meet their financial goals.

Women need to protect their assets. As women continue to earn money, become the main breadwinners for their families, and run their own businesses, it's vital that they take steps to protect their assets, both personal and business. Without an asset protection plan, a woman's wealth is vulnerable to taxes, lawsuits, accidents, and other financial risks that are part of everyday life. But women may be too busy handling their day-to-day responsibilities to take the time to implement an appropriate plan.

Steps women can take

In the past, women may have taken a less active role in household financial decision making. But, for many, those days are over. Today, women have more financial responsibility for themselves and their families. So it's critical that women know how to save, invest, and plan for the future.

Here are some things women can do:

- **Take control of your money**
- **Become a knowledgeable investor**
- **Plan for retirement**
- **Advocate for yourself in the workplace**
- **Seek help to balance work and family**
- **Protect your assets**
- **Create an estate plan**

Article provided by Broadridge Investor Communication Solutions, Inc. Sources: 1 NCHS Data Brief, Number 168, October 2014 2 U.S. Department of Labor, Bureau of Labor Statistics, Women in the Labor Force: A Databook, May 2014 3 U.S. Census Bureau, Current Population Reports, P60-249, 2014 4 U.S. Department of Labor, "Women and Retirement Savings," August 2013 5 U.S. Department of Labor, "Women and Retirement Savings," August 2013