



Business Disaster Prevention

Presented by

John W. Wheeler, Jr.

CFP[®], CLU, ChFC, CRPC[®], LUTCF, LACP, CLTC

Special Care Planner[™]

For Producer Use Only. Not for use with the public.



BACK OFFICE TAX SERVICES NOW OFFERED!

- Back office tax service for financial professionals
- Letter of recommendation from a CPA + option for additional consulting
- Tax planning, not just tax preparation

SCAN
HERE TO
LEARN
MORE!



RWTax.net/back-office





WANT FAIRWAY RESOURCES?

Fill out our survey to connect with Fairway and learn about home equity's role in retirement income planning!



Next month's guest...

**CURTIS
CLOKE**

CFP®, CLU,
ChFC, CRPC®,
LUTCF





Disclosures

This is for informational purposes only.

Product guarantees are based on the claims-paying ability of the issuing company and assume compliance with the product's benefit rules, as applicable.

Numerical examples are for illustration purposes only.



The Main Issues

- ❑ Do they have a problem or something they want to accomplish?
- ❑ Is the problem big enough to cause real concern?
- ❑ Is their goal a true burning goal or just a desire?
- ❑ Do they really want to do something about it?
- ❑ Do they want to take action now?
- ❑ Do they have the financial capacity to do something about it?



Must Establish Rapport & Understanding

- It's all in the questions to establish understanding.
- How did you get started in the business?
- What do you enjoy the most about it?
- What separates your company from the competition?



Must Establish Rapport & Understanding

- ❑ What advice would you give someone starting out in a business like yours today?
- ❑ What one thing would you do with your business if you knew it could not fail?
- ❑ What significant changes have you seen take place in your business or industry through the years?

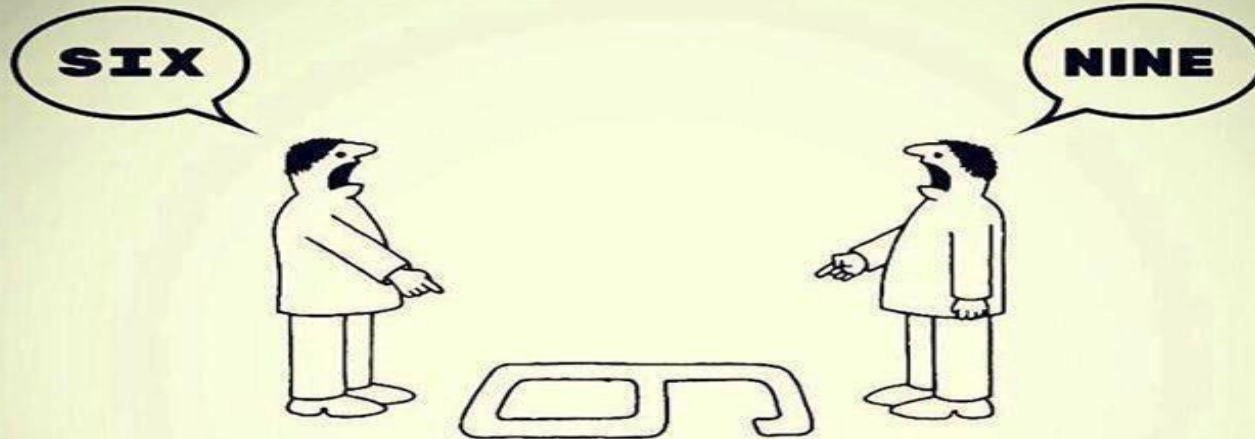


Must Establish Rapport & Understanding

- ❑ What do you see as coming trends in your business or industry?
- ❑ What ways have you found to be the most effective for promoting your business?
- ❑ What one sentence would you like people to use in describing the way you do business?

We Have To See Things From The Client's Point Of View

THE
EDUCATION
TREE



Just because you are right,
does not mean, I am wrong.
You just haven't seen life
from my side.



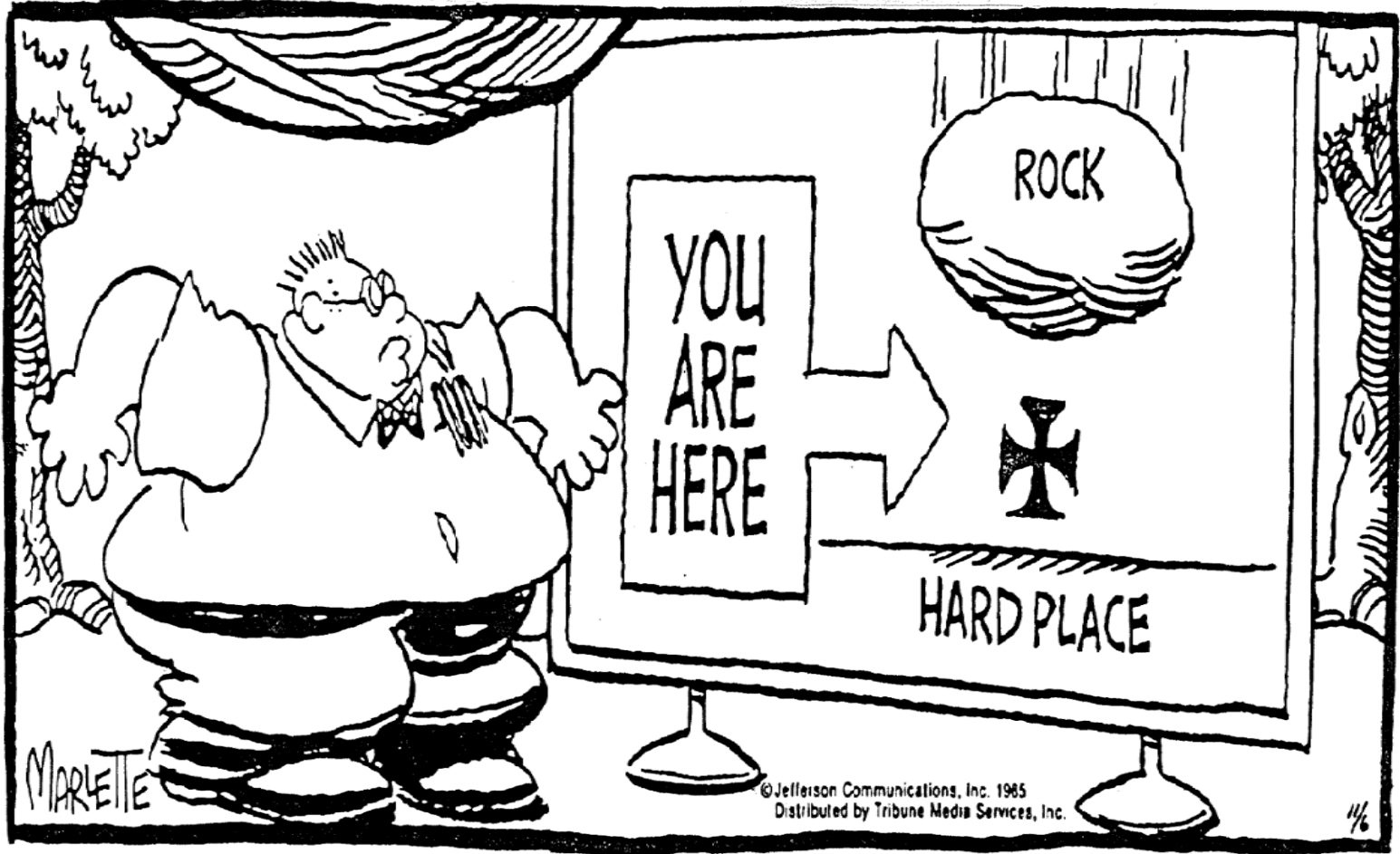
What Are They Concerned About?

- The Economy
- Regulation changes
- Cash flow
- Taxes
- Future of their industry
- Competition



What Are They Concerned About?

- What is the client's exit strategy?
- To continue or not to continue the business?
- If it is to be continued, who will run the business?
- If not to be continued, is it to be liquidated or sold intact?
- How will the family be provided for?
- How will vendors, lenders, clients and employees react if something happens to them?



MARLETTE

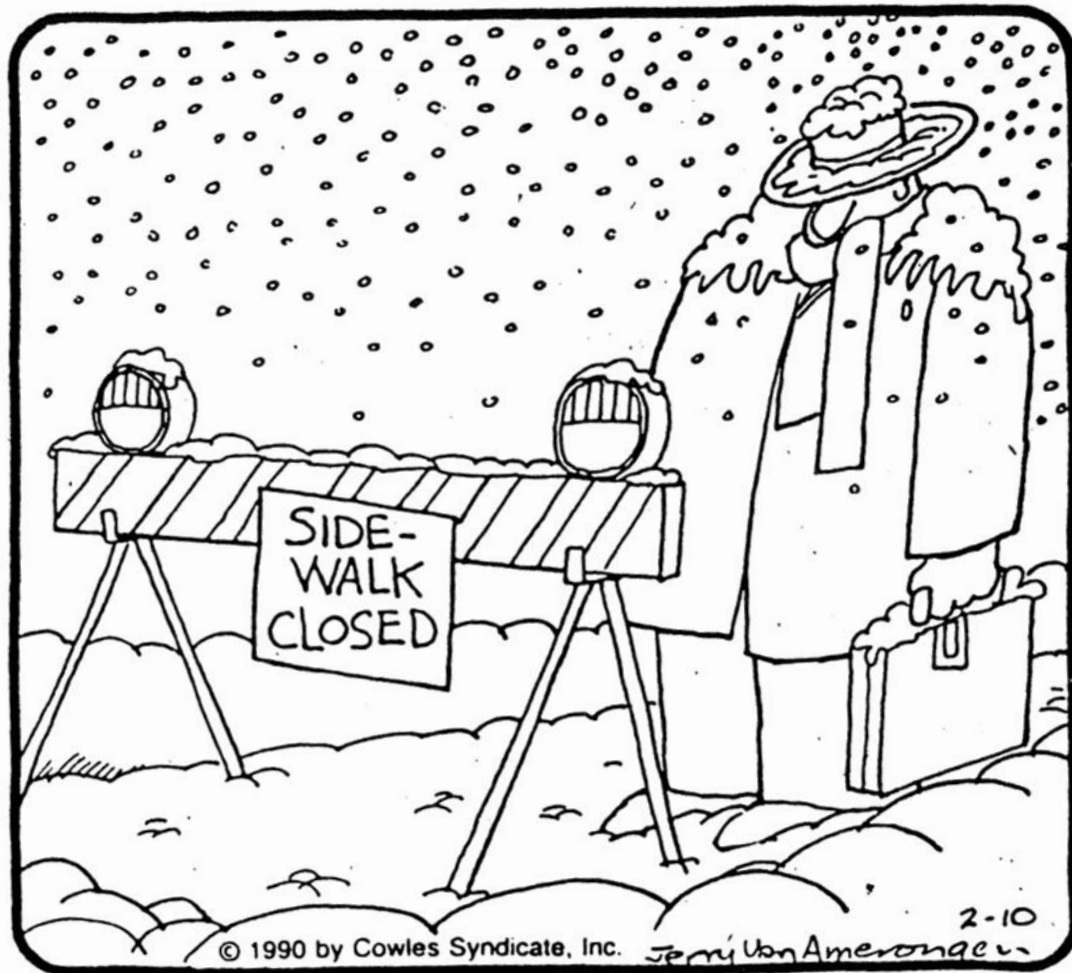
©Jefferson Communications, Inc. 1985
Distributed by Tribune Media Services, Inc.

116



How Do They Want To Be Remembered?

- As a visionary?
- As someone who cared enough to plan ahead for contingencies?
- As someone who meant well?
- As someone who left too many unanswered questions and unaddressed potential problems?



A man with no alternative plan.



Leading Questions

- What do you want to happen with your business when you retire or something happened to you?
- What is your business worth without you?
- Who, besides yourself, is capable of running the business?
- Who do you depend upon the most?
- What would happen if they were no longer here?



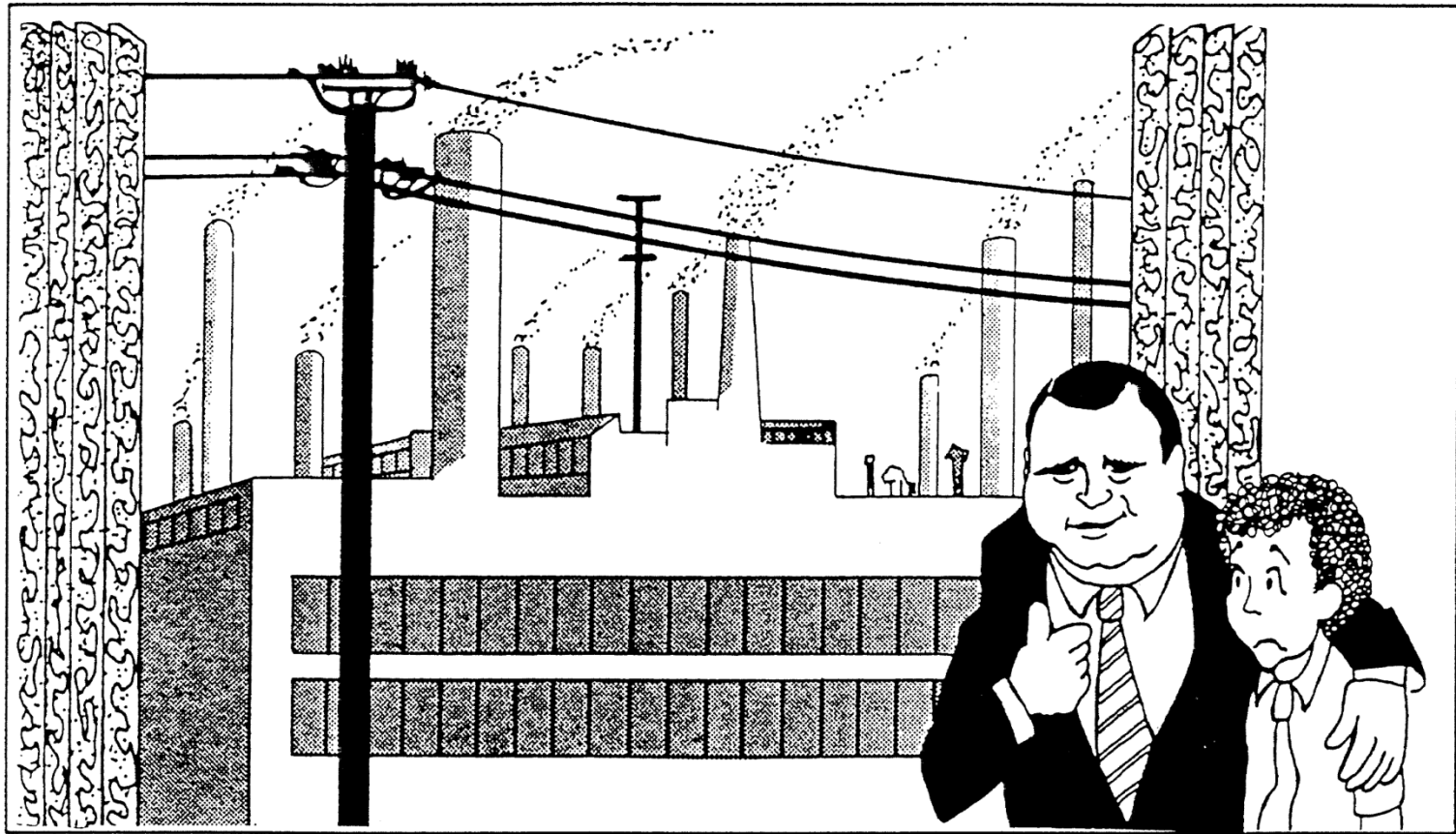
Leading Questions

- ❑ When is the last time you took a six month vacation?
- ❑ What would happen if you did?
- ❑ What would happen if you were gone for a year?
- ❑ What would happen if you never came back?



Leading Questions

- ❑ Does your family have adequate income outside of what the business provides?
- ❑ What plans do you currently have in place to deal with these issues?



Someday, Son, this will all be yours – and, of course, your mother's, your sisters', your cousin Jimmie Joe's, the Heart Society...



Common Planning Objectives

- ❑ Continuity of management
- ❑ Passing control to certain individuals
- ❑ Avoiding family feuds over management, control, or equitability of distribution of assets
- ❑ Providing retirement income for the owner
- ❑ Providing continued income for the family
- ❑ Minimizing income tax
- ❑ Minimizing transfer costs, and possible taxes, at death
- ❑ Providing adequate liquidity at death



They're playing "Sharholders"!

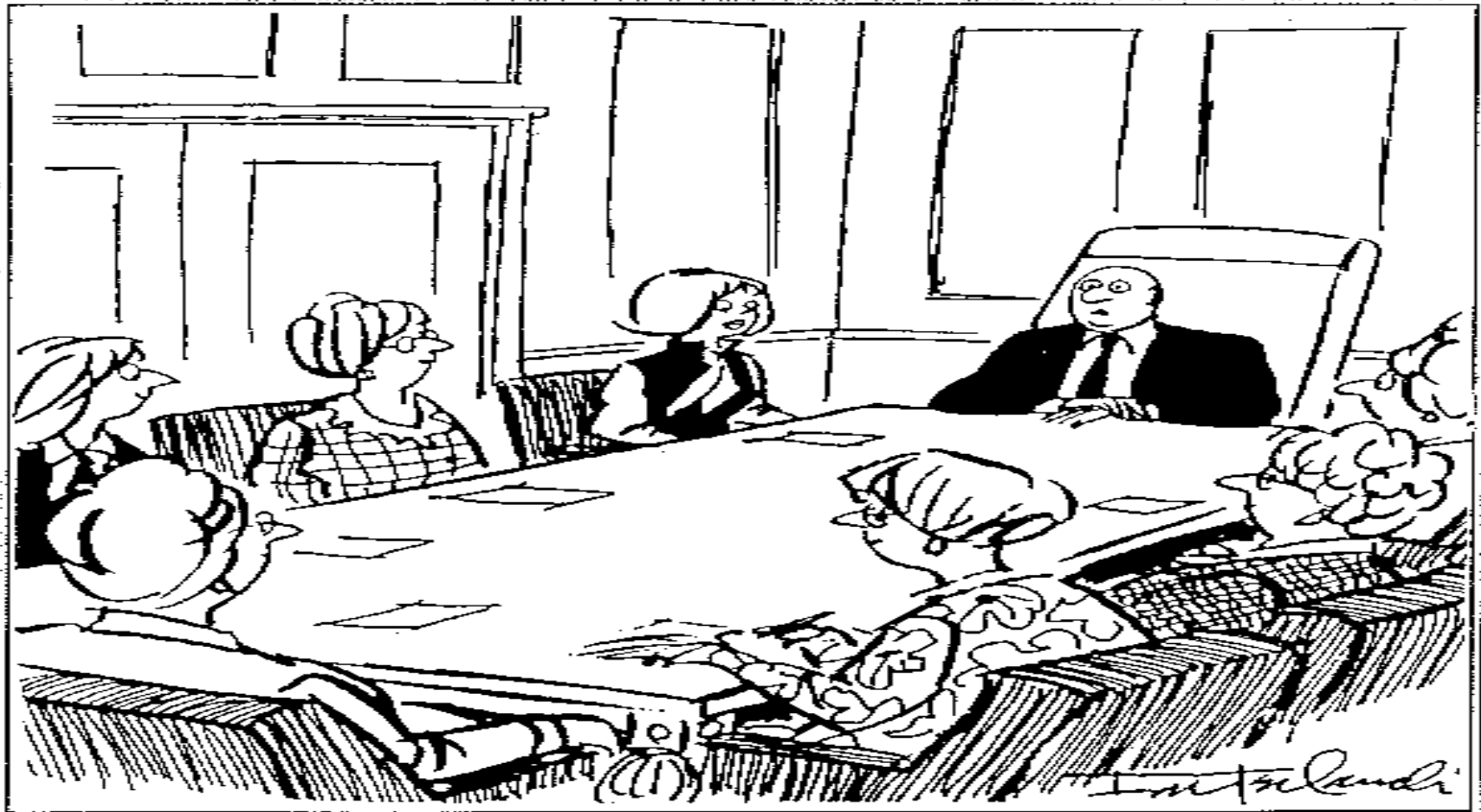


Which one am I gonna
have to fight for control of
the business, Daddy?



Leading Questions

- ❑ If you became sick or injured, how long could you pay yourself?
- ❑ If you had to take in a new associate, would you rather pick the person yourself or have a deceased associate's executor pick the person for you?
- ❑ Is your will consistent with the desires you have for your business?
- ❑ Is there a market for your business if you weren't part of the package?
- ❑ Will the laws of this state determine the disposition of your business?



I can't tell you how pleased I was to learn that Dad left all of us equal shares...

Business Facts-Businessweek.com

- ❑ More than 90% of all private business in the U.S. are dominated by families
- ❑ The average life span of a family-owned business is 24 years.
- ❑ Only about 40% of them outlive their founder
- ❑ Only about 13% survive to the 3rd generation
- ❑ Only about 3% last to the 4th generation
- ❑ More than 50% of them could have been saved with proper planning

Business Facts-Harvard Business Review

- ❑ The average life span of a publicly traded company is 15 years
- ❑ Tenures on the S&P have been getting shorter
- ❑ If the average company joined the index in 1958, it would stay there for 61 years
- ❑ By 2012, the average tenure was 18 years
- ❑ A study done in 2015 showed a 5-year exit risk of 32%



Continuity of Management

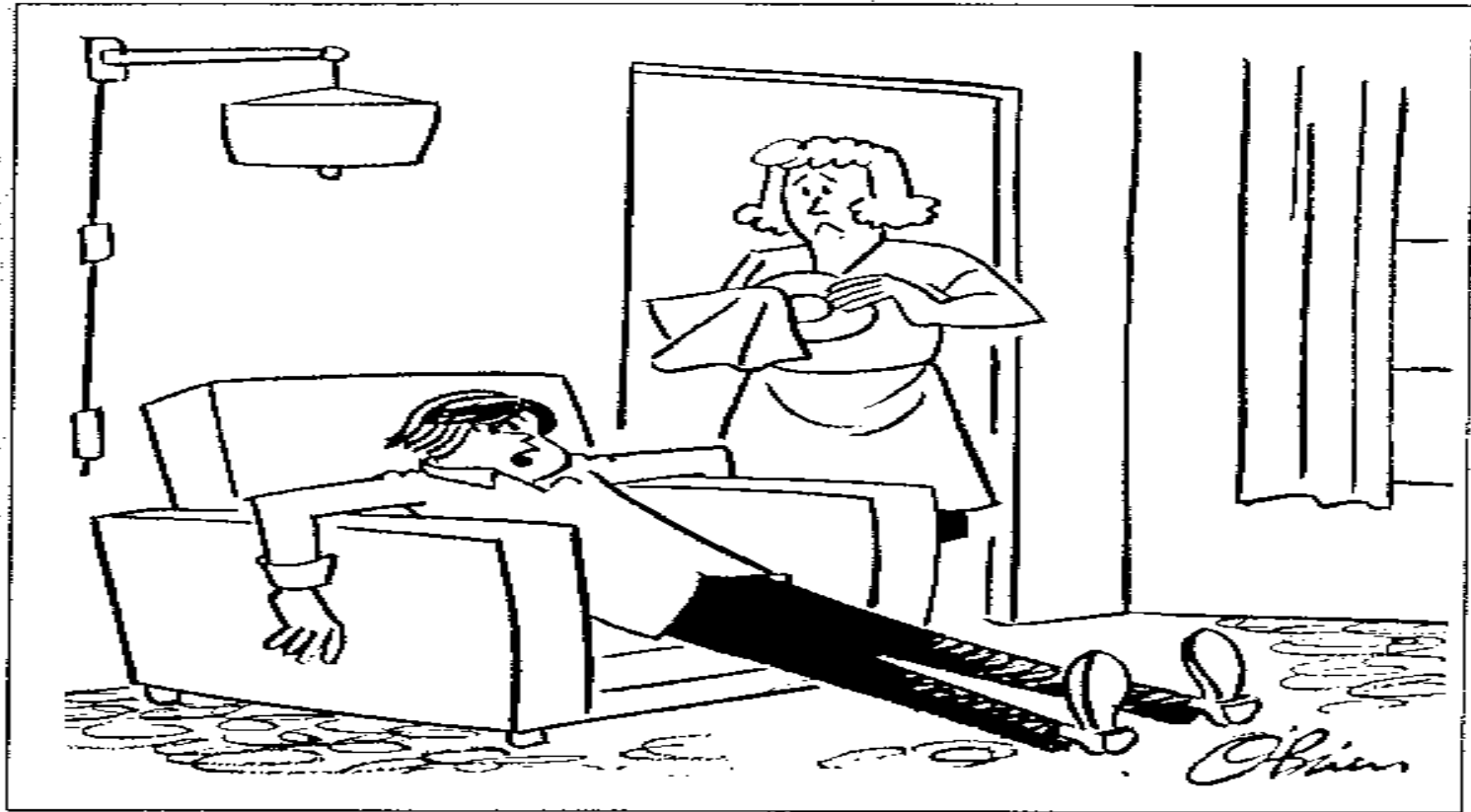
- ❑ If the most qualified to continue running the business doesn't get control, then control may pass to someone who is not capable, but may still want to take that role
- ❑ Valued employees may be lost if they become uncertain of the company's future
- ❑ Family members often have differing goals
- ❑ Vendors, lenders, and even customers may get nervous about the business' future



I'd like to think you would've elected me Chairman even if Ben hadn't left me all the stock.

Conflicting Goals

- **Remaining owners** want to maintain control
- They may want to build the business
- They need money to operate the business
- They may not want other family members involved in the business
- **Family not involved** wants money
- They probably want to reduce volatility of income
- They probably need money to live day-to-day or may want to improve their standard of living
- They may not be interested in being involved in the business



If I have to inherit the business someday, I'm not so sure I want to grow up.



Avoiding Financial Problems for the Business

- Prepare the outside world to accept new management and ownership
- Suppliers, lenders, employees and customers now understand the plan
- Provide enough cash for continuation purposes, if the business is to be continued



Avoiding Financial Problems for Survivors

- Provide for proper funding, if the business is to continue, along with a written plan
- Provide funds for family members not involved in the business to equate their share
- Provide for the family in other ways, if the business is to be sold
- Try to anticipate all types of financial need



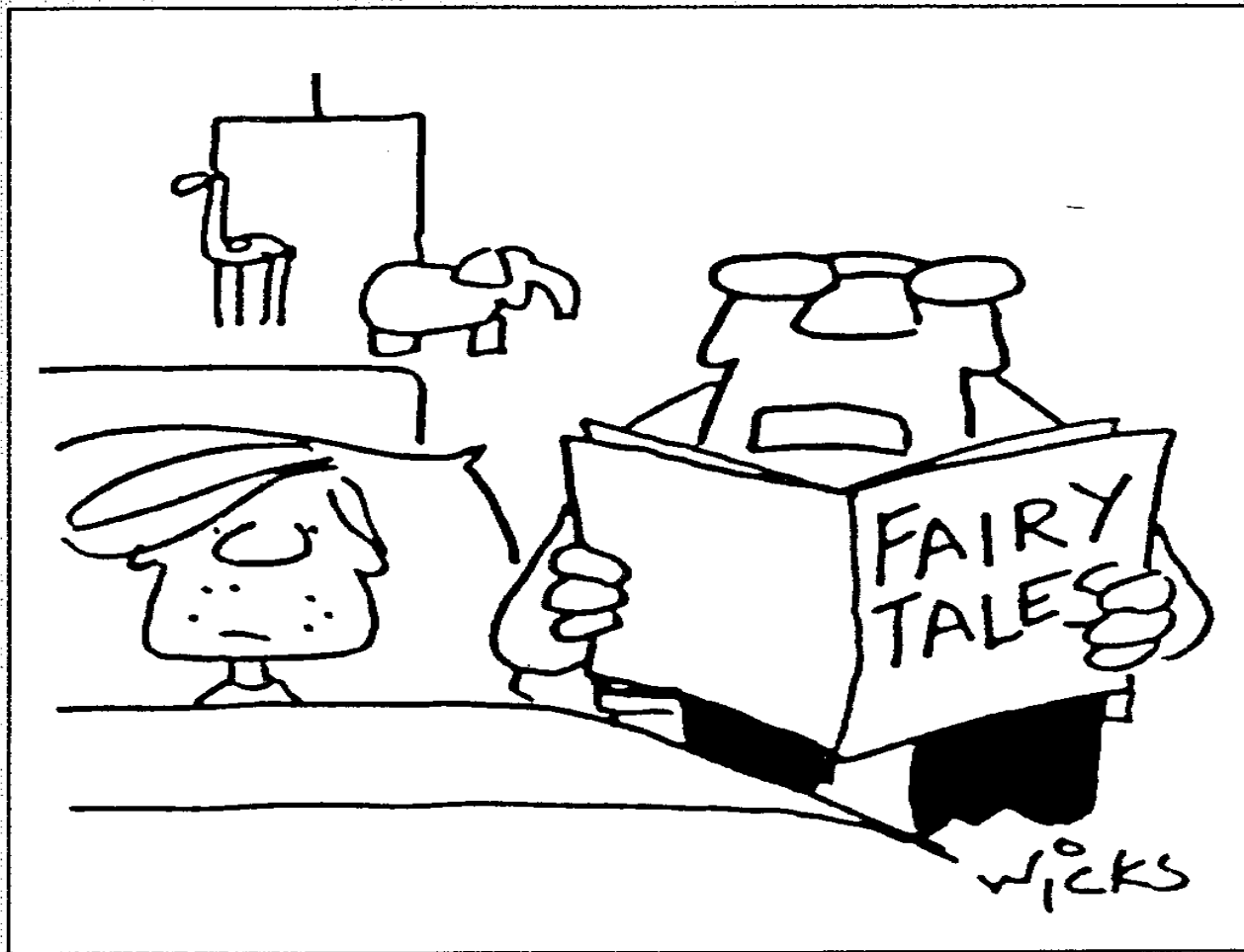
Obstacles to Planning

- ❑ Procrastination – they think there's plenty of time
- ❑ They have received several good offers, so see no problem in selling, if needed
- ❑ They just assume the business will continue
- ❑ It is difficult to give up control and/or take time to train successors



Obstacles to Planning

- They are afraid of harming family ties
- They may resent their children's desire to take over
- They may have legitimate reason to be wary of their children

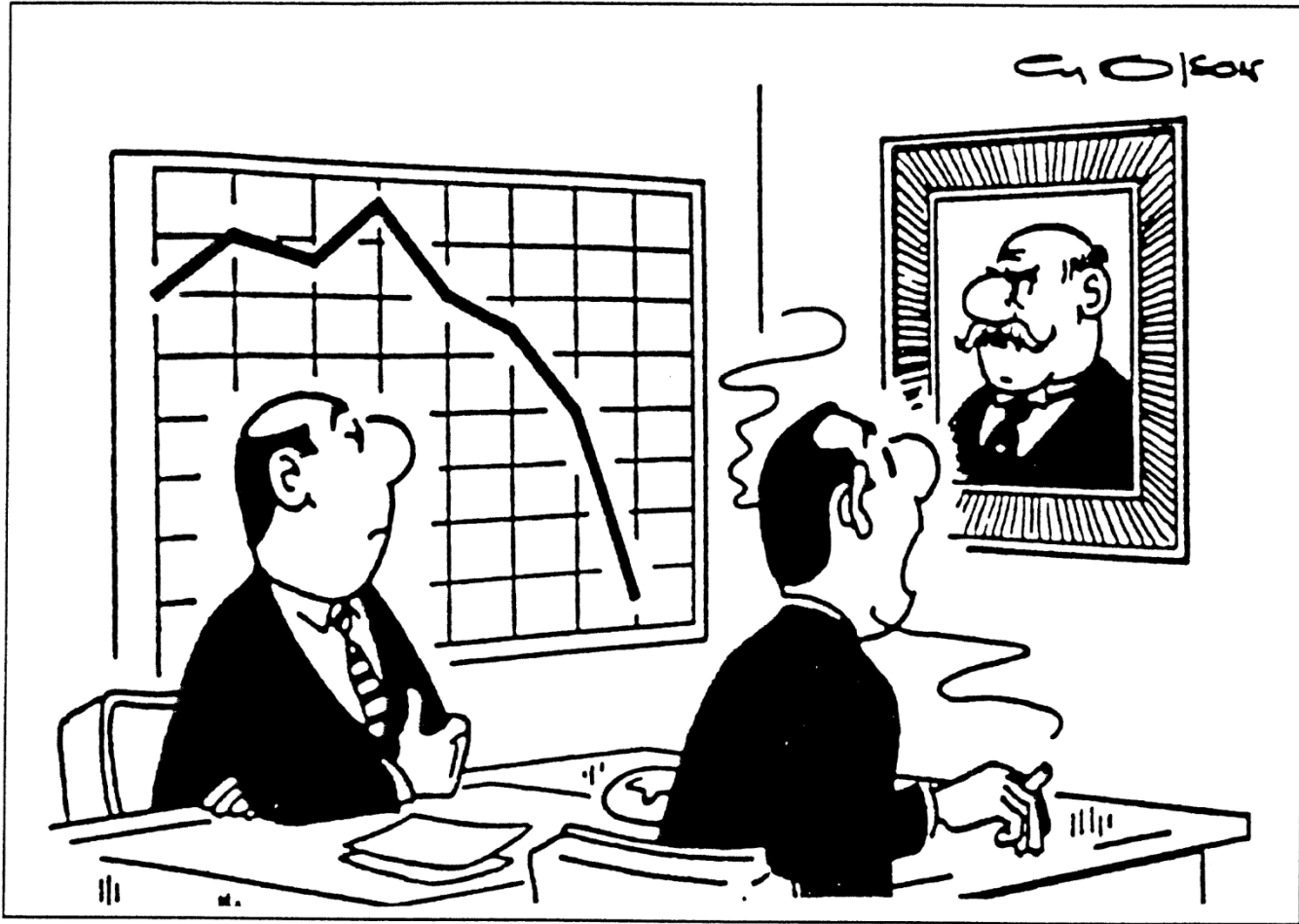


Then the young lad respected his father, learned from him, took over running the business without asking for control, and cheerfully supported the old guy through his dotage.



Key Factors If Business Is To Continue

- ❑ Establish a market or buyer
- ❑ Establish a price with a definable valuation
- ❑ Assure cash flow and liquidity
- ❑ Attract and retain key employees
- ❑ Prepare for disaster contingencies – death, disability, liability
- ❑ How will lost talent be replaced in the event of death or disability?

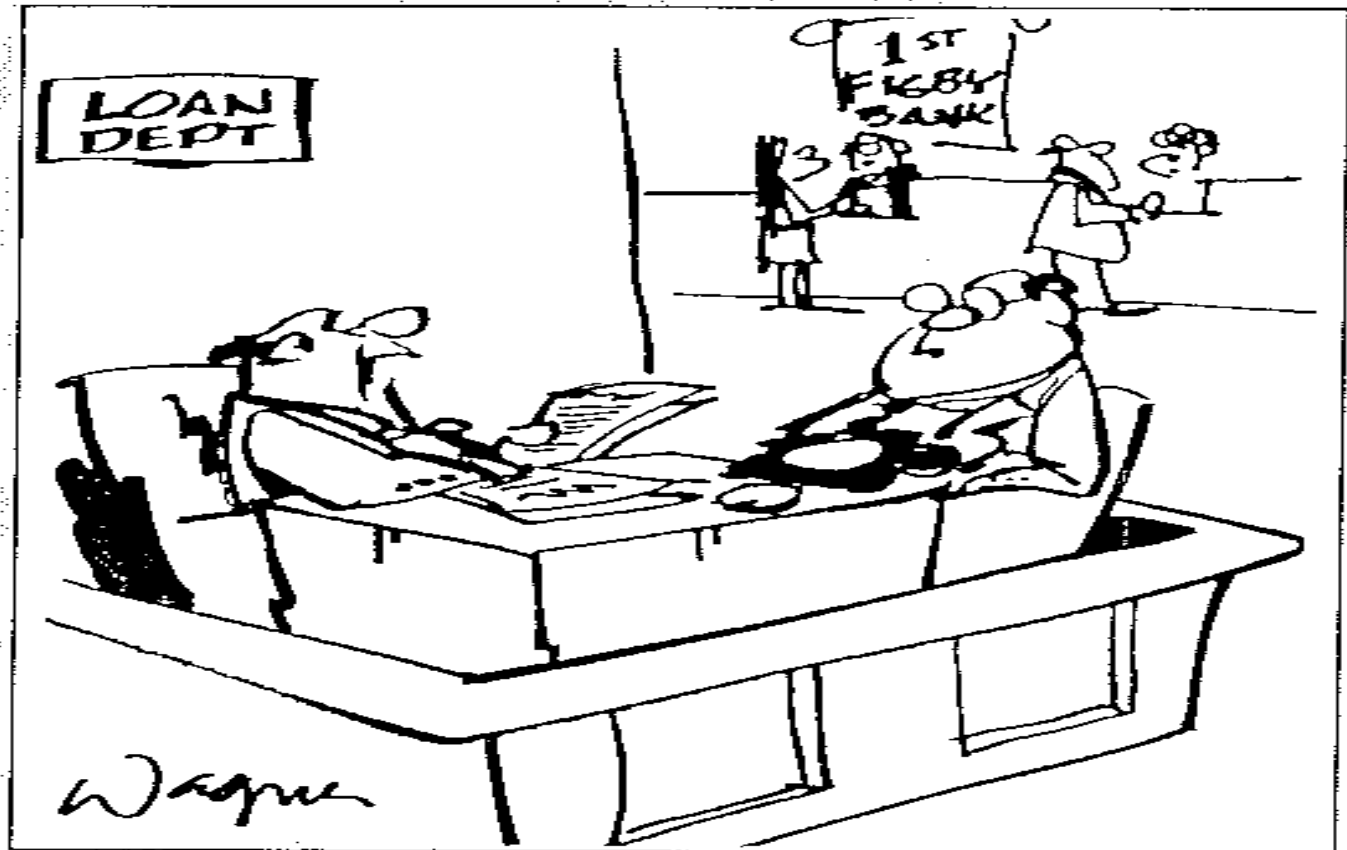


Maybe Dad DID know something we didn't...



If Heirs Sell To Existing Surviving Owners

- At what price?
- How will it be received?
- Where does the money come from?



Well...you tell me. Would *you* lend money to anyone who needs it as badly as you do?



If Heir's Keep the Business and Run It

- Are they experienced and qualified?
- Will their need for income be in conflict with other surviving owners who may want to reinvest in the business?
- If the business provides little income, where will their income come from?
- Can the business afford to pay the heirs significant salaries?



If Heir's Keep the Business and Run It

- ❑ Can everybody get along?
- ❑ Are the heir's hearts in the business?
- ❑ If the heirs don't have a controlling interest, continuing to run it might not even be an option.



So, tell me, when did you first notice that three times 25% equals control of the company?



If The Heirs Sell To An Outsider

- ❑ At what price?
- ❑ Where will the buyer come from?
- ❑ How will they pay?
- ❑ Has a formal business valuation been completed recently?
- ❑ If not, how can the heirs properly determine the business value?



Properly Funded Buy-Sell Agreement

- ❑ Establishes a fair price with an agreed upon valuation method used
- ❑ Guarantees cash to heirs for their inherited business interest
- ❑ Assures surviving owners uninterrupted control and full ownership
- ❑ Assures suppliers, lenders, employees and customers of the business' future



Properly Funded Buy-Sell Agreement

- ❑ Money is provided at the exact right time for the exact right amount
- ❑ In the event of death, provides a valuation that is normally acceptable to the IRS for estate purposes helping to reduce estate costs



Funding The Buy-Sell In The Event of Death

- ❑ Liquidate a portion of the business
- ❑ Borrow
- ❑ Pay out of current business income
- ❑ Life Insurance



Liquidate a Portion of The Business

- What can be liquidated?
- How long will it take to sell?
- What affect will it have on the business?
- What will it bring in a distress sale?



Borrow/Pay From Current Business Income

- Are funds available?
- Normally you have to prove to the bank you don't need the money before they will want to give it to you.
- How will the business afford the extra expense?
- Borrowing or paying from current income creates added business volatility

Borrow/Pay From Current Business Income

- \$1,000,000 @ 6% for 10 years would be a cash outlay of \$11,102/month, which is \$133,224 annually, or \$1,332,246 in total for the 10 years
- That would result in \$1.33 per \$1.00 spent
- Lost talent may still need to be replaced as well, at an additional cost



Pay Out of Current Business Income

- ❑ It could potentially hamper the operation of the business
- ❑ It could possibly impair the future borrowing ability of the business, if needed or desired later
- ❑ It might be difficult to pay if there was a downturn in business

Life Insurance Funding

- ❑ Money is provided when needed with certainty
- ❑ If purchased by the business, cash value would be shown as an asset of the business
- ❑ Normally 90% of the cash value would also be available for business operations if needed, even if the bank said no to a loan

Life Insurance Funding Example

- ❑ \$1,000,000 Whole Life (M45 Preferred Non-Tobacco)
- ❑ \$1,600.80/month guaranteed premium or 1.92% per year
- ❑ With an illustrated death benefit increasing each year (with dividends)
- ❑ 20th year Death Benefit = \$1,262,871
- ❑ That results in a cost of 38.42 cents per \$1.00 spent on a guaranteed basis or 30.42 cents per \$1.00 on an illustrated basis

Life Insurance Funding Example

- If death does not occur, in the 20th year the estimated cash value is \$506,246, of which \$345,380 is guaranteed (with \$384,192 in premiums paid)
- That results in a total guaranteed net cost of \$38,812 over the 20 years or \$1,940.60 per year
- On an illustrated basis, results in a total net gain of \$122,054 over the 20 years

Life Insurance Funding Example

- \$1,000,000 20 Pay Whole life (M45 Preferred Non-Tobacco)
- \$2,481.11/month guaranteed premium or 2.98% per year with an illustrated death benefit increasing each year (with dividends)
- 20th year Death Benefit = \$1,412,737
- That results in a cost of 59.57 cents per \$1.00 spent on a guaranteed basis, or 42.17 cents per \$1.00 on an illustrated basis

Life Insurance Funding Example

- If death does not occur, the 20th year illustrated cash value is \$837,882, of which \$585,730 is guaranteed cash value (with \$595,706.40 in premiums paid)
- That results in a total guaranteed net cost of \$9,976.40 over the 20 years or \$498.82 per year and the policy is paid-up if they want to continue it
- On an illustrated basis, results in a total net gain of \$242,175.60 over the 20 years and the policy is paid-up if they want to continue it



Life Insurance Funding

- ❑ Term insurance could be used for lower cash outlay, at least initially
- ❑ However, no cash value exit strategy would occur
- ❑ IUL or VUL could possibly provide higher potential returns, but without guaranteed cash accumulation as a possible exit strategy
- ❑ In any form of Universal Life, absent a secondary guarantee option included, premiums could also increase beyond what is illustrated
- ❑ Depending on cash flow, risk tolerance, time horizon, goals, and objectives what type may be appropriate



Disability Insurance Funding

- Disability Buy-Out Coverage
- Disability Business Overhead Expense
- Key Person Disability Coverage



Attracting & Retaining Key Employees

- ❑ Key Person Coverage not used by the business can be converted to salary continuation for the key employee
- ❑ Long Term Care Coverage can be provided on a discriminatory basis
- ❑ Disability Income Coverage can be provided as a bonus plan
- ❑ Section 125 Executive Bonus for all types of coverage including hybrid long-term care
- ❑ Deferred Compensation



Long Term Care for Employees

- ❑ Can be discriminatory
- ❑ Can provide for parents, spouses or siblings
- ❑ Covered Partner Discount of 15% is common with stand alone plans

Long Term Care for Employees

- ❑ Premiums are fully deductible for employer, other than for the employer themselves, unless the business is a C Corp
- ❑ Premiums are not taxable to employee
- ❑ As an individual, the employee likely couldn't deduct anything
- ❑ Employee in 35% Federal / 3% State Income Tax Bracket would have to earn \$1.61 to have \$1.00 of premium as opposed to \$.62 cost to employer to provide benefit

Section 125 Executive Bonus

- ❑ Fully deductible to employer, other than for non- C Corporation owner
- ❑ Premium is taxable to employee
- ❑ Actual cost of insurance to employee is \$.38 to provide \$1.00 of premium benefit (35% Federal / 3% State Income Tax bracket) instead of having to earn \$1.61 to have \$1.00 to pay the premium ($\$1 \div .62$)
- ❑ Bonus by employer can be structured to cover tax cost to employee, subject to the reasonable compensation test



In Closing

- ❑ There is plenty of opportunity in the business marketplace
- ❑ Remember:
- ❑ Yesterday's history
- ❑ Tomorrow's a mystery
- ❑ Today's a gift
- ❑ That's why we call it the present



Thank You!



BACK OFFICE TAX SERVICES NOW OFFERED!

- Back office tax service for financial professionals
- Letter of recommendation from a CPA + option for additional consulting
- Tax planning, not just tax preparation

SCAN
HERE TO
LEARN
MORE!



RWTax.net/back-office





**CURTIS
CLOKE**

**CFP®, CLU,
ChFC, CRPC®,
LUTCF**

**Next
month's
guest...**



TESTIMONIALS



ROB WINTERS



Honest, relaxed advice and NOT marketing and selling approach. Keep up the good work and guest webinar speakers.



LEE BOWMAN



These sessions are awesome, keep 'em coming!



STEVE KASTRUL



Keep up the great work! Thank you for providing this. Our industry needs it! Thank you



DAVID OSMOND



I highly value the thoughtful response to questions. Thanks for the good information!

SIGN UP!



Testimonials herein may not be representative of the experience of other customers, do not guarantee of future performance or success, and no participants have been compensated for their testimonial.

QUESTION & ANSWER

TYPE IN YOUR QUESTIONS

Don't forget to register
for these *every month!*

Second Friday @ 10:30 am CST



PSL
Power Session LIVE