

# MEMENTO MORI

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## Hot Topics *in* Death Care

*Highlights from the  
2021 ICCFA Virtual  
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# The Three Pillars of an Exit Plan— A Post-Pandemic Tune-Up

by Tim Hermann

**T**HE UNITED STATES APPEARS TO HAVE decisively turned the corner on the COVID-19 pandemic, following a year mired by uncertainty and change. The U.S. jobs market is heating up, households are armed with savings, and U.S. corporations delivered better-than-expected earnings in Q1 2021.

Investors, businesses, and consumers are focused on the future, and that's great news.

Over the past few months, I have been talking to family, friends, colleagues, and clients in funeral service about lessons they have learned in the past year. I'm curious how folks think the future will look. Interestingly, just about everyone gives a different answer about the future of work, life, and daily interactions. To me, the variety of responses is the clearest indication that the uncertainties of the past year have given way to uncertainties about the future.

There is no better way to counter uncertainty than by making a thoughtful, detailed, and ultimately written plan. For many funeral service and cemetery professionals, this may mean taking a look at your business, its value, and your personal financial goals to ensure you have a clear vision for what you want the future to look like. In other words, now is the time to give your financial plan *and* your exit plan a post-pandemic tune up. I'll focus on what you need to know for your exit plan here.

## The Three Pillars of an Exit Plan

The three pillars of an exit plan are really three sets of questions that funeral service and cemetery business owners need to ask themselves.

### Question 1: In order to leave or sell your business, how much would you need to receive in equity and/or after-tax proceeds?

Within the context of the pandemic and the past year, a key data point for all business owners is figuring out how much their business valuation changed. Did the pandemic

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cause it to increase or decrease? Do you think pandemic-driven forces—*i.e.*, changes to real estate prices, the jobs market, technology's effect on how businesses offer services, and the changing wants and needs of client families—bode well for the future of your business or work against it?

Answering these questions will not only give business owners a sense of what their business is worth today, it can begin to address key questions about how the business's valuation could change in the years ahead.

Another critical issue to think about here is what could happen to the value of your business if tax rates move higher. While we are not tax experts and we urge you to speak to your tax advisor about these issues, here is a hypothetical example to consider:

- Scenario 1: Business owner sells his business in 2021 for \$1,500,000. Using 20% federal capital gains rates, the owner receives \$1,200,000 net after taxes.
- Scenario 2: Business owner sells his business in 2023 for \$1,500,000. By then, capital gains rates have increased to match ordinary income rates (39.6%) for those who earn more than \$1,000,000. In this scenario, the owner receives \$906,000 net after taxes.

The \$300,000 difference between the two scenarios is not a small sum, which is precisely why these types of issues should be front-and-center in exit planning today.

### Question #2: When do you want to leave or sell your business?

The decision whether to sell now versus later can be dictated by tax expectations, as demonstrated above. But owners also need to consider the conditions throughout the profession and personal circumstances.

In the funeral service and cemetery profession, an owner may want to strongly consider selling during a period of heightened consolidation, attractively priced deals, and low cost of capital (for example). The macroeconomic environment also plays a role—if the economy is in growth mode and expanding, there may be more years left in the cycle to accumulate additional value.

On the personal side, many owners need to weigh factors like lifestyle needs, desire to retire versus to work, family life, and/or desire to pursue philanthropic pursuits. At the end of the day, what the business owner wants personally needs to play a decisive role in how an exit plan is shaped.


### Question #3: Who are the possible successors or acquirers of the business?

In all likelihood, the pandemic revealed new information about prospective successors

or buyers for the business. Maybe the key employees you had in mind to take over the business struggled to meet the challenges posed by the pandemic. On the flip side, maybe you were surprised by how a family member or a third party stepped up over the past year, shifting your thinking completely about who is best suited to take over the business.

At the end of the day, finding and training a successor is almost certainly a multi-year process, requiring a lot of attention and energy. Owners should consider whether the pandemic made it more or less clear who is qualified to lead the business into the future.

The last point to make is that exit planning is a dynamic, methodical, ongoing process; it is not a single event! Owners should not expect to make an exit plan once and never revisit it. Over time, financial situations change, timelines change, personal needs change, taxes change, and the economics of funeral service change.

The pandemic, of course, was a catalyst for change, which means owners and investors need to respond by tuning up their financial and exit plan now. 



**Tim Hermann** is a Vice President and Senior Wealth Advisor at Roosevelt Investments and is a CERTIFIED FINANCIAL PLANNER™ professional and holds the Certified Exit Planner designation. Tim is responsible for leading the firm's financial planning efforts and guides clients and families through a comprehensive financial planning process. He has over 19 years of experience in financial services and has spent the last 11 years working with funeral homes, cemeteries, and their owners and operators. Tim can be reached at [thermann@rooseveltinvestments.com](mailto:thermann@rooseveltinvestments.com).

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## Highlights from the 2021 ICCFA Virtual Convention & Expo

### Why Your Exit Plan Needs a Post-COVID-19 Tune-Up

*Tim Hermann, Roosevelt Investment*

**IT MAY BE YEARS** before we fully understand COVID-19's economic and public health impact but we are already seeing a change in perceptions and expectations from consumers regarding the future of funeral service. For many funeral service professionals, this may mean taking a look at your business, its value, and your personal financial goals to help ensure your exit plan is still relevant and effective after everything that has happened over the last year. Has your situation changed? Is your timeline different? Do you want to alter your plan for your successor? Has your attitude towards investing and risk changed?

For others, it may mean taking a close look at your role in the business and developing an exit plan for the first time. **Tim Hermann** took us through some of the longer-term implications for your exit plan due to COVID-19 and changing consumer trends. Attendees learned about various strategies to help you stay on track to meet your business and personal financial goals.

#### What Attendees Learned

- Longer-term implications for their exit plans due to COVID-19 and changing consumer trends.
- Understanding of various strategies to help them stay on track to meet their business and personal financial goals.
- Identify some of the most common pitfalls that could derail their exit plan and what steps they can take to account for them.