

Business Protection Planning Issues

Have you considered the financial impact that the death or disability of an owner or key employee could have on your business...on its value and its ability to survive?



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Just a Beginning

Launching a successful business is just the beginning!

A successful business represents a valuable asset...perhaps your most valuable asset.

BUT...

Have you considered the financial impact that the death or disability of an owner or key employee could have on your business...on its value and its ability to survive?

Ask Yourself

- Do you have key employees who make a substantial contribution to the success of your business?
- Do you know what the financial impact on your business would be if a key employee, including an owner, died?
- When your business borrows money, do you have to sign for the loan once or twice?
- How will business loans be repaid if an owner dies unexpectedly?
- If you are sick or hurt and unable to work, how will business overhead expenses continue to be paid during your recovery?

The Facts Are...

- The success of most businesses can be attributed to management talent. The death of a key employee, including an owner, can have a serious impact on future profitability.
- The personal assets of a small business owner may have to be used to repay outstanding business loans at the owner's unexpected death.
- Without a source of funds to pay business overhead expenses, a disabled business owner may have no choice but to sell or liquidate the business, even though a shorter-term recovery is likely.

The objective of **business protection planning** is to assist you in evaluating the impact that the death or disability of an owner or key employee could have on your business, and to help provide the funds that will be needed to protect your business from the adverse financial consequences that can arise when an owner or key employee dies or becomes disabled.

Key Employee Indemnification

Objective: Indemnify the Business for the Loss of a Key Employee

Your most valuable business assets are not your buildings and equipment, but the key employees who make a significant contribution to the success of your business.

Without proper advance planning, however, the unexpected death of a key employee, including an owner, can seriously impact on business profitability. You would also face the financial strain of recruiting, hiring and training a suitable replacement.

When the objective is to indemnify the business for the loss of a key employee, funds may be needed:

- to replace lost profits.
- to identify, hire and train a replacement.
- to provide a financial reserve during the adjustment period following the key employee's death.
- to provide benefits to the deceased employee's family.
- to fund the purchase of a deceased owner's interest in the business.

When your objective is to protect your business against the financial losses associated with the death of a key employee, these are some of the issues you must consider:

- Which of your employees earn the highest incomes?
- Is business management concentrated in the hands of a select few key people?
- Which of your employees impact on the availability of credit?
- Do you have employees with special or unique talents?
- What would the financial impact on your business be if a key employee, including an owner, were to die?
- How much would it cost to recruit, hire and train a replacement for a key employee?
- Does your business currently have the financial resources to withstand the financial consequences of a key employee's death?

Business Loan Repayment

Objective: Guarantee Repayment of Business Loans

Regardless of the form of business ownership, small business owners frequently have to **personally** guarantee repayment in order to obtain a commercial loan. This means that the owner's personal assets could be in jeopardy if the owner dies while a business loan is outstanding.

Even if a personal guarantee is not required to obtain a business loan, many creditors require assurance that the loan will be repaid by the business if the owner dies unexpectedly.

When there is outstanding business debt and an owner dies unexpectedly, advance planning can help to minimize the negative financial impact on:

- the business
- the deceased owner's family
- any other owners

When your objective is to guarantee repayment of business loans at an owner's unexpected death, these are some of the issues you must consider:

- Do you currently have any outstanding business loans? For how much?
- Do you anticipate applying for a business loan in the near future? For how much?
- In order to obtain commercial credit, do you have to sign once or twice for the loan?
- How are any outstanding business loans to be repaid at an owner's unexpected death? Are your personal assets in jeopardy?

Business Overhead Expense

Objective: Pay Operating Expenses During Periods of Disability

Rent, salaries, telephone, utilities and the other day-to-day costs of operating a business do not stop just because an owner is sick or hurt and unable to work. Instead, these business overhead expenses continue, just at the time when revenues may decline due to the owner's absence.

When an owner becomes disabled for a period of time, there are three alternatives in regard to the business:

- The business can be sold, if a potential buyer with the purchase price can be identified.
- The business may have to be liquidated, possibly on a forced basis.
- The business can be kept in operation until the owner can return, or until the disability is judged permanent.

When a disability is likely to be shorter-term, most owners want to retain the business for their return. Without a source of funds to pay operating expenses, however, this alternative may not be available.

When your objective is to keep the doors of your business open during a shorter-term disability, these are some of the issues you must consider:

- How much are your monthly business overhead expenses?
- How would your business continue to pay overhead expenses if you were sick or hurt and could not work?
- Does your business have sufficient retained earnings to pay monthly operating expenses during your disability?
- Could/should your business borrow funds in order to keep the doors open in the event you are disabled?
- If you use personal funds to cover business overhead expenses during a disability, what will you and your family live on during your recovery?

Odds of Becoming Disabled

Are you willing to gamble your financial security and that of your family on these odds?

Age	Number of Business Owners				
	1	2	3	4	5
30	54%	79%	90%	96%	98%
35	50%	75%	88%	94%	97%
40	45%	70%	84%	91%	95%
45	40%	64%	78%	87%	92%
50	33%	55%	70%	80%	86%
55	25%	43%	57%	68%	76%

Source: Commissioners Individual Disability Table A (NOTE: The 1985 CIDA is the most current morbidity table available for individual disability claim experience and is in use by many State Insurance Departments.)

It's also important to know that a disability lasting for more than 90 days is likely to continue for:

Age When Disabled	Average Duration of Disability
30	2.2 years
35	2.5 years
40	2.7 years
45	2.9 years
50	2.8 years
55	2.5 years

Source: Commissioners Individual Disability Table A (NOTE: The 1985 CIDA is the most current morbidity table available for individual disability claim experience and is in use by many State Insurance Departments.)

Odds of Dying

What Are the Odds of an Owner Dying Prior to Age 65?

Here are the statistical chances of death prior to age 65 of owners in a business. Column one shows the chances if there is just one owner; column two shows the chance of one death when there are two owners; column three shows the chance of one death when there are three owners.

One Owner		Two Owners		Three Owners	
Owner's Age	Chance of Death	The Two Owners' Ages	Chance of Death of One Owner	The Three Owners' Ages	Chance of Death of One Owner
30	28%	30, 30	48%	30, 30, 30	63%
35	27%	30, 40	47%	35, 40, 50	58%
40	26%	30, 50	44%	40, 40, 45	59%
50	22%	30, 60	36%	45, 45, 45	57%
55	18%	35, 40	46%	50, 50, 50	53%
60	17%	40, 45	44%	30, 35, 60	54%
		45, 45	43%	35, 40, 40	60%
		40, 55	39%	30, 55, 60	48%
		50, 50	39%	40, 55, 60	46%
		50, 60	31%	45, 55, 60	45%
		60, 60	22%	50, 50, 50	53%
				55, 60, 60	36%

Source: Commissioners Standard, Mortality Table

A few hours spent in business protection planning can protect the value of your business from the financial losses associated with the death or disability of an owner or key employee.

Important Information

The information, general principles and conclusions presented in this report are subject to local, state and federal laws and regulations, court cases and any revisions of same. While every care has been taken in the preparation of this report, VSA, L.P. is not engaged in providing legal, accounting, financial or other professional services. This report should not be used as a substitute for the professional advice of an attorney, accountant, or other qualified professional.

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