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# Business Owners: *What Keeps You Up At Night?*

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# You Run Your Own Business

- Running your own business can be very rewarding, but very challenging... at the same time!
- The COVID pandemic became a stark reminder of how fragile a "small business" can be:
  - ❖ During the good times, a small business can thrive
  - ❖ The bad times can destroy it faster than we think
- What can you do to help your business thrive in the good times and help protect it from the bad times?

# What Keeps You Up At Night?

*(click on any underlined topic to learn more)*

- What happens to my retirement if my business folds?
- What happens if one of my most valuable employees leaves?
- I'm a sole proprietor... what happens to my spouse's retirement **if I die** unexpectedly?
- I have business partners... what happens **if I die** unexpectedly?
- I have business partners... what happens to our business **if one of them dies** unexpectedly?
- I have business partners... what happens **if one of them retires**?
- **In each section we'll discuss:**
  - ✓ What you want to happen;
  - ✓ What can happen in the absence of planning; and...
  - ✓ An idea you might want to consider

# What happens to my retirement if my business folds?



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# What Happens To My Retirement If My Business Folds?

## What You Want to Happen:

- You want to shut-down the business, and sell what you can
- You hope to walk away with the most value possible
- If you're close to retirement, hopefully you have some money socked-away in a retirement plan

# What Happens To My Retirement If My Business Folds?

## What May Happen in the Absence of Planning:

- You shut-down the business, and sell what you can
- You're saddled with debt and walk away with less than you had when you started
- You're essentially starting over
- If you're close to retirement, rebuilding your finances could be very challenging

# What Happens To My Retirement If My Business Folds?

## An Idea You Might Want To Consider:

- Begin funding a Life Insurance Policy to
  - a) provide needed life insurance, and...
  - b) potentially accumulate policy value that can be available to supplement retirement savings
- A personally-owned policy is not a business asset
- Most states offer some form of creditor protection for personally-owned life insurance policies... protection for cash values and death benefits
- If you're nearing retirement, your life insurance cash values could be helpful to retiring comfortably



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# What Happens If One Of My Most Valuable Employees Leaves?



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# What Happens If One Of My Most Valuable Employees Leaves?

## What You Want to Happen:

- You want your most valuable employees to want to stay
- You want your most valuable employees to stay so they can:
  - ❖ Keep your business as productive as possible
  - ❖ Potentially buy your business from you so that you can retire and they can continue running (*and owning*) the business

# What Happens If One Of My Most Valuable Employees Leaves?

## What May Happen in the Absence of Planning:

- High-performing employees may look for opportunities elsewhere
  - ❖ It's one thing to lose high-performers...
  - ❖ but losing them to your competitors can be even worse!
- Replacing a high-performer takes a lot of time, effort and money
  - ❖ The impact to your business can be significant

# What Happens If One Of My Most Valuable Employees Leaves?

## An Idea You Might Want To Consider:

- Purchase a cash-value life insurance policy
- Fund it with premiums that create significant cash value
- Discuss with your attorney the possibility of creating an employment agreement that includes restrictive endorsements
  - ❖ If they satisfy pre-defined criteria (*age / duration / accomplishment*), they receive unrestricted access to the policy
  - ❖ If they leave or underperform, the company keeps the policy and the cash value

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# I'm A Sole Proprietor...

## What Happens To My Spouse's Retirement If I Die Unexpectedly?

# If I'm A Sole Proprietor, What Happens To My Spouse's Retirement If I Die Unexpectedly?

## What You Want to Happen:

- Sole Proprietors tend to pour their heart-and-soul into their business
- Their business becomes one of their most significant assets
- Hopefully, through the combination of what they can set aside for retirement, and what they can sell the business for, they'll have enough funds for retirement



# If I'm A Sole Proprietor, What Happens To My Spouse's Retirement If I Die Unexpectedly?

## What May Happen in the Absence of Planning:

- If the entrepreneur dies, the business dies
- The business, which had value as a "*going concern*" while the entrepreneur was alive, is now worth next-to-nothing
- The surviving spouse may not be able to keep the business going alone; or they may not want to
- Ultimately the business folds for little-to-no value, potentially leaving the surviving spouse in a difficult financial situation

# If I'm A Sole Proprietor, What Happens To My Spouse's Retirement If I Die Unexpectedly?

## An Idea You Might Want To Consider:

- With a life insurance policy insuring the life of the entrepreneur, it's less critical if the business folds due to the owner's death... the surviving spouse has the life insurance death benefits for retirement support
- The surviving spouse doesn't have to try to sell the business at a "fire sale" price
- If the entrepreneur doesn't die, permanent life insurance with cash values can develop additional retirement savings

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# I Have Business Partners... What Happens If I Die Unexpectedly?



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# If I Have Business Partners, What Happens If I Die Unexpectedly?

## What You Want to Happen:

- I want my family to get money in exchange for my business ownership
- I don't want my family to argue with the surviving owners over "how much money" that should be
- I want my colleagues to be able to continue running the business with minimal interference and disruption

# If I Have Business Partners, What Happens If I Die Unexpectedly?

## What May Happen in the Absence of Planning:

- Your heirs are at a distinct disadvantage attempting to value the business and determine your ownership value
  - ❖ Arguments and legal battles may ensue, to everyone's detriment
- The surviving owners may not have the money necessary to pay your heirs for your ownership
  - ❖ This financial hardship for the surviving owners could cause them to close the business
- Your family may get far less than you had hoped they'd get
- Your co-owners may lose their business

# If I Have Business Partners, What Happens If I Die Unexpectedly?

## An Idea You Might Want To Consider:

- Discuss with your attorney the possibility of setting-up a Buy-Sell Agreement that:
  - ❖ Sets an agreed-upon value of each person's ownership
  - ❖ Obligates the deceased owner's heirs to sell to the surviving owners
  - ❖ Obligates the surviving owners to purchase the deceased owner's business interest from the heirs at an agreed-upon price
- Purchase life insurance policies on each owner
  - ❖ The life insurance benefits provide the funding for the buy-out
  - ❖ The heirs and the surviving business owners have confidence in their future

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# I Have Business Partners... What Happens If One Of Them Dies Unexpectedly?



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# If I Have Business Partners, What Happens If One Of Them Dies Unexpectedly?

## What You Want to Happen:

- The remaining owners can "buy-out" the deceased owner's interest and continue to run the business with minimal disruption
- The surviving spouse and their family can receive immediate payment to purchase the decedent's business interest, without bickering with succeeding owners
- Financially, everyone gets what they want

# If I Have Business Partners, What Happens If One Of Them Dies Unexpectedly?

## What May Happen in the Absence of Planning:

- The surviving partners don't have enough money to buy-out the deceased owner's family
- The deceased owner's family doesn't want to participate in running the business, but they feel they have no choice
- The deceased owner's family has "*different interests*" from the surviving owner's interests, which can cause significant conflict among owners regarding the future of the business
  - ❖ Do you **really** want to work with the deceased owner's spouse or kids?
  - ❖ In a family-owned business, this can really create some fireworks!
- Competent owners may want to leave, but can't... the struggling business can't buy them out

# If I Have Business Partners, What Happens If One Of Them Dies Unexpectedly?

## An Idea You Might Want To Consider:

- Discuss with your attorney the possibility of setting-up a Buy-Sell Agreement that:
  - ❖ Sets an agreed-upon value of each person's ownership
  - ❖ Obligates the deceased owner's heirs to sell to the surviving owners
  - ❖ Obligates the surviving owners to purchase the deceased owner's business interest from the heirs at an agreed-upon price
- Purchase life insurance policies on each owner
  - ❖ The life insurance benefits provide the funding for the buy-out
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# I Have Business Partners.... What Happens If One Of Them Retires?



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# If I Have Business Partners, What Happens If One Of Them Retires?

## What You Want to Happen:

- The retiring owner gives-up ownership in exchange for retirement cash flow
- Funds are available to buy the retiring owner's ownership interest
- The younger owners ultimately own the business and control its destiny

# If I Have Business Partners, What Happens If One Of Them Retires?

## What May Happen in the Absence of Planning:

- The retiring owner wants to be bought-out, but the younger owners don't have a fund, so they have to either:
  - a) Take pay cuts to make payments to the retiring owner; or...
  - b) Borrow from the bank and take pay cuts to pay-back the bank loans
- The retiring owner may be fearful that, if the next-generation owners don't succeed, "*retirement funds in exchange for ownership*" might not happen, and therefore... no retirement



# If I Have Business Partners, What Happens If One Of Them Retires?

## An Idea You Might Want To Consider:

- Discuss with your attorney the possibility of creating a "***Salary Continuation Plan***"
- The business could purchase a cash-value life insurance policy to provide needed life insurance protection
- Fund the life insurance policy with enough premium to generate significant cash value, based on the anticipated interest rate environment
- While the owner is retired, policy cash values can be accessed by the business to make payments to the retired owner in exchange for ownership
- If the owner dies before the buyout is complete, the policy's death benefit can complete the buyout

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