

Does Your Business Have A Will ?

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*Helping to ensure continuation of small
business using Life Insurance...*

Who Do You Know Who Is:

- Owner of a closely-held business who cares about what happens to the business
- Between the ages of 35- and 75-years old
- Entrepreneurial and interested in long term strategies for his or her business challenges
- Interested in a fair payment to his/her estate for the business
- Interested in retirement planning
- Willing to use company money to protect the business
- Willing to take the time to plan for business succession

The Small Business Opportunity

- ✦ Only 43% of small business owners have a business continuation plan if they die
- ✦ Only 41% of these have life insurance in the plan
- ✦ Only 39% of business owners have had their businesses professionally valued

Source: Small Businesses Owners (2005) (LIMRA International)

Buy-Sell Planning

FOUR STEPS:

- ✦ Understand the need
- ✦ Select a plan type
- ✦ Place a value on the business
- ✦ Implement

The Forced Sale

THE WORST POSSIBLE SCENARIO:

- ✦ Many family businesses are forced to liquidate upon death of the business owner
- ✦ Fair market value may be significantly reduced
- ✦ Goodwill is lost
- ✦ Family control is lost

Questions to Ask a Business Owner

- Does Your Business Have A Will?
- Are you interested in ensuring the continuation of your business after your death?
- Are you interested in a way to provide financial security for your family?
- Are you interested in a way to maintain your current levels of control and ownership?
- Are you interested in establishing a fair and binding transfer price for your business?

Buy-Sell Planning: the Benefits

- ✦ Creates immediate market for a business interest
- ✦ Protects against unwanted owners
- ✦ Available funds to provide for heirs
- ✦ Provides a “business valuation” formula
- ✦ Helps reduce risks of disputes with IRS
- ✦ **AVOIDS THE FORCED LIQUIDATION VALUE**

Three Types of Buy-Sell Agreements

- ✦ Entity Purchase
- ✦ Cross-Purchase
- ✦ Trustee Owned Cross Purchase



Entity Purchase Agreement



*Although the death benefit is not subject to regular corporate income taxes, the corporate alternative minimum tax could apply.

Cross Purchase

- Simple, Each Other Owns Each Others Policy
- Can Be Cumbersome With Many Owners
- Establishes Basis On The Purchase

Cross Purchase Trustee Owned

- The Great Benefits Of Cross Purchase
 - Step up basis
 - Accepted By IRS more often
 - Easy and Simple
- As Entity and Cross Purchase various methods available to fund the life insurance
 - Split Dollar
 - Section 162
- The Avoidance of
 - AMT
 - Double Taxation as C Corporation

Funding the Buy-Sell Agreement

Various Options are Available to Find the Best Funding Source...

Funding Options

✦ Borrowing

May significantly increase cost

Credit and financial strain on business

Not guaranteed at time of buy-out

✦ Sinking fund

Corporate income and accumulated earnings tax

Corporate creditors

Not guaranteed at time of buy-out

✦ Installments from corporate reserves

Depends on uncertain future profits

Financial strain on business

Not guaranteed at time of buy-out

Valuing The Business

- The Negotiation Method
- Different Formulas based upon financials (Multiple of sales, earnings, book value, etc.)
- The Average of above
- Tools Available in Industry
 - Valuation Software
 - AMO
 - Illustration

Types Of Insurance for Buy Sell

✦ Term

Great for short term

Only pays if one goes to the lord

W/R.O.P. Can get 100% premiums back

✦ Can be used for living buyout (Retirement)

Universal Life

- ✦ Can be Temporary or Permanent As Desired
- ✦ Builds Up Values that can be used for living buyout.
- ✦ Can be bought as specialized
 - Accumulation
 - Protection
- ✦ Sometimes less expensive **THEN TERM**
- ✦ More flexible

Indexed Universal Life

- Can be temporary or Permanent As Desired
- Builds Up Values that can be used for living buyout.
- Can be bought as specialized
 - Accumulation
 - Protection
- Sometimes less expensive **THEN TERM**
- Can Keep Up With Inflation and Market

Whole Life

- ✦ Permanent As Desired
- ✦ Builds Up Values that can be used for living buyout.
- ✦ Highest Front End Costs
- ✦ Great Features About WL
 - Accumulation
 - Protection

Variable Universal Life Insurance

- ✦ New VUL Contracts Combine The Guarantee of The Best UL Plans and the versatility to diversify.
- ✦ Variable universal life insurance can offer upside potential of equity-based investment options and access to cash value through loans and withdrawals
- ✦ Variable universal life insurance involves investment risk, including possible loss of principal. Both the return and the principal value of the securities in the policy will fluctuate, and may be worth more or less than their original costs when redeemed.

NOTE

Life insurance policies contain fees and expenses, including cost of insurance, administrative fees and premium loads, surrender charges and other charges or fees that may be incurred under the policy.

Variable universal life insurance policies also may have additional charges and fund operating expenses.

The investment return and principal value of an investment will fluctuate so that when redeemed, they may be worth more or less than their original cost.

Creative New Ideas In Planning

- Combination sales
- 1031
- Charitable Remainder Trust
- Replacement of premium differential with VA
- Using the First to Die Design
 - Most people don't know that the competitive UL, SUL, SVUL, SIUL
 - Can actually have term additional rider rates less than Term

The Road to Successful Buy-Sell Planning Using Life Insurance

