

# McClelland and Hine Financial Services, LLP.

## Agency Perpetuation Planning

Fall 2007



*“Spectacular achievement  
is always preceded by  
spectacular preparation.”*

Robert Schuller

### Agency Succession: Some Astonishing Facts

- More than 2/3 of family owned agencies say they intend to pass the agency to children or other close family within 10 yrs.
- 34% have an unwritten plan, 25% have a written succession plan, 40% have no plan at all
- Of those who say they will retire in the next 5 years, 40% have not identified their successor.
- Principles with incomes over \$250,000 are more likely to have an unwritten plan
- Many agency principles express discomfort about their offspring taking over the agency.
- Only 13% of all family owned businesses make it to the 3<sup>rd</sup> generation.
- Typically, the agency is most likely to fail during a transition, rather than mid-stream.

### Questions an agency principle has to consider in a succession plan:

- Am I concerned about the future of the agency?
- What if my children/offspring/family members are not interested or qualified?
- How and when do I begin a leadership transition? Will I?
- How do I establish a fair value? What is fair for inside children/family, and those not in the agency?
- How well will my children/offspring/family members, get along with existing staff? How will they get along with each other? Is this realistic?
- If I do not trust or get along well with my children/offspring/family members, how will we get along after I retire?
- Should I allow outsiders, including in-laws any ownership or role in management?
- Will I really be able to let go and not interfere in the agency?

Continued on page 2

Continued from page 1

**Some Tax Questions they should be considering:**

- Will the established value survive IRS scrutiny?
- If I set the value to make transfer to my children/offspring/family members easier to fund, and I retain some ownership, just to keep in the loop, will that be considered a gift and subject to the Gift Tax rules?
- How will the payments be considered, from my viewpoint as recipient of the funds, and from the viewpoint of the corporation?
- Will the ownership of any life insurance create unintended tax consequence at death?
- What if we transfer the policies? Whom can we transfer too? What are the pitfalls?
- If I only plan to transfer my agency at death, is the Federal Estate tax going to become an issue?
- Is any corporately owned life insurance subject to Alternative Minimum Tax?
- Is the requirement to redeem (contained in the corporate succession plan) by the corporation of a family member's shares going to trigger an IRS claim that a "constructive dividend" had occurred?

**Action plan:**

- Begin with an honest appraisal of your intentions and goals.
- Involve your spouse/family to the extent they are to be affected by any decision.
- Seek appropriate advice for legal, accounting, and general planning issues.
- Make sure one person is responsible for keeping the team on task. Make sure this is a priority to them.
- Devote the resources, energy, and time to properly attend to the project.
- When a plan is complete- make sure that all parties concerned are in agreement as to what, when, who, how etc. is intended to be carried out.
- Breathe deep.

**Fee Based**  
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*see disclosure page 3***Fee Based**

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Term Insurance  
Whole Life  
Estate Second To Die  
Disability Coverage  
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Care Insurance  
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## The Incredible Shrinking World

By Gil Hine  
CFP,™

In 2001, a surgeon in New York removed a gallbladder of a patient 3,870 miles away in the French city of Strasbourg, a medical miracle made possible by robotic surgical tools and high speed communications. In an even more mind-boggling feat, a laptop computer in Boston last year guided instruments as they performed heart surgery-unaided by human hands-on a patient in Milan, Italy.

Today's economies are knowledge rich. The world is better educated, with far more resources dedicated to science and research than just a quarter a century ago. Technology facilitates the collection and management of information, as well as its spread around the world.

Here are just a indicators of the spread of knowledge worldwide:

World Knowledge	Now	Then	
College Degree Holders	212 Million	82 Million	1980
Doctoral Degrees	9.1 Million	4.3 Million	1981
Think Tanks	318	160	1980
Human Genome Base Pairs Decoded	All 3.1 Billion	0	1990
Wikipedia Articles	5.3 Million	0	2001
<b>Information Infrastructure and Use</b>			
Personal Computers	898 Million	131 Million	1990
Cell Phones	2.7 Billion	11.2 Million	1990
Countries Connected to the Internet	209	20	1990
Digital Video Recorders	17.4 Million	0	1990
<b>Information Capacity and Speed</b>			
Portable Memory Storage (Megabytes)	16,384	1.44	1990
Broadband Subscribers	217 Million	0	1990
Email Accounts	1.4 Billion	0	1985
Voice Over Internet Subscribers	24 Million	0	1990

Given this remarkable progress it is hard not to be optimistic about the long term investment future and the remarkable opportunities worldwide.

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*"Destiny is not a matter of chance, it is a matter of choice; it is not a thing to be waited for, it is a thing to be achieved."*

*William Jennings Bryan*

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#### *Disclosure*

*\*Restricted affiliation agreement with ConceptWealth. Investment and banking products available through ConceptWealth.*

# The Incredible Shaping World



McClelland and Hine  
Financial Services, LLP

Our Staff

In 2001, a region in New York received a call from a client...  
The client was in the financial services industry and was looking for a firm that could provide the same level of service and high speed communication...  
In an effort to meet this need, a team of experts was assembled...  
The team was able to provide the client with the same level of service and high speed communication...  
The client was very satisfied with the results and has since become a long-term client.

Today's economy has created a need for financial services...  
The world is becoming more global and more competitive...  
Financial services firms must be able to provide the same level of service and high speed communication...  
The client was very satisfied with the results and has since become a long-term client.

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