



Case Study

Bringing Success to Family Succession

Case Scenario

In the mid-1980s, Joe and his brother Mike built a successful precision manufacturing company from the ground up. Twelve years later, circumstances changed and they were ready to bring in the second generation to help run the business. The trouble was, they weren't sure how to do it smoothly.

Passing Ownership

As Joe began planning for retirement, he struggled with how to orchestrate the transition. So, he sought advice from financial professional Rick Scruggs at business consultancy Financial Designs, which represents MassMutual.

“Joe and Mike had built a solid company,” said Scruggs, “but they hadn’t thought through the transition to new owners. They didn’t have any buy-sell agreements or life insurance. What they did have was a 401(k) plan and an ESOP [employee stock ownership plan].”

Using the ESOP to buy out of most of Joe's stake, Joe was able to pass the remainder to Joe Jr. when he retired. Meanwhile, Mike and Joe. Jr. worked with Scruggs to expand the company's 401(k) benefits. They also made the first of many MassMutual life insurance purchases on their senior executives.

Passing company ownership to one or more children— can be a difficult task for business owners.

Joe Jr. uses ESOP to buy out Joe and few years later, Mike decided to retire too. The ESOP bought him out, leaving Joe Jr. as company president. As he settled into his new role, shaky finances prompted Joe Jr. to joke that he was unsure whether his promotion was something his uncle did for him or to him.

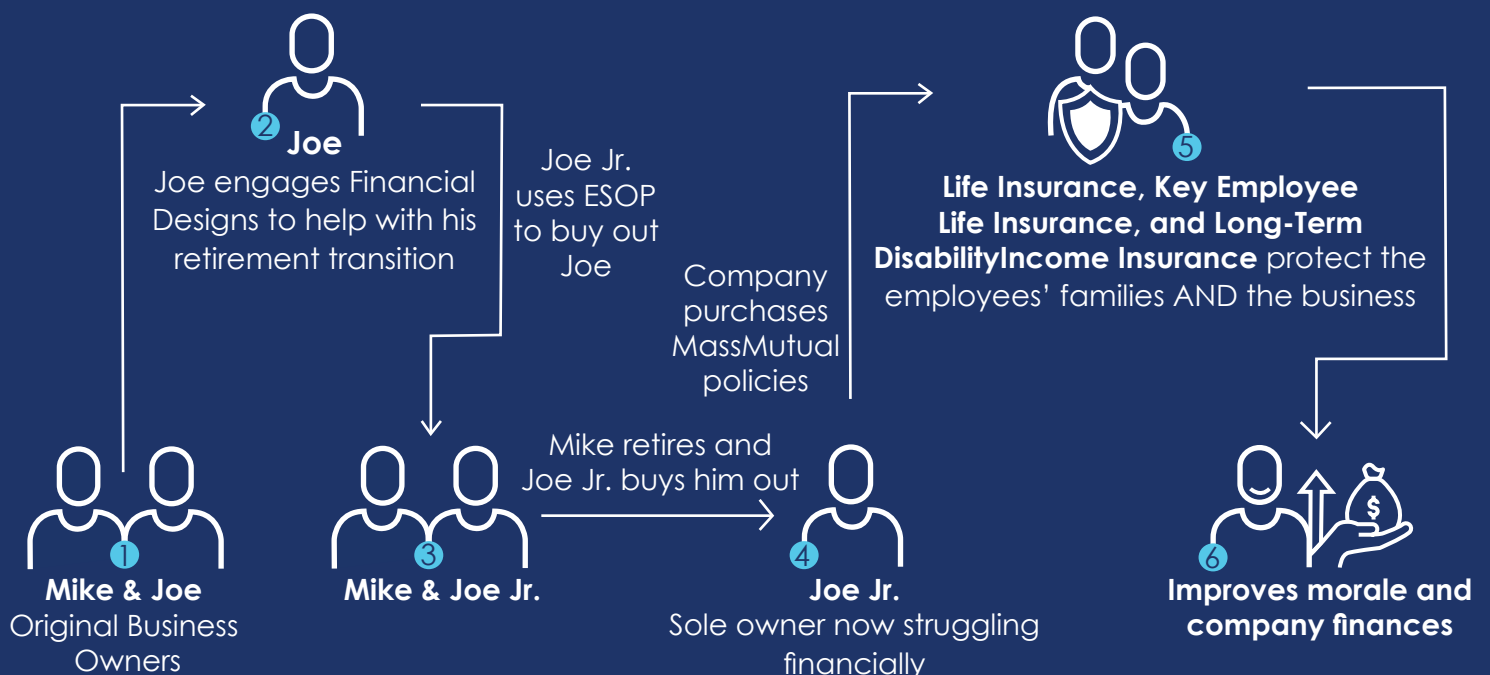
The company had no cash, but they had debt. While they had a solid customer base, Joe Jr. was struggling. By then it was 2008, and news of the recession was starting to hit.

The Solution

Sensing anxiety across the organization, Joe Jr. worked with Scruggs and Financial Designs to help address his team's concerns. Together, they changed their language from fear and concern to focus. They committed to deep leadership training and engaged more extensively with both customers and employees, implementing a profit-sharing program to improve employee morale.

The effort paid off, and the five-year span from 2008 to 2013 brought record earnings. To consolidate these gains, Joe Jr. resolved to make the company more resilient and financially stable. One important step was buying additional insurance on top executives, including key employee life insurance to protect the business, and life insurance, and long-term disability income insurance to protect their families.

The resulting cash and investments fully funded their Corporate Owned Life Insurance (COLI) plan and bolstered the company's balance sheet. For each C-suite executive, they now had a guaranteed cash pay, dividend, and death benefit. The company ESOP plan thrived thanks to the improvements in employee morale and customer satisfaction



The Company Today

The company has continued to add policies, and today carries life insurance and individual disability coverage on 13 executives and other critical employees, representing more than \$20 million on its balance sheet.

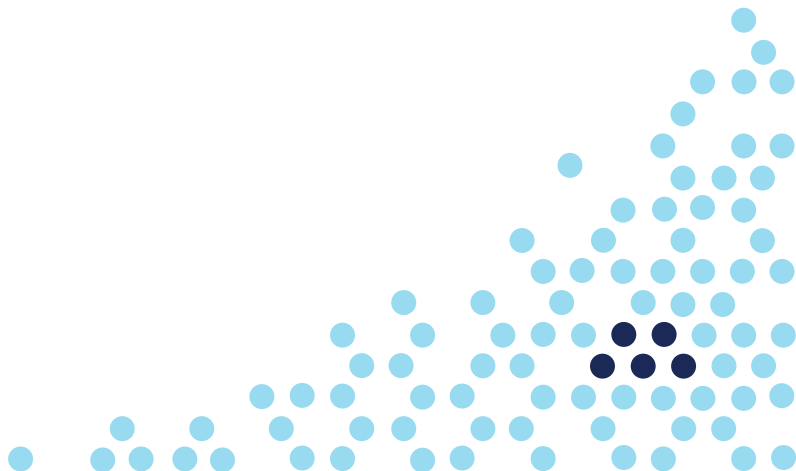
These policies proved their worth when tragedy struck and the company's longest-serving employee died of a terminal illness. Thankfully, the employee's family received a tax-free death benefit, and the company collected funds to help replace him.

Today, 25 years after joining the company, Joe Jr. remains as president. The operation sees annual revenues of about \$22 million and employs a workforce of 135. Its 401(k) plan has an average account balance of more than \$250,000. There are now buy-sell agreements in place, funded with life insurance, to smooth future senior-executive retirements.

Joe is proud to provide every employee with the opportunity for financial and professional improvement. He may be even prouder of a recent recommendation from his leadership team.

At their last meeting they told him, "We'd like you to hire your two sons."

And so, a third generation steps up to bat.



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