A Tool for your Success

BUSINESS PLANNING SALES KIT

- Guide to Approaching Small Business Owners
- Client Profile Worksheets
- Business Valuation Guide
- Buy-Sell Sales Strategies
- Key Person Sales Strategies

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› Taking Care
OF SMALL BUSINESS OWNERS

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What if You Could Successfully Approach Small Business Owners about Their Needs?

Their Dream is to Become Bigger and More Stable

For small business owners, protecting their physical and financial assets is always top of mind. You can help them protect their company's future, their family and their employees using this reference guide.

Only 47 percent of small businesses currently offer insurance benefits to their employees. Two thirds of small businesses without benefits have not been approached about offering them in the past year, but many will agree to meet with a producer when contacted.

(No Small Matter, LIMRA 2013)

Show How You Will Help Them Grow

This guide includes owner's buying behavior and their attitudes toward insurance and financial services purchases. Use this information to design an approach that addresses small business owners' concerns head-on.

Small businesses make up approximately 98 percent of all U.S. employers and provide jobs to more than 40 million people.

(Small World, Trends in the U.S. Small Business Market, LIMRA, 2012)

Research for your Practice

CEB Marketing to Small Business developed a series of dedicated focus groups on behalf of Mutual of Omaha, made up of small business owners in six cities across the United States: Columbia, Mo., Seattle, Wash., Los Angeles, Calif., Parsippany, N.J., Lake Mary, Fla., and Chicago, Ill. The findings across these cities were similar, revealing pain points and preferences on how business owners want to be approached regarding their insurance needs.

The study participants ranged from various occupational backgrounds, including construction, manufacturing, retail, IT services, professional services, health services and consulting. They were asked candid questions regarding behavior and attitudes toward insurance and financial services purchases.

95 percent of small business owners acknowledge the importance of exit and succession planning; only one in eight have a written plan for leadership continuity.

(Family Business, Your Most Important Issue, Successfully Passing It On! Forbes 2012)

"My goal is that when I step out,
I don't want anyone to know I left."

Tips on Approaching Small Business Owners

Small business owners respond well to an approach that includes educational information and planning for their future success. They feel their business is unique. If you can teach them something, they will be more open to meeting with and listening to you.

"Tell me what you've done for other small business owners and why it is right for me."

Do your research:

- Know the owner's name and what their business does
- Factfind about the business before contacting the owner:
- Find industry-related issues they might be facing – present how you can help

Provide educational value:

- Use stories and testimonials about helping others in similar situations
- Use a product example that helps the owner see a need for their business
- Mention that agents are also local business owners
- Find a problem you can solve and present it to them
- Stay away from telling them you can save them money, they are interested in quality service
- Suggest issues that could negatively affect their business
- Be prepared to leave something behind and schedule an appointment if the owner isn't available
- Find an immediate need:
  - Bring something to make the business better – knowledge, education, updates on laws, etc.
  - Customize your advice around past needs, budget, future plans and the small business industry
- Multiple touches help get you remembered:
  - Direct mail, call, email, etc.
  - Brand yourself and get your name in front of owners

"The agent offered education as a tool, something our own broker had never done."

Find industry-related issues they might be facing – present how you can help.

Important Things to Know When Approaching Small Businesses

- The owner's name
- What the business does
- The business needs and the owner's needs
- The business market
- The business sales process
- What you can do for the owners specifically, how can your products/services apply to their business?
- Understand their vertical

Respect the owner's time:

- Recommended strategy to get their attention: use the owner's name and simply ask for an introduction
- Owners are busy and may not be able to meet the first time around, but don't give up on setting the meeting
- Ask for 3 minutes of their time. Those 3 minutes earn you the next 15 another day
- Don't focus on what you can do for them now, keep your part brief
- Best businesses to walk and talk – manufacturing, construction, retail and medical

"My agent took the time to educate me on how to bolster my financial future and provide financial protection. He took the time to build a relationship."

Relate on a personal level:

- "What is your exit strategy?"
- "What keeps you up at night?"
- "Do you consider your business an asset or a liability?"
- Don't discount the gatekeeper
  - They can be your advocate. Explain to them what you can do for the owner and try to schedule an appointment
- Your questions don't have to be product related (i.e., interests, hobbies, family, etc.)
- Don't focus on you and what you can offer – focus on them and their needs during the first contact

"If you understand our business and have clients in the same industry, you can come in with an actual targeted plan."

How to Sell to Small Business Owners

There is a significant gap in small business owners' understanding of insurance options and benefits for their businesses. They view their insurance provider as a partner who can consult them on their business needs, identify gaps in their current coverage and provide educational tools for solving business issues. They prefer the simplicity of a generalist over a specialist, with the caveat that they would expect the generalist to have access to specialists to include in conversations as needed.

"Conversations focused on our business needs are more successful. Those agents are looking to partner with us, not sell to us."

Owners' Preferred Method of Communication

Small business owners want to know that you "service their industry" and that their information will be safe, secure and not sold or shared with other companies.

"Our relationship benefits from the fact that he serves a lot of businesses in our industry – he's familiar with our needs."

Communication Tips:

- Use a local phone number instead of an 800 number
- The best time to approach owners is Tuesday, Wednesday or Thursday
- Send personalized email:
  - Personalized subject lines indicate that the content is relevant to the owner or business, and increases panelists' likelihood to open an email
  - Send the email from an individual, rather than a marketing inbox
- Send personalized direct mail or letters:
  - Hand-addressed card-sized letters are opened most often
- Use results-driven language (by doing this, you will get this)
- Simplify and speak in terms that are easy to understand
- Incorporate messaging about ROI, rather than price
- Be sure to follow-up:
  - Follow-up even if you are told no, but provide educational information when you do
  - The owner may not buy now, but follow-ups may help you get the business later
  - Advise with frequency tailored to their needs
  - Use nonevasive regular touches by checking in every 60-90 days after initial point of contact
  - Perform more of a branding call vs. a sales call:
    Example: *"This is John Doe, from Mutual of Omaha, checking on how your business is doing and reminding you that I'm here if you need me. Would you like me to follow-up monthly, bimonthly or quarterly?"*

"They know our business – when they make a recommendation, I don't feel like they're doing it for commission."

> The owner may not buy now, but follow-ups may help get the business later.

> Present options to save the owners time and make their business appear more professional.

Do’s and Don’ts

Targeting small business owners can be difficult, but if you follow the essential do’s and don’ts of selling to them, you will be more successful at getting in front of the decision makers when you need to. The goal is to help the research process and make it easier for the business owners to focus on the critical aspects of protecting what they have worked hard to build.

“You need to show me the benefits, what do you offer and what’s in it for me. The good ones are totally upfront. Don’t be vague about what you can do for me.”

Do’s:

- Build trust and dependability through a personal connection
- Connect with the owners on common values and interests
- Tailor solutions to owner’s needs and constraints
- Show respect for owner’s time – if 5 or 10 minutes, DO NOT go over
- Present references to other small business examples to accentuate product/service relevance
- Exhibit professional persistence
- Be upfront about benefits and total costs
- Give a timely quote or explanation of the quote
- Present options to save the owners time and make their businesses appear more professional
- If you say you will call back, call back. Follow-up now and 3-5 times a year
- Keep the conversation about them
- Listen more instead of presenting and leaving
- Provide good service and find them the best option
- Mention a referral if there is one
- Publish articles in open source magazines

“If someone calls us and if it happens to be something we need, I am happy to make an appointment at a convenient time so that it doesn’t interfere with our teamwork.”

Don’ts:

- Make a generic pitch
- Expect a meeting without an appointment
- Show up without doing your research about the company needs
- Just hand marketing materials to the owner to read over. Point out what is relevant or go over the information with the owner. If you don’t think it’s important to go over with them, they won’t either

- Neglect to follow-up after initial interaction
- Be unsupportive or not follow-up after sale
- Disrespect the owner's time by starting over at every touch point
- Make a pitch centered on the product rather than owners' needs
- Start high and lower the price after several interactions
- Contact owners only during renewal time – build a relationship with them

"Instead of telling us what you're offering, hear us out on what our needs are."

Networking

By going where business owners already are, you can create a competitive edge and distinguish yourself from other insurance professionals. This will ensure that you stay referable and relevant to your client and potential clients.

"I share my positive product experiences with my business owner peers because I want to contribute to my network."

Networking Tips:

- Attend networking events, associations and small business groups
- Use referrals through associations and professional networking groups
- Find businesses that are in their first year of operation – owners advocate for suppliers to proactively engage them at the earliest stages of starting a business
- Consult industry peers
- Visit store locations
- Read websites for specs and reviews
- Provide a cost-benefit analysis
- Educate owners by presenting seminars at association meetings, local business schools, etc.
- Owner forums
- Be active and engage on social media

"We like referrals because being part of group purchasing lets us know that it's been embedded already and will not take much effort to align."

By going where business owners already are, you can create a competitive edge.

> Most owners do not have a succession or emergency plan in place.

Pain Points for Small Business Owners

As their business matures, owners' pain points tend to shift away from cash flow management and revenue to talent acquisition and keeping the customer base consistent. They cited talent acquisition, employee performance, customer satisfaction, cash flow and risk management as some of their biggest pain points. Additionally, most owners do not have a succession or emergency plan in place.

"We have a number of options but nothing formal. If something happened tomorrow, it would be a problem."

Buy/Sell Arrangement:

- While owners are aware of the need to plan for the future, day-to-day concerns often trump strategic planning
- Owners consider themselves to still be growing, so they don't think about planning for retirement yet
- Most owners don't think about impending or possible changes – or they plan on addressing this in 10 years
- When this discussion was brought up in the focus groups, many felt they were unprepared and wanted to call an agent right away to get guidance and a plan in place

"We're a family business; we're going to work this out at some point."

Cash flow:

- Reducing and controlling costs
- Budget cuts with government
- Having enough money to pay employees insurance
- Concerns regarding the cost and quality labor
- Fear of failure
- Owners want proof that the benefits outweigh the costs to participate

"We hold a lot of responsibility, and what if something fails?"

Mitigating risk/safety:

- If something happened to the owner, the business could quickly become a liability
- Being liable or sued if something happens
- Understanding the benefit of protecting family (life insurance for themselves)
- Unknown health care factors

"If the insurance provider were to partner with us, everyone would win."

Employees:

- Issues surrounding employee hiring, training, safety and retention
- Employee safety
- Growth – if we grow and hire more people, what happens if business doesn't continue to be successful? Is it better to stay where you're at now?
- Employee motivation
- Management team – personality conflicts
- Costs for employees

"Hiring the right talent is always a challenge."

Production:

- Vendors keeping schedules, ensuring timely product delivery
- Delivery/performance of product/service
- Keeping a consistent customer base

"We need to provide value constantly."

Prove Your Value

To succeed in penetrating the small business market, it's important to think and act like a business owner. Understanding the concerns and questions that owners have will help you come up with a more personalized and relevant angle to approach them.

"I was concerned about my family. It made sense to combine my personal and business life insurance."

Questions to ask small business owners:

- If you were injured or sick and couldn't work, who would run your business?
- Are you prepared if something should happen to you or a key employee?
- Are your families and employees protected if something happened to you?
- If you lose a key employee, what financial impact would it have on your business?
- Are you concerned about retaining key employees?
- How can we help each other out? Create a win-win situation

> To succeed in penetrating the business market, it's important to think and act like a business owner.

Invite the owner to lunch.

Attend business openings.

Host a golf outing.

"Price isn't the most important thing. If we can afford it, we will purchase it."

Go Where They Are

Small business owners tend to respond to relationships rather than agents selling them something. In order to develop those relationships, you need to get in front of the owners where they are already present.

Ideas to get in front of owners:

- Go through the accounting department to contact the owner
- Go through the marketing department to contact the owner
- Integrate public relations efforts
- Host a Lunch and Learn educational seminar with the company or arrange for it to be sponsored by an association
- Attend industry events
- Invite the owner to lunch
- Participate in networking groups (Chamber of Commerce, REDI [economic development], Trade Associations, Defense contractors, Rotary Clubs, Meet Ups, Venture Pitch, Realtor Associations, EFO networks, National Contract Associations, Peer groups, Service Organizations, SBA)
- Participate in business owners forums
- Attend charity events or volunteer
- Participate and engage in social media
- Attend business openings
- Host a golf outing
- Give a presentation for medical students (dental, chiropractic, ex.) in their third or fourth
- Speak to the gatekeeper, they will make an appointment if it's a good fit
- Attend industry tradeshows
- Walk-ins are welcome for construction industries
- Anticipate startup needs by giving educational workshops at professional schools and small business incubators
- Partner with local business associations and industry groups to offer educational seminars and networking events, rather than trying to recruit owners to an event hosted solely by Mutual of Omaha

"We met our last carrier at a networking reception and have since switched everything to them."

Insurance Triggers

New purchases are primarily triggered by a change in internal needs, rather than external influence. While there was no single trigger for an insurance purchase, the majority of owners follow the needs of their employees and advice of their peers.

Trigger events:

- Lapse or issue in existing coverage
- Offering great service over price
- Renewal period
- Startup needs
- Change of ownership
- Moving to a different location
- Employee demand
- Referrals through business associations
- Business needs change
- Business growth
- Employees make a recommendation
- Network referrals from industry peers
- As a result of the "break-fix" mentality, the majority of sales interactions are initiated by the owner

"The last insurance review I did was when my renewal came up. I asked my office manager to keep every solicitation we got."

The majority of business owners follow the needs of their employees and advice of their peers.

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Business Data

Business Name ____

Business Owner Name ______________________ Other Contact Name ____________________

Tax ID ________________ Phone Number ________________ Fax Number ______________

Address ________________________________ City/State/ZIP ____________________

Email Address ____

Number of Years in Business ______________________ Total Number of Employees ____________

Form of Business: ☐ Sole Proprietorship ☐ Partnership

☐ S-Corp ☐ C-Corp

☐ LLC ☐ Other (please describe) ____________________

Background

Why did you start the business? ____

What does the business do? ____

What do you enjoy most about your profession? ______________________________

What is the business' greatest accomplishment? ______________________________

What factors are key to the success of your business? ______________________________

What concerns you most about your business? ______________________________

Salary Continuation

At owner's disability, will salary/draw be continued? **Yes / No**

How much? How long? ____

At a key employee's disability, will salary be continued? **Yes / No**

How much? How long? ____

At another employee's disability, will salary be continued? **Yes / No**

How much? How long? ____

Is your plan written? **Yes / No**

How is your plan presently funded? ____

Protecting Your Business

What would happen to your business if...

Something happened to your key employees (sick, leave or die)?____

____

You couldn't come back to work (die or disabled)?____

____

In the event of your or another owner's disability, would additional funds be needed to help the business pay for normal operating expenses? **Yes** / **No** How much $______________ How long?______________

Do you currently have a plan in place to pay for these expenses? ______________________________________

What would happen to your family if...

You couldn't work in your business? ____

____

When you retire, become disabled or die, what do you want to happen to your business interest? ________________

____

When a partner/owner retires, dies, or becomes disabled, do you want to buy their interest? ____________________

____

Retaining Key Employees

What employee or employees are instrumental to the success of your business?

Name	Gender	Title	Hire Date	DOB	Tobacco?	Annual Earnings	Ownership
						$	%
						$	%
						$	%
						$	%
						$	%

Current or Desired Employee Benefit Plans

Does the business have any of the following plans in place for owners? Employees? Please explain.

- Retirement plans (e.g., 401(k), SIMPLE, SEP): ____
- Disablity Income: ____
- Long-term Care: ____
- Other: ____

Business Valuation

If you were to sell this business today, what is the least you would accept for it? ______________________

____

If you were to buy this business, what is the most you would pay for it? ______________________

____

Do you have a recent valuation for your business? ______________________

____

Financial Statements

Please provide copies of company balance sheet; income statement and other relevant documents.

Transferring Your Business

Are you planning on retiring? ______________________

When, and what plans have you made to provide for your retirement income needs? ______________________

____

What does your ideal exit plan from your business look like? ______________________

____

What specific plans have you made for the continuation of your business? ______________________

____

Have you designated successor management? ______________________

If the business is to be retained...

Who could manage the business tomorrow? ______________________

How will spouse/family receive income from the business? ______________________

Will additional cash in the business be needed to smooth out the transition? ______________________

If the business is to be sold...

Who will buy the business? ______________________

____

Do you have a written plan to transfer your company ownership? ____________________

____

If yes, what is the agreed upon price? ____________________

How current is your plan? ____________________

How was the valuation determined? ____________________

____

How is the plan funded? ____________________

____

If the business is to be liquidated...

What price would liquidation bring? ____________________

What arrangements have you made, if any, to make up the difference between this and the fair market value of your business?

____

____

Professional Advisors

Advisor	Name	Address	Phone Number	Email
Attorney				
Accountant				
Banker				
Insurance Agent				
Financial Advisor				
Other:__________				
Other:__________				
Other:__________				

Notes

"Step it up" Business Profiles for Life Insurance

Business Owner Retirement

Who fits this profile:

- Wants the business to provide retirement income
- Looking for ways to save more for retirement
- Already utilizing qualified retirement plans

Prospect Names:

Key Person

Who fits this profile:

- Has one or more employees who are key to the success of the business
- Looking for ways to retain key employees
- Have identified a key employee to take over the business
- Concerned about losing staff

Prospect Names:

Business Succession Planning

Who fits this profile:

- Business has multiple owners
- Would like to keep the business in family
- Wants to assure fair value of business
- Interested in contingency plan if something were to happen to the owner

Prospect Names:

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"Step it up" II Profiles for Life Insurance

401k Look-Alike Plan

Who fits this profile:

- Employers wanting immediate tax deduction vs. deferred deduction and liability
- Employees wanting the full employer contribution working inside the life insurance policy vs. after tax amount
- Employers willing to spend a lot *or* employers wanting to spend a little

Prospect Names:

162 Bonus Alternative

Who fits this profile:

- Business owners that have key employees they want to retain and reward
- Business owners that want an immediate tax deduction on bonus amount to employee
- Employees that want a $0 net cost on the bonus received

Prospect Names:

Roth IRA Alternative

Who fits this profile:

- Age 30-50; likes to systematically invest $20,000+ per year
- Has maxed out 401k or other retirement plan investments
- Has a 15+ year investment horizon; would like tax-free income at retirement

Prospect Names:

Multi-Purpose

Who fits this profile:

- People concerned with the following potential pitfalls during retirement planning:
  – Poor investment results, Changes in tax laws, Disability, Death before retirement, Terminal illness/Long-term care

Prospect Names:

Retirement Extra™ Using Life Insurance

Who fits this profile:

- Age 30-50
- Wants a self- completing retirement plan for spouse in case of death prior to retirement
- Looking for tax-deferred growth and tax-free income

Prospect Names:

College Funding

Who fits this profile:

- Wants a self-completing college funding program if parent dies
- Is starting late and have funds in low interest bearing accounts
- Looking for alternative funding besides 529 plan

Prospect Names:

Life insurance products are issued by ReliaStar Life Insurance Company (Minneapolis, MN), ReliaStar Life Insurance Company of New York (Woodbury, NY) and Security Life of Denver Insurance Company (Denver, CO). Variable universal life insurance products are distributed by Voya America Equities, Inc. All are members of the Voya™ family of companies. Within the state of New York, only ReliaStar Life Insurance Company of New York is admitted and its products issued.

Not FDIC/NCUA Insured | Not A Deposit Of A Bank | Not Bank Guaranteed | May Lose Value | Not Insured By Any Federal Government Agency

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SalesSolutions

The Retirement Buy-Sell Strategy: Bringing Business Owner Solutions Together

Every business owner knows that planning is an important part of running a successful company. However, concentrating on meeting customer needs, boosting sales and keeping employees motivated can make it difficult for owners to find time to plan the company's long-term future and their own retirement. Even if they have not addressed these issues, many business owners are concerned about how to accumulate sufficient retirement assets and what happens to the business if a partner dies.

In the past, addressing both the owner's retirement and buy-sell needs often meant proposing two independent solutions. Traditionally, buy-sell needs were met with term life insurance which was unable to address owner's retirement needs, so another separate solution needed to be provided to address retirement income.

A solution that integrates both needs: retirement and buy-sell, can be achieved with the Retirement Buy-Sell strategy.[1] From a practicality and taxation perspective, this technique is generally suited for two-owner only pass-through entities.

Mechanics of the Retirement Buy-Sell Strategy

The traditional buy-sell strategy used by business owners generally involved each business owner purchasing a life insurance policy insuring the life of their partner. However, as the business value grew, the purchase of additional policies might be required. Additionally, upon the death of a partner, the value of the policy on the surviving owner was included in the deceased owner's estate.

The Retirement Buy-Sell strategy avoids these issues by using a permanent, cash value life insurance product and, with the help of the client's legal and tax advisors, to restructure the transaction. With three steps, business owners in a partnership or similar business arrangement may create dual purpose financial protection that helps ensure business continuity and the potential for supplemental retirement income.

Of course before entering into the strategy, business owners should review these concepts with their business or tax advisor in regard to their particular circumstances.

STEP ONE: SECTION 162 BONUS

A business owner who wants to set aside significant funds for retirement and minimize income taxes will find that traditional retirement plans (such as 401(k), defined benefit and deferred compensation plans) have certain limitations. Step one of the Retirement Buy-Sell strategy, the §162 Bonus (Internal Revenue Code Section 162), is an alternative. It uses a permanent, cash value life insurance policy that enables business owners to save with after-tax dollars, potentially earn tax-deferred growth on investments, receive retirement income tax free (assuming the policy is properly structured) and provide an income tax-free death benefit for beneficiaries.[2]

The company pays the premiums for life insurance policies covering each business owner. With regard to a §162 Bonus covering a non-owner, the premiums paid are a taxable bonus to the employee and thus qualify for a tax deduction for the business, subject to reasonable compensation guidelines. However, §162 Bonus plans do not provide sole proprietors, partners and S corporation owners with similar tax leverage (due to the pass-through nature of taxation in such entities). Nonetheless, owner-employees in such pass-through entities should still consider bonus plans since individual ownership of the policy typically offers more tax favorable access to living values and better insulation from business creditors.[3]

Unlike a traditional buy-sell arrangement where one owner insures the other owner(s), each business owner owns the life insurance policy insuring his or her own life. For flexibility, a policy may be structured to provide an increasing death benefit. This would provide upside protection in the event the business appreciates.

At retirement, the business owner can access policy values through withdrawals and loans to receive retirement income that is generally income tax free. Of course, this will reduce the cash value available to help facilitate a lifetime buyout.[2]

STEP TWO: BUY-SELL AGREEMENT

Within a closely held business, uncertainty about what will happen if one of the owners dies can be a cause for concern. Common concerns are whether the deceased shareholder's family will retain the interest in the business, or if the survivor has financial resources to purchase the deceased owner's interest. A buy-sell agreement is a binding contract between business owners that can address these concerns and is therefore a vital component of the Retirement Buy-Sell strategy. This agreement is drafted by the client's attorney.

STEP THREE: SPLIT DOLLAR AGREEMENT

After the purchase price has been determined, surviving business owners need a solution for funding their legal obligation to purchase a deceased or retiring owner's share. The third step of Retirement Buy-Sell, the split dollar agreement, may provide the right amount of money to the right owner at the right time.

Each business owner's life insurance policy purchased in Step One is designed to create sufficient death benefits to fund the purchase price under the buy-sell agreement. The §162 bonus continues to be the source of funding for the premium on the respective life insurance policies. Each business owner implements a private split dollar agreement, drafted by the client's attorney, endorsing death benefits from their own life insurance policy in the amount of the purchase price to the other business owner(s). As a result, at the death of an active business owner, life insurance death benefits that are sufficient to purchase the deceased owner's business interest are paid to the surviving owner(s). The surviving owner(s) then has the necessary funds required to purchase the deceased owner's business interest.

SAMPLE CASE SCENARIO:

1. Abby and Betsy own equal shares in a company (which for tax purposes is structured as a partnership) valued at $2.5 million. The company makes a bonus for Abby to purchase a permanent cash value policy on her life with death benefits of at least $1.25 million. Likewise a bonus is made to Betsy which is used to fund a permanent cash value policy on her own life with death benefits of at least $1.25 million.

2. Abby and Betsy execute a buy-sell agreement whereby in the event of death, the survivor agrees to purchase the shares from the deceased owner's estate for $1.25 million.

3. Abby and Betsy each execute a private endorsement split dollar agreement that endorses $1.25 million to the other.

Several years after the agreements are executed, Betsy dies. Abby receives $1.25 million, income tax free from Betsy's policy and under the buy-sell agreement, Abby purchases the company shares from Betsy's estate for $1.25 million. Abby now owns 100% of the company and Betsy's estate and heirs now have cash instead of shares of a privately held company that may not be marketable. If there are policy death benefits in excess of $1.25 million, those are paid to Betsy's policy beneficiaries. Abby's life insurance is still in force and thus provides death benefit coverage and may be used for supplemental income purposes.

WHAT ARE THE TAX RAMIFICATIONS?

There are annual tax implications associated with a private split dollar agreement. Using the example above, since Betsy is paying the premium (via the company bonus) for death benefits (the endorsed amount), Abby receives an economic benefit (the annual economic benefit is derived from a calculation based on the endorsed death benefit). Therefore, Abby pays Betsy, via personal check, the value of the economic benefit each year. Betsy reports the amount received from Abby as taxable income. Similarly, Betsy issues a personal check to Abby for the value of the economic benefit from the death benefits endorsed from Abby's policy, and Abby reports the amount received from Betsy as taxable income.

Keep in mind that another important advantage of the Retirement Buy-Sell strategy is that since either Abby or Betsy is facilitating the buy-out, the survivor obtains a step-up in income tax basis upon purchase of her deceased partner's business interest.

ADVANTAGES OF THE RETIREMENT BUY-SELL STRATEGY

The purchase of one dual-purpose life insurance policy for each business owner is economically efficient. Using one policy may reduce the overall costs of insurance and is, therefore, often more cost-effective than investing in taxable investments or purchasing numerous policies to meet multiple planning objectives. An exception to this situation may occur when the business owners are young (in their 30's) and rated preferred. Of course, the economics depend on the particular circumstances.

The private split dollar arrangement, with its "value of the economic benefit" expense, may cost the business owners less to obtain the needed amount of death benefit than paying the entire premium for an equivalent amount of term insurance.

CONSIDERATIONS

If both the buy-sell agreement and private split dollar agreement are properly structured, the Retirement Buy-Sell strategy should be "estate tax neutral". At death, the full amount of the death benefit is included in the deceased owner's estate. However, the private split dollar agreement is a legal obligation to pay a predetermined, specified amount of death benefit to the surviving owner(s). Therefore, the death benefit amount is a deductible liability for the estate.

In a private split dollar agreement, the mutual endorsement of the death benefits may be considered a "transfer for value" under Treas. Reg. Section 1.101-1(b)(4) and may render the death benefit paid to the survivor taxable. To receive exemption from this rule, the business owners should form a bona fide partnership before the arrangement is structured.

Business owners should review their policies and agreements at least every three to five years. If the business grows, they may need to increase contributions to the policies, amend the purchase price specified in the buy-sell agreement and/or increase the amount of the policy endorsements specified in the private split dollar agreement.

Loans and withdrawals from the life insurance policy will decrease the cash value and death benefit of the policy which may reduce the death benefit available to satisfy obligations under the buy-sell agreement.

CONCLUSION

Cash value life insurance is a cornerstone of many successful business owners' financial plans because of the flexibility and tax advantages it provides. The Retirement Buy-Sell strategy can be an appealing alternative for business owners seeking a singular approach for their business continuation and supplemental income needs. Consider this option when approaching business owner clients with these dual planning goals. For more information on this topic or additional sales ideas for your business owner clients, contact us today.

[1] The Retirement Buy-Sell strategy has various benefits but, in exchange, there exists additional intricacy. Ultimately, it is up to the client, with counsel from his or her tax and legal advisors, to determine whether this strategy meets the needs of the business owner.

[2] Distributions are generally treated first as tax-free recovery of basis and then as taxable income, assuming the policy is not a Modified Endowment Contract (MEC). However, different rules apply in the first fifteen policy years, when distributions accompanied by benefit reductions may be taxable prior to basis recovery. Non-MEC loans are generally not subject to tax but may be taxable when the policy lapses, is surrendered, exchanged or otherwise terminated. In the case of a MEC, loans and withdrawals are taxable to the extent of policy gain and a 10% penalty may apply if taken prior to age 59½. Always confirm the status of a particular loan or withdrawal with a qualified tax advisor. Cash value accumulation may not be guaranteed depending on the type of product selected. Investments in variable life insurance are subject to market risk, including loss of principal.

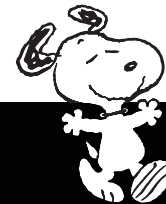
For federal income tax purposes, life insurance death benefits generally pay income tax free to beneficiaries pursuant to IRC Sec.101(a)(1). In certain situations, however, life insurance death benefits may be partially or wholly taxable. Situations include, but are not limited to: the transfer of a life insurance policy for valuable consideration unless the transfer qualifies for an exception under IRC Sec.101(a)(2) (i.e. the transfer for value rule); arrangements that lack an insurable interest based on state law; and an employer-owned policy unless the policy qualifies for an exception under IRC Sec.101(j).

With respect to a §162 Executive Bonus Plan, the employer should consult with and rely on independent legal and tax advisors regarding whether any executive bonus plan may be considered to be a welfare benefit plan under ERISA and if so, what requirements must be met.

[3] Creditor protection laws vary dependent upon governing federal and state law. Individuals should be sure to confer with their independent tax and legal advisors regarding how applicable laws apply to their particular situation.

Sales Starters
Retirement Buy Sell

MetLife



the client

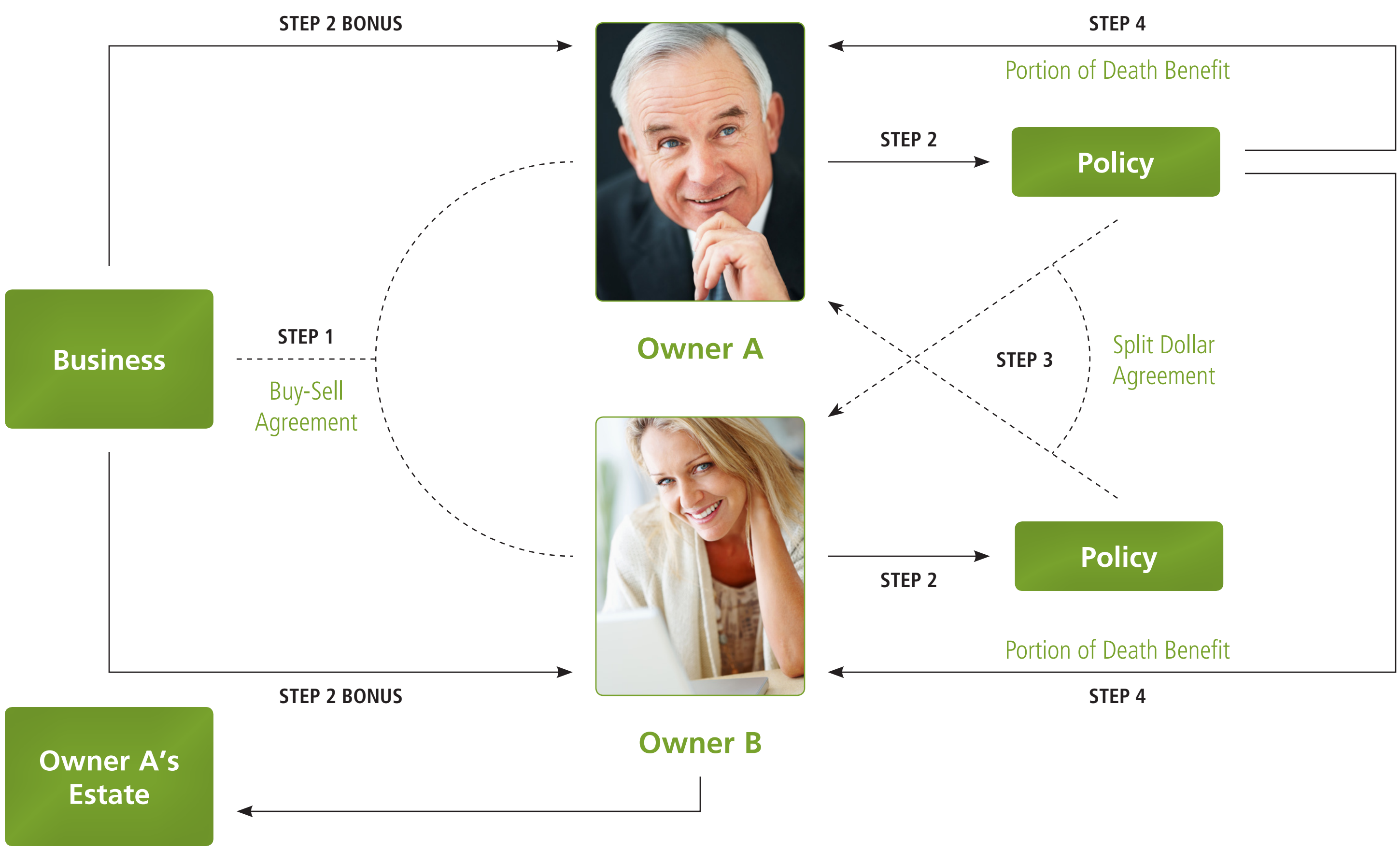
Business owners who have a need for a buy-sell business continuation plan as well as an additional funding mechanism for supplemental retirement income. The owners should be partners or owners of a similar business arrangement exempt from the transfer-for-value rules.

the concern

The primary concern is an orderly business succession plan with supplemental retirement income also being desired.

the solution

HOW THIS WORKS



Continued on back...

STEP 1

The business value is determined. A buy-sell agreement is entered into between the two business owners which specifies when owners can sell their interest, who can buy an owner's interest and what price will be paid.

STEP 2

The business establishes an executive bonus program to provide the owners with the means to fund the buy-sell agreement. Each owner then purchases a permanent cash value life insurance policy insuring his own life for an amount sufficient to purchase his interest in the business.

STEP 3

The owners then enter into a private split dollar agreement with each other. Under the agreement, a predetermined amount of the policy's death benefit is endorsed to the surviving business owner in exchange for that owner contributing a portion of the total policy premium.[1]

STEP 4

Upon the death of an owner, the surviving owner receives the income tax free death benefit from the deceased's policy due to the private endorsement Split Dollar arrangement. The surviving owner uses the funds to purchase the deceased's interest in the business, thus providing liquidity for deceased's survivors.

STEP 5

If both owners survive until retirement or the business is sold, the buy sell and split dollar agreements are terminated and each owner may use their personally owned policy for retirement and/or personal death benefit needs.[2]

[1] There are annual tax implications associated with a private split dollar agreement. As Owner A is receiving death benefits from Owner B, Owner A receives an economic benefit (the annual economic benefit is derived from a calculation based on the endorsed death benefit). Therefore, Owner A pays Owner B via personal check, the value of the economic benefit. Owner B reports the amount received from Owner B as taxable income.

[2] Distributions are generally treated first as a tax free recovery of basis and then as taxable income, assuming the policy is not a Modified Endowment Contract (MEC). However, different rules apply in the first fifteen policy years, when distributions accompanied by benefit reductions may be taxable prior to basis recovery. Non-MEC loans are generally not subject to tax but may be taxable when the policy lapses, is surrendered, exchanged or otherwise terminated. In the case of a MEC, loans and withdrawals are taxable to the extent of policy gain and a 10% penalty may apply if taken prior to age 59½. Always confirm the status of a particular loan or withdrawal with a qualified tax advisor. Cash value accumulation may not be guaranteed depending on the type of product selected. Investments in variable life insurance are subject to market risk, including loss of principal.

The arrangement illustrated on the previous page represents only one of several ways to structure a buy-sell arrangement and does not necessarily represent the structure best suited for your client. This brief summary is for discussion purposes only. As such, this document contains general information and does not provide an exhaustive list of the considerations involved in the concept illustrated.

Any discussion of taxes is for general informational purposes only, does not purport to be complete or cover every situation, and should not be construed as legal, tax or accounting advice. Clients should confer with their qualified legal, tax and accounting advisors as appropriate.

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MetLife life insurance policies have limitations, exclusions, charges, termination provisions and terms for keeping them in force. There is no guarantee that any of the variable investment options in this product will meet their stated goals or objectives. The account value is subject to market fluctuations so that, when withdrawn, it may be worth more or less than its original value. All product guarantees are subject to the claims-paying ability and financial strength of the issuing insurance company.

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Business Valuation

Producer Guide

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RETIREMENT | INVESTMENTS | INSURANCE

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Valuing a business is an imprecise science and can vary greatly depending on the type of business and the reason for needing a valuation. Buying and/or selling a business is the most common reason for needing a valuation. **However, buy-sell agreements among owners of a privately held business also have to provide for a valuation method in the event that their "buy" or "sell" provisions are triggered.**

Valuation is the process of arriving at what the IRS calls "fair market value." In the valuation process a number of factors must be considered. These factors include:

- General and specific business and economic conditions
- Earnings
- Goodwill

Then, any appropriate discounts are applied to bring about a realistic valuation of the particular business interest. The IRS defines "fair market value" as the price at which property would change hands between a willing buyer and a willing seller where neither is under any compulsion to buy or sell, and both have reasonable knowledge of the relevant facts.

A typical buy-sell agreement may provide for:

- An initial value, which is set forth in the written agreement.
- A procedure for annual or periodic updating of the initial value, usually by agreement among the owners.
- A valuation formula set forth in the agreement.
- An agreement to hire one or more appraisers at the time of the triggering event.
- Any other approach or combination of the above.

When the valuation formula approach is used, there is no limit to the number of ways a business can be valued or the formulas that can be used to determine the value. Some of the more common methods used to calculate value include:

Asset/Book Value

Asset valuation is used when a business is asset intensive, such as a retail business or manufacturing company. This approach takes into account the following values, the sum of which determines the market value:

- Fair market value of fixed assets and equipment
- Leasehold improvements
- Owner benefit (seller's discretionary cash for one year)
- Inventory

Capitalization of Income Valuation

Capitalization of income valuation is used with non-asset intensive businesses, such as service companies. This approach uses a great number of intangibles to reach a capitalization rate, which is then multiplied by the owner's discretionary cash to determine the market value of the business. Intangible factors include:

- Owner's reason for selling
- Length of time the company has been in business
- Length of time the current owner has owned the business
- Degree of risk
- Profitability
- Location
- Growth history
- Competition
- Entry barriers
- Future potential for the industry
- Customer base
- Technology

Multiplier or Market Valuation

This approach establishes the value of a business by using an industry average sales figure as a multiplier. This industry average number is based on what comparable businesses have sold for recently. Trade associations or professional appraisers can be a source of the right multiplier for a specific industry.

Business Valuation and the IRS

There are other potential valuation methods that may be appropriate depending on the type of business and other factors. It is important to keep in mind that although the valuation used by the parties to a buy-sell agreement may be binding on the parties to the agreement, the valuation will not be binding on the IRS. The IRS will be looking to see whether the valuation used accurately reflects fair market value at the time of transfer. For example, the IRS may take a position that the value of the business interest for purposes of estate valuation may be much different from the price actually paid for the interest under the buy-sell agreement.

The IRS has provided a list of the factors to be considered in arriving at the fair market value of a business. Revenue Ruling 59-60, lists the eight key factors that must be considered in evaluating the value of any business interest:

1. The nature of the business and its history of operations.
2. The general economic outlook and the condition and outlook for the specific industry in which the business is actively engaged.
3. The book value of the interests and the financial condition of the business.
4. The business' earning capacity, as reflected in both its earnings history and its prospects for expansion.
5. The ability of the business to pay dividends or otherwise distribute earnings.
6. The existence of good will or other intangible assets.
7. Comparable sales of interests in the business and the size of the block of stock or other interests to be valued.
8. The market price of stocks of publicly traded corporations engaged in the same, or a similar, line of business.

What is Fair Market Value?

The parties to a buy-sell agreement need to be careful that the approach adopted for valuation purposes results in a true fair market value for the business interest. Some business owners feel confident that they know the value of their business. Others are more realistic and realize that when done properly, this is a complicated and challenging endeavor, and turn to the services of a CPA, a business valuation expert or a certified business appraiser to perform this difficult work. Individuals who specialize in such work frequently are members of the American Institute of Certified Public Accountants and are Accredited in Business Valuation (ABV). They may also be associated with and accredited by the American Society of Appraisers. Both of these organizations maintain websites where you can search for an accredited member in your community.

When selecting a professional appraiser, while fees are important, they shouldn't be the primary consideration in your choice of an appraiser.

Facts such as experience, training, background, longevity, independence, and reputation are also very important. Some questions that you might want to ask include:

- Do you perform business appraisals on a full time basis?
- Are you a member of the Business Valuation division of the American Society of Appraisers or have you been accredited in Business Valuation by the American Institute of Certified Public Accountants?
- Will you provide a list of references?
- Have you testified and had your conclusions upheld in court?
- How many valuations have you/your company performed? In how many industries?
- Have you performed valuations for any governmental agencies (IRS or DOL)?

If you elect not to use the services of a professional, you may want to review the information available on the IRS website relating to their Audit Techniques Guides for examiners for specific types of businesses. These guides are available to the public and are intended to train IRS examiners regarding business valuation issues, including issues unique to certain types of industries, business practices, industry terminology and other information that examiners will use when performing an IRS examination of a business valuation. You can find that information at www.irs.gov/businesses/small.

A Properly Substantiated Business Valuation is Critical

Buy-sell agreements typically call for the parties to agree on value or a mechanism by which value will be determined when the provisions of the agreement are triggered. Here are some key points to keep in mind:

- Agreements that are silent regarding valuation are not really agreements.
- Agreements that don't establish a clear process for setting a business' value will be difficult to implement.
- The process can be streamlined and uncertainties removed if the parties specifically agree, in advance, on the mechanism by which value will be determined and the qualifications/identification of a mutually acceptable professional appraiser.
- When related parties are involved, an independent appraiser is essential to establish the valuation formula or value.

Remember, the principle that underlies the valuation of a closely held business is the same principle that underlies the valuation of any investment: Businesses are valuable not because of what they have done but because of what they are capable of doing. The future expectation of the business' rate of return determines its real fair market value. This is an area where the value of professional advice may far outweigh its cost, especially when family members are defending the value of a business interest buy-out against a challenge by the Internal Revenue Service.

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133222 09/01/2014

Key Person Coverage Using Term Life Insurance

Protect Your Most Important Business Assets

MetLife

Running your own business isn't easy. There is so much to do: getting to market, hiring, focusing on increasing sales, paying bills, etc. It's hard to find the time to consider issues that may not be immediate concerns but are important nonetheless. Insurance is one of those items you need to make time for, specifically key person life insurance.

Key person insurance is simply life insurance the business owns on its key employees. In small businesses, this is typically the owner and key employees who account for a significant portion of the business' success. These are the people who are critical to the business and whose death could threaten the business' survival.

Did You Know?

As an owner, it's important not to confuse key person insurance covering yourself with personal life insurance. If you have a spouse, children or other loved ones to protect, you should have personal life insurance for that purpose.

With key person insurance the company purchases a life insurance policy on the life of the key employee(s). The company is the owner and beneficiary of the policy. (The insured employee has no rights to the policy, but must consent to the business purchasing coverage.) If the person dies while the policy is still in force, the death benefit is paid to the company. This cash can help the business recruit and train a replacement, pay off debts or close the business in an orderly manner. In a tragic situation, the key person insurance provides the company with financial options to adjust.

Key Person Insurance

A key person life insurance policy may provide immediate liquidity in the event of a critical employee's unexpected death.

Did You Know?

Even if the policy never pays a death benefit, it can be helpful when applying for business credit or loans. This is because lenders may be more cautious lending to small businesses without this coverage.

Who is a key person?

- Owner employees
- Senior management
- Sales leaders
- Technical experts
- Credentialed specialists

How can the life insurance proceeds be used to support my business?

- Recruiting, hiring and training a replacement employee.
- Strengthening the company's credit rating.
- Helping replace lost profits.
- Paying survivor benefits.
- Purchasing ownership interests from deceased employee's estate.
- Adding to corporate surplus.

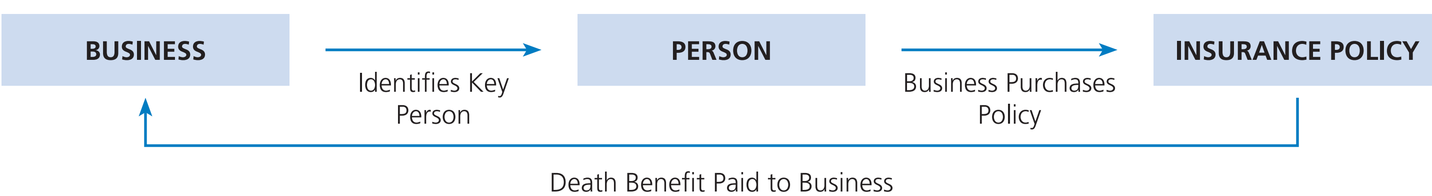
Why life insurance as opposed to some other type of asset?

Life insurance is often used to protect against the loss of a key employee. The annual premiums are typically affordable compared to the total amount of money that would have to be quickly raised if a death did occur early in the policy. Although life insurance premiums paid on a key employee do not qualify as a deductible business expense, the death benefit proceeds are generally received income tax free by the company.[1]

Replacing a key person could result in:

- Significant expense to recruit and train a replacement.
- Lost productivity, sales or customer relationships.
- Weakened company credit.
- Having to pay funds to the employee's surviving family.

How does it work?



[1] You should consult with and rely on your own independent legal and tax advisors regarding your particular set of facts and circumstances.

A four step process to be filled out with your financial professional to determine the proper amount of coverage

Step 1: *Who Do You Cover?*

Typically each owner is covered unless the remaining owners have the desire and ability to assume the responsibilities, as well as the financial means to purchase the shares, of the deceased owner.

In addition, employees with special skills, relationships or other contributions that would be costly and difficult to replace should be covered.

Name of key person: ______________________

Did You Know?

Purchasing one term policy to last the full duration until retirement may appear more expensive at first glance, but is actually likely to have lower total premium than a combination of shorter duration policies. Choosing a single policy to cover the time until retirement also ensures the business will not be left without coverage should the key employee become uninsurable in the future.

Step 2: *When is Coverage Needed?*

Insurance protection is typically provided until the assumed retirement date of the key person.

Key person(s) expected retirement age: ____________ – Key person(s) age: _________ = ___________

Circle closest number of years:

1 year | 10 years | 15 years | 20 years | 30 years

Step 3: *What Amount of Coverage?*

Use this simple calculation to help evaluate the value of the employee to the business.

____________ x ____________ = ____________ + ____________ = ____________

A	B	C	D	E
Total revenue employee generates for the business annually	Number of years until replacement can be equally productive	Total	Total cost of recruiting and training replacement	Economic value of key employee (total coverage needed)

Step 4: *How Much Business Risk to Protect?*

Protecting the projected amount of financial risk to my business in the event of the key person's death would cost:

Coverage duration from Step 2: ____________________________

Economic value from Step 3: ____________________________

MetLife term policy monthly premium: ______________________

Remember that what your business can afford is better than the risk of not having any coverage. In the event of tragedy, having some protection in place will give you options and help address the short term needs of the business.

Sales Starters
Key Person Insurance

MetLife

the client

Closely held business owners whose business is dependent on a small number of key employees for financial success.

the concern

These clients are concerned that if a key employee dies, becomes disabled or resigns unexpectedly, the business could suffer financially.

the solution

HOW THIS WORKS

Employee

STEP 1
Identify Key Person

Business

STEP 2
Premium Payments

STEP 3
Policy Death Benefits
Policy Cash Values

Insurance Company

STEP 1
Identify a key person and determine the economic value to the business.

STEP 2
With the employee's permission, the business applies for and pays premiums for a life insurance policy on the life of the employee. The business is the policy owner and beneficiary. (The employee will be subject to the normal underwriting application and approval process of the issuing company.)

STEP 3
The life insurance policy will pay a death benefit to the business if the key employee dies. Permanent policies will have cash value which accumulates tax deferred, and if needed, may be accessed by the business through withdrawals and loans.[1]

[1] Distributions from a life insurance policy through withdrawals of certain policy values (up to cost basis) and loans are generally not taxed as income provided certain premium limits are followed which prevent a policy from becoming a Modified Endowment Contract (MEC). Distributions taken during the first fifteen years may be subject to tax. Loans and withdrawals will generally reduce the cash value available and death benefit payable. If policy loans are taken, there may be income tax consequences if the policy lapses, is surrendered or exchanged. Investments in variable life insurance are subject to market risk, including loss of principal.

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