

## Succession Planning

Have you ever considered what would become of your Pharmacy if you were no longer there to operate it? How would this affect your sales? Your family? Your employees?

Many Pharmacists ask when they should start to think about succession planning. The answer is that you should begin to consider it the minute you open your doors for business.

Succession planning can be defined as the transfer of your Pharmacy assets in the event of death, disability or retirement, in the most orderly and tax-effective manner possible. Your first priority should be protecting your investment in your store and ensuring a comfortable financial status for your family. Next, you should review your options. There are usually four basic choices you can make about what should be done if you were no longer there to run the pharmacy. The pharmacy can be left to your spouse or children; a pharmacist can be hired to run it for your family; it can be sold to outside interests; or it can be liquidated. Before deciding which option is best for you, investigate current regulations pertaining to the operation of a pharmacy in your province. For example, in Ontario a spouse who is not a pharmacist can only continue the operation for a maximum of four years.

This creates both a positive and potentially negative scenario. First, the good news is that the pharmacy does not have to be sold immediately at fire sale prices, but the down side is that unless there is adequate capital available to operate the business, you may leave your family in the position of forced liquidation.

Here is a checklist of things for which capital may be required if you are unable to operate your pharmacy permanently or for a lengthy period;

1. To pay all loans and other obligations, including accounts outstanding beyond 30 days, and any other loans you may have required for the business.
2. To cover any business loans during the period of transition
3. To pay the salary of a replacement pharmacist and if necessary, a front shop manager.
4. Taxes payable at your death

In order to provide the capital required the pharmacy can and should have key-person insurance coverage. Essentially the pharmacy insures the life of the owner to provide tax-free capital which can be injected into the pharmacy until the pharmacy is sold. A well rounded Key-Person plan should include life, disability and critical illness insurance.

When planning for retirement, you should consider the profitability of your drugstore at least five years prior to retirement – after all, the potential purchaser will want to look at the past few years' performance, not just the last one. Meet with your accountant to review your statements to ensure expenses and profit margins are in line.

Whether you are just starting out or already looking forward to retirement, succession planning is an essential part of your overall estate and business planning. Please feel free to contact our office for more information.