



PROTECTING THE FUTURE OF YOUR BUSINESS: STRATEGIES TO CONSIDER IN THE BUSINESS MARKET

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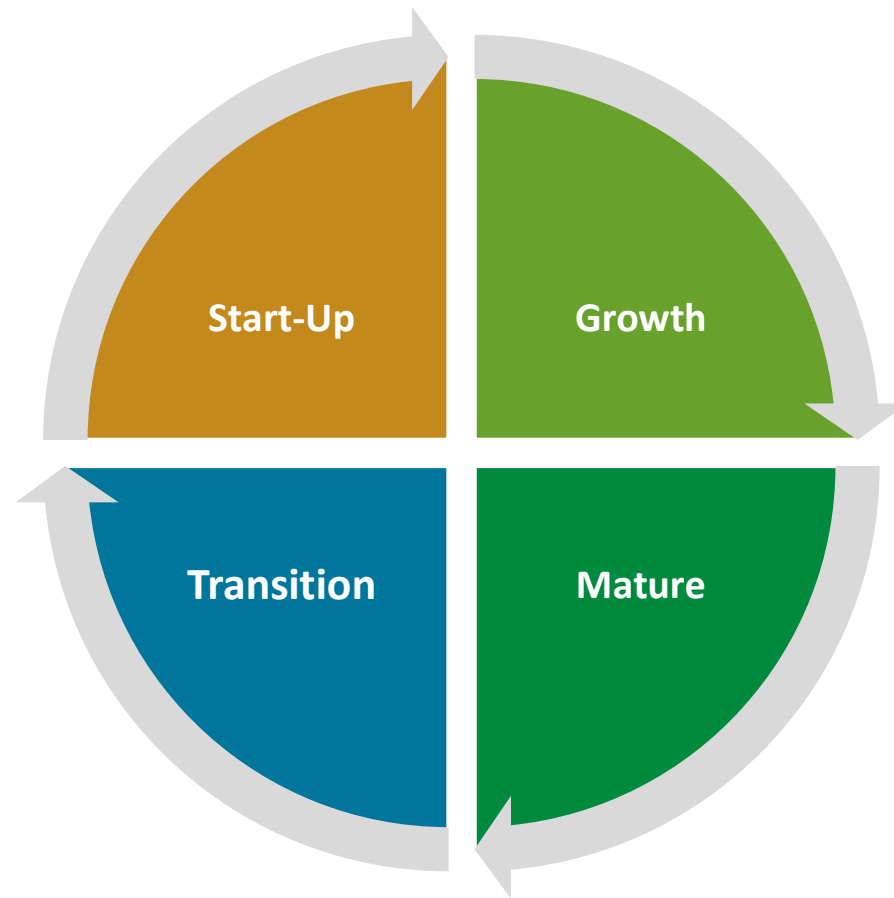
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- NOT FDIC INSURED
- NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY
- NOT A DEPOSIT OR OTHER OBLIGATION OF, OR GUARANTEED BY, THE BANK OR ANY OF ITS AFFILIATES
- SUBJECT TO INVESTMENT RISKS, INCLUDING POSSIBLE LOSS OF THE PRINCIPAL AMOUNT INVESTED An Insurance Sales Presentation.

LIFE CYCLE OF A SMALL BUSINESS



START-UP

- Typically has short-term outlook
- Often cash poor
- Fluctuating cash flow and may not be generating profit
- Unrealistic expectations of time and sacrifice to build the business



GROWTH

- Increased demand for goods and services
- Cash flow fluctuating but may be generating profit
- Looking for leaders and/or employees
- Looking for credit relationships
- Looking for quality suppliers
- Looking for diversity from core business



MATURE

- Developing strong management team
- Cash flow generally stable and profitable
- Looking to manage employee retention costs
- Exploring exit strategies



TRANSITION

- Executing a business transition and succession strategy
- Cash flow generally stable and profitable
- Taking care of employees
- Planning for next phase in life



NEEDS BY STAGES

Concern	Start-Up	Growth	Mature	Transition
Death or disability of an owner	●	●	●	●
Creditor protection	●	●	●	●
Death of a key employee		●	●	●
Succession planning		●	●	●
Retirement planning		●	●	●
Estate planning for owner(s)			●	●
Estate equalization				●
Selling to next owner				●



BUSINESSES BY STRUCTURE

C Corporation

S Corporation

**General
Partnership**

Limited Partnership

**Limited Liability
Company**



ADDRESSING THE RIGHT QUESTIONS

What have you done to ensure the continuation of your business after your death?

Do you have key employees who are capable of managing the business in your absence?

Will less than half of your retirement income be dependent on your business?

Are you concerned about being in business with your partner's spouse or family members if they were to pass away prematurely?

Is there an employee whose departure for a competitor would devastate your business?





BUSINESS RISKS & POSSIBLE SOLUTIONS



RISK #1: DEATH OF AN OWNER

What happens when an owner dies unexpectedly?

- Fair market value of business may be significantly reduced
- Family control can be lost
- Ownership transfers based on what's in the owner's will, but what if the beneficiary named in the will ...
 - Does not wish to be part of the business?
 - Does not have the skillset to replace the owner?
 - Has equal decision-making as other owners without the knowledge?
 - Is unable to assume ownership (i.e., minor children)?

Solution: Buy-Sell Agreement



SOLUTION #1: BUY-SELL AGREEMENT

What is a Buy-Sell Agreement?

- Written contract
- Dictates outcomes in the event of death, disability, or retirement of an owner
- Provides a predetermined value of the business (fixed amount or via formula)

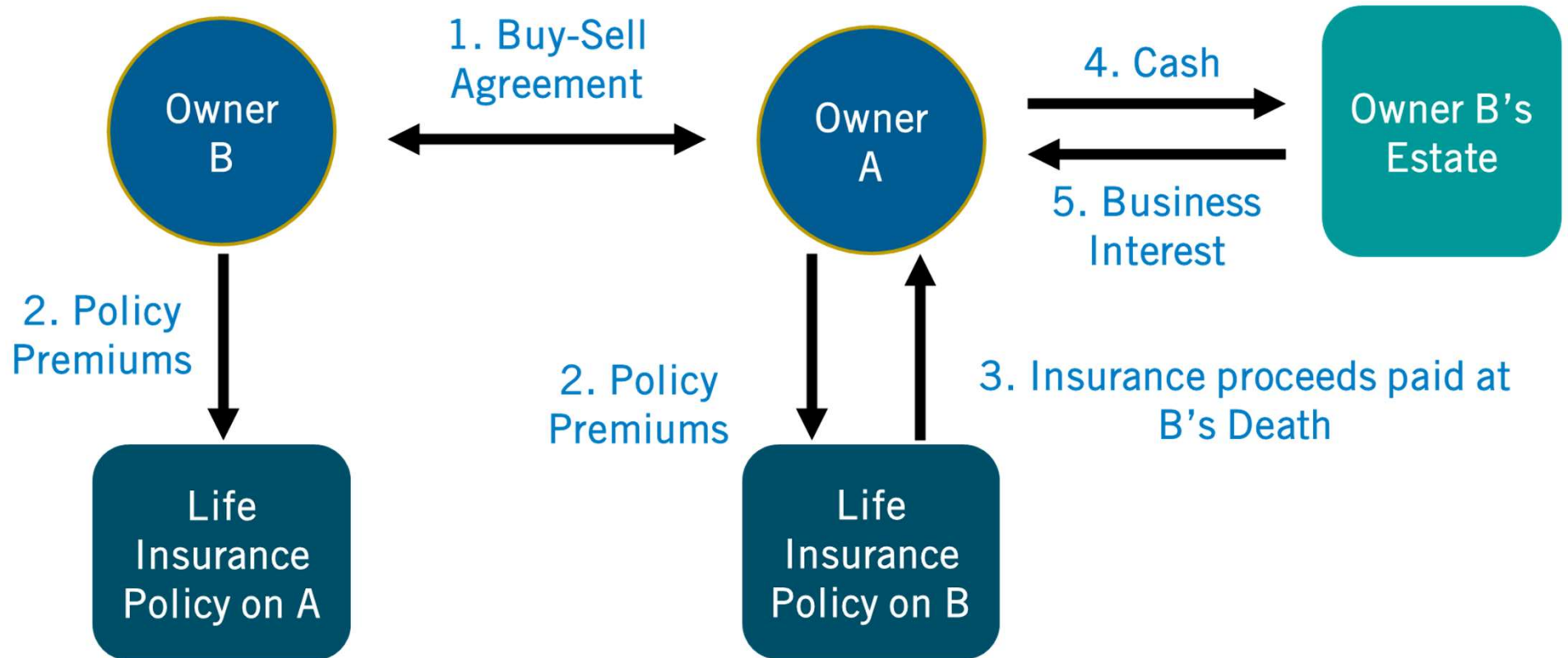
What are the benefits?

- Creates immediate market for business interest
- Protects against unwanted owners
- Available funds to provide for heirs
- Provides valuation of the business
- Can help reduce the risks of disputes with IRS



SOLUTION #1: BUY-SELL AGREEMENT

Cross-Purchase



SOLUTION #1: BUY-SELL AGREEMENT

Cross-Purchase

ADVANTAGES

- Stepped-up basis
- Life insurance policies not subject to claims of corporate creditors
- Avoids problems that may exist when a stock redemption arrangement is used

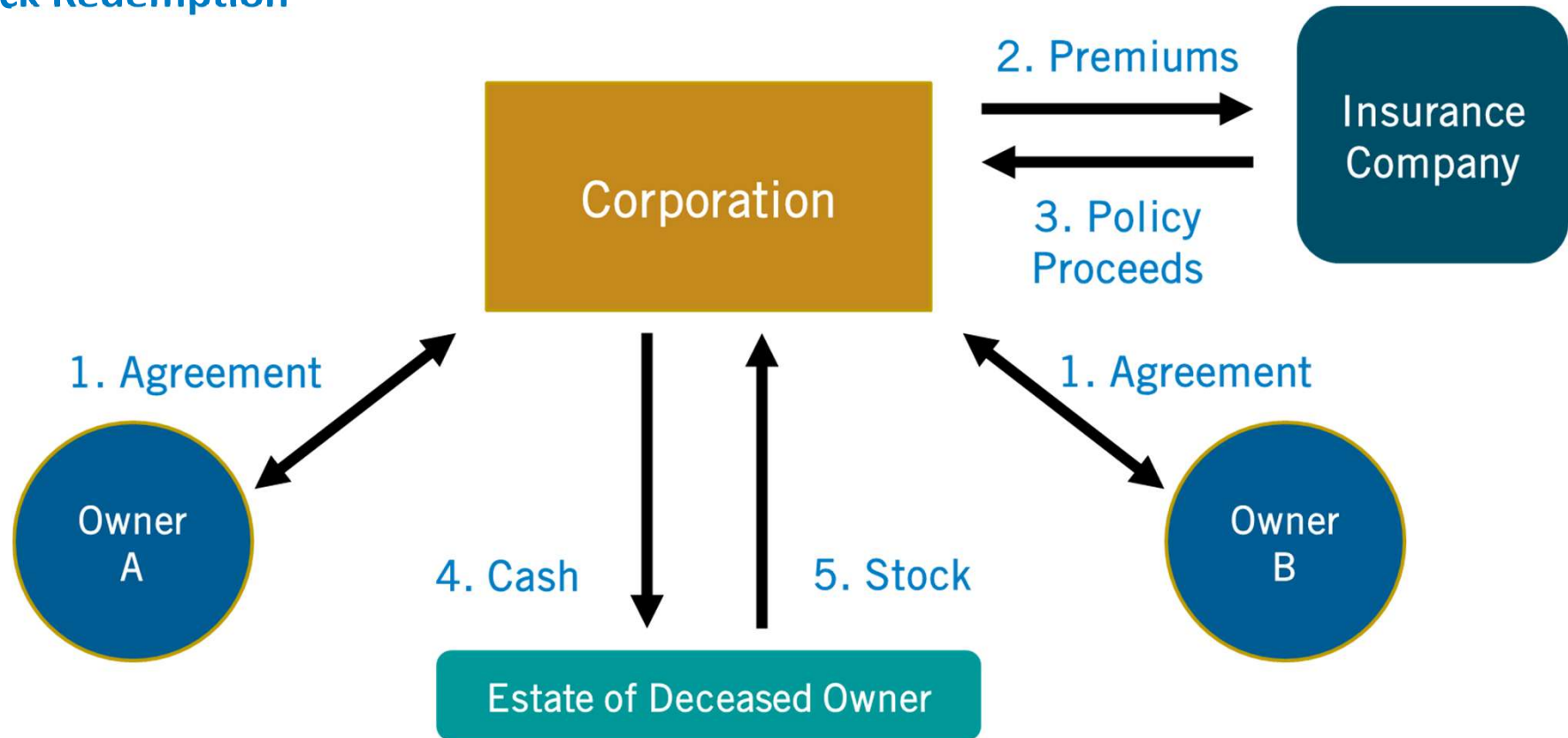


DISADVANTAGES

- Multiple policies, as each shareholder owns a policy on other shareholders
- Shareholders pay premiums
- Individually owned policies subject to owner's creditors

SOLUTION #1: BUY-SELL AGREEMENT

Stock Redemption



SOLUTION #1: BUY-SELL AGREEMENT

Stock Redemptions

ADVANTAGES

- Only one policy per shareholder
- Uses business assets to pay premium
- Easy to understand and implement



DISADVANTAGES

- Policy cash values and death benefit available to corporate creditors
- Family attribution
- No increase in basis

EMPLOYER-OWNED LIFE INSURANCE

Internal revenue code section 101(j) states:

- Death benefits from an “employer-owned life insurance contract” are subject to federal income tax in excess of premiums and other amounts paid, unless the notice and consent requirements of section 101(j)(4) are satisfied and an exception under section 101(j)(2) applies.

An “employer-owned life insurance contract” is a contract that:

- Is owned by a person engaged in a trade or business (“policyholder”) under which the policyholder (or a related person) is directly or indirectly a beneficiary under the contract and covers the life of an insured who is an employee with respect to the trade or business of the policyholder. For these purposes, the term “employee” means all employees, including officers and highly compensated employees, as well as directors.

Notice and consent is generally satisfied if, before the contract is issued, the employee:

- Is notified in writing that the policyholder intends to insure the employee’s life and the maximum face amount for which the employee could be insured at the time the contract was issued,
- Provides written consent to being insured under the contract and that such coverage may continue after the insured terminates employment, and
- Is informed in writing that the policyholder (or a related party) will be a beneficiary of any proceeds payable upon the death of the employee.



RISK #2: DEATH OF A KEY EMPLOYEE

What happens when a business loses a key employee?

- Management or operational disruption
- Loss of customers
- Loss of profit
- Impairment of credit
- Weakened employee morale
- Loss of confidence
- Hampered product development or innovation
- Significant time and money to replace key employees

Solution: Key Person Insurance



SOLUTION #2: KEY PERSON INSURANCE

What is key person insurance?

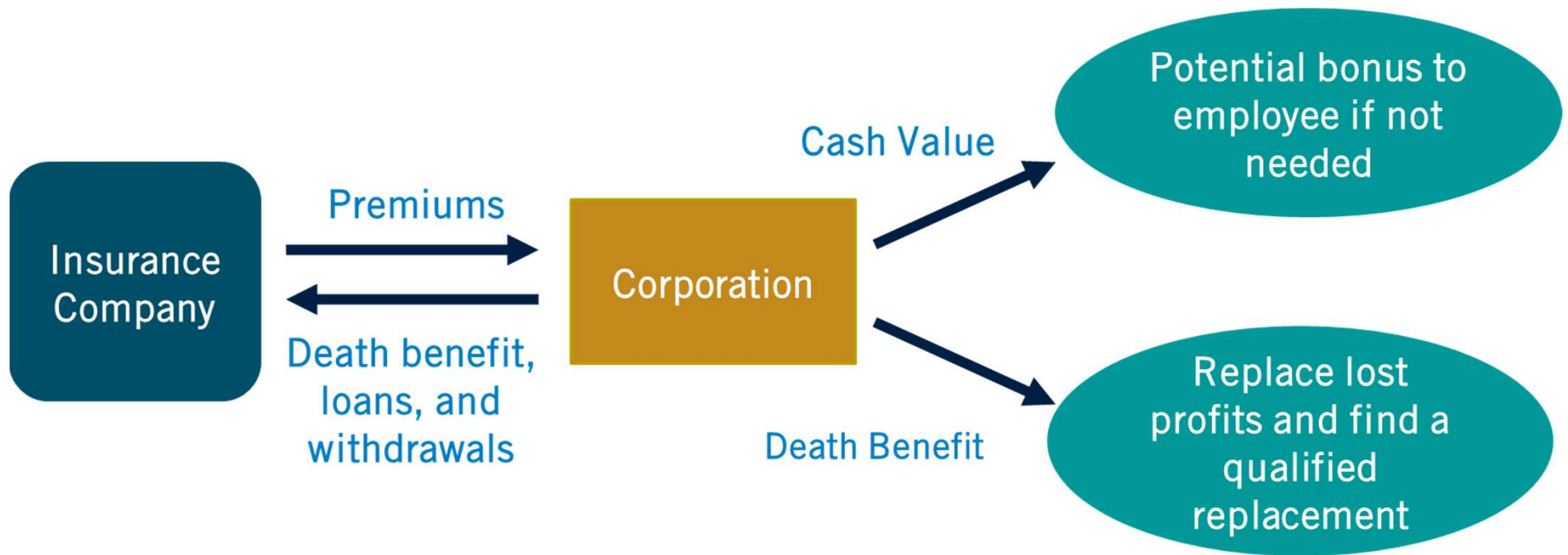
- Life insurance policy insuring the lives of key contributors
 - Owner and beneficiary is the business
 - Premiums paid by the business
- Makes funds available to offset decrease in business and offset costs to acquire replacement
 - Funds also available to offset debt owed by the business
- Typically, 5x-10x income of the employee can be covered

What are the benefits?

- Help business get through a potentially difficult time
- Help a business access credit
- Help retain key employees



SOLUTION #2: KEY PERSON



RISK #3: KEY EMPLOYEE TURNOVER

Why is it important to retain key employees?

- Highly specialized employees may leave a larger gap
 - Senior contributors are harder to replace
 - May be impossible to replace contribution quickly
- Reduce costs
 - Time invested to interview and hire new candidates
 - Cost of attracting new employees likely to be high
 - New employees require weeks/months of training to be effective

Solution: Executive Bonus



SOLUTION #3: EXECUTIVE BONUS

What is an Executive Bonus?

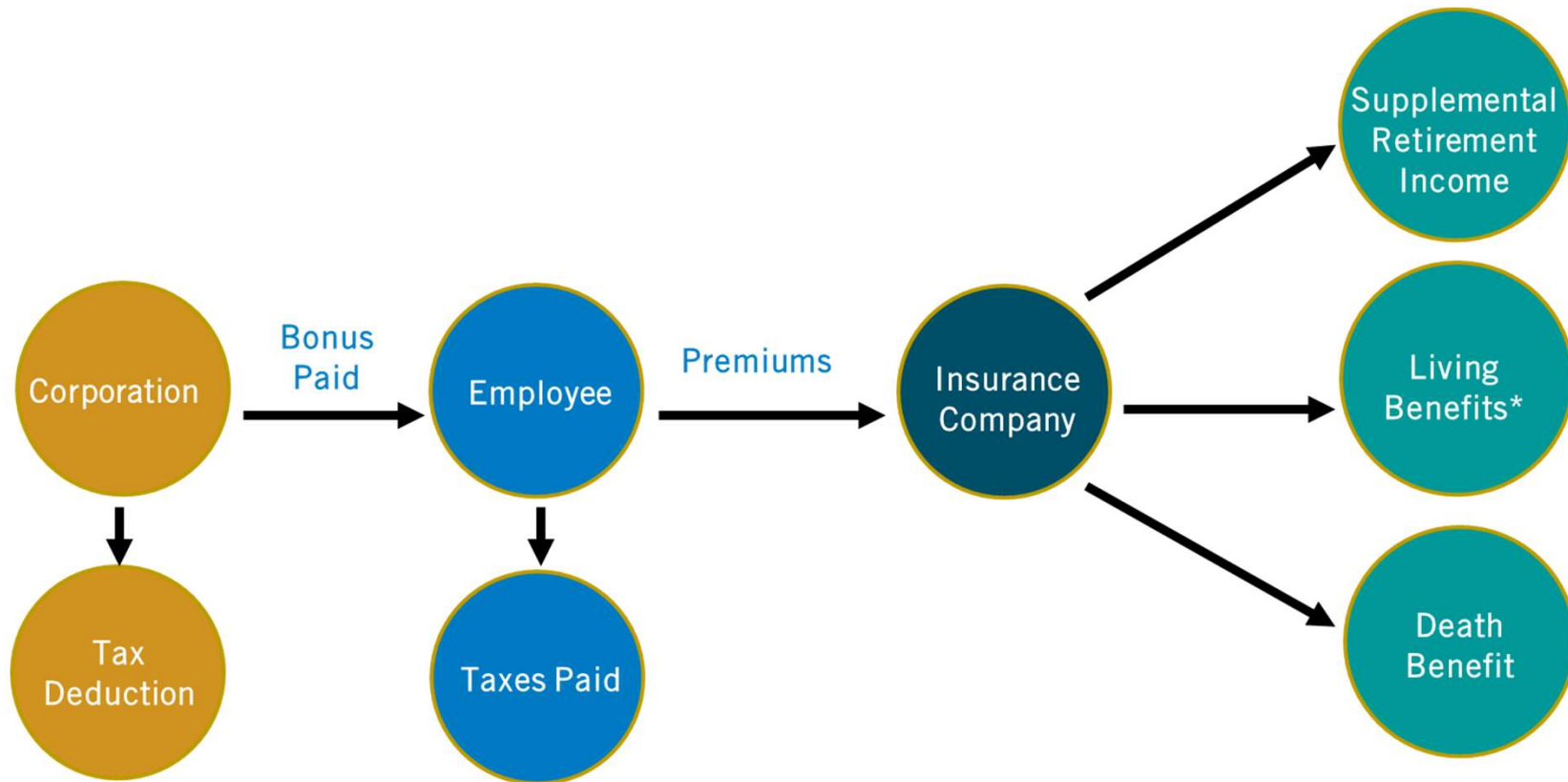
- Life insurance policy on the life of the executive
 - Used to provide additional, targeted benefits to employee
- Policy is owned by the employee
- Premium is taxable as ordinary income to the insured and deductible to the employer under IRC Section 162

What are the benefits?

- Encourages employees to stay, decreasing turnover
 - Designed to meet needs of a specific employee
- Targets specific individuals
- Straightforward and simple to implement
 - No IRS approval needed
- Flexible design
 - Face amounts and premiums can be adjusted to cater to ups and downs of business



SOLUTION #3: EXECUTIVE BONUS



*Receiving benefits under a chronic or terminal illness rider will reduce the death benefit and may result in beneficiaries receiving no death benefit.



RISK #4: TRANSITIONING THE BUSINESS TO OTHER FAMILY MEMBERS

Why is it important for family businesses to have a succession plan?

- Enable the business to live beyond the original generation
- Address liquidity and potential tax issues
- Help parents solve for the difficult challenge of how to equalize inheritance for children when some are involved in the business and others are not
- Ensure loved ones are financially secure and not dependent on the business for income after the owner's death

Solution: Family Succession Plan



SOLUTION #4: FAMILY SUCCESSION PLAN

What is a family business succession plan?

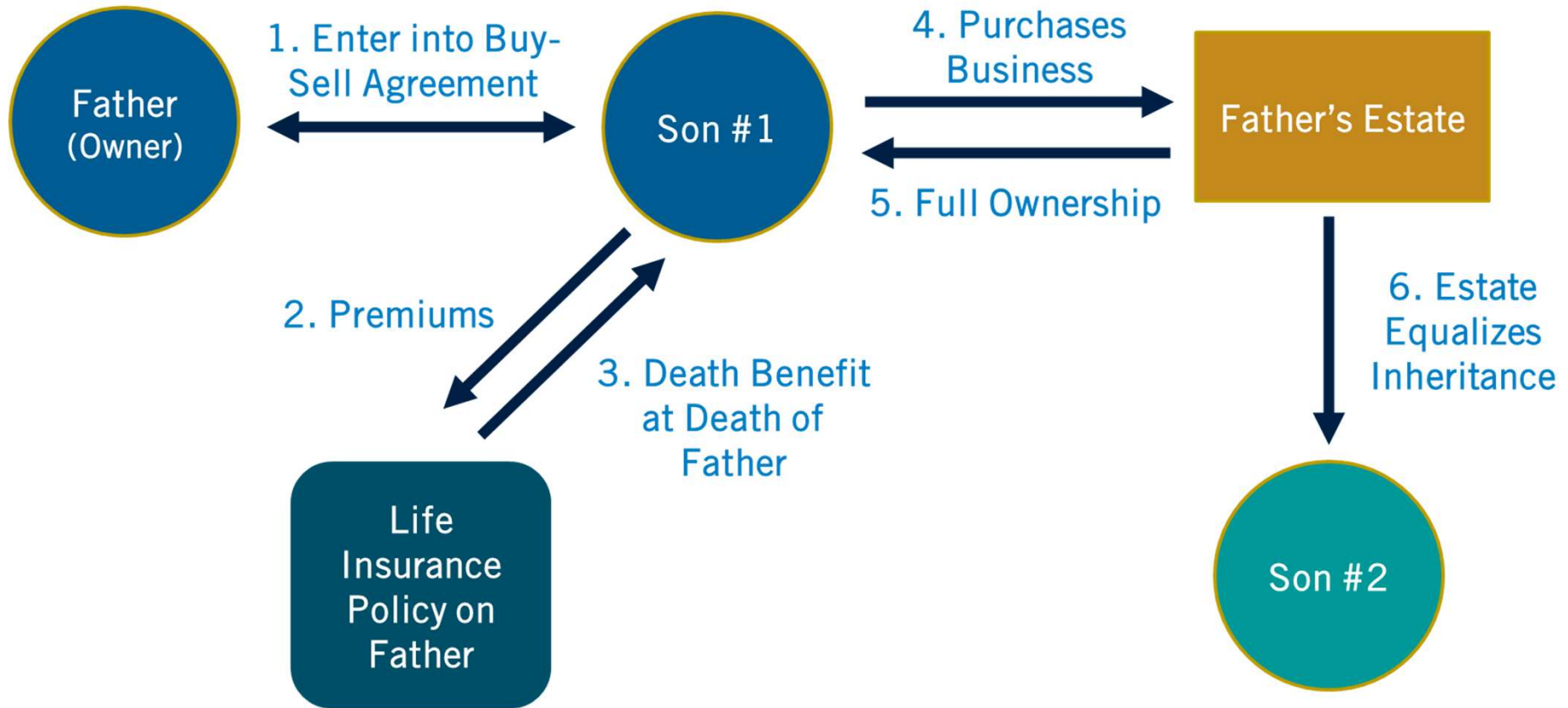
- Plan to address an event and/or a decision for the first-generation owner to leave the business
- Life insurance is used to provide proceeds for an heir to purchase the business from the owner's estate
- Life insurance can also be used to create an inheritance for those not involved in the business (spouse or another child)

What are the benefits?

- Equitable division of the estate
- Ability to decide when to equalize the inheritance
- Business remains in the family without disruption
- Loved ones not reliant on business for income



SOLUTION #4: ONE-WAY BUY/SELL



RISK #5: RETIREMENT OF AN OWNER

Why is it important for a business owner to have a retirement plan?

- Owners plan for their business to live on without them, but not for themselves to live without their business
- Owners want to have enough money to maintain lifestyle in retirement
- Owners likely have a lack of diversification in assets, as accumulating assets outside the business is neglected
- Retirement income goals may be based on an unrealistic expectation of the value of their business

Solution: Life Insurance in Retirement Planning



SOLUTION #5: LIFE INSURANCE IN RETIREMENT PLANNING

What Is Life Insurance in Retirement Planning?

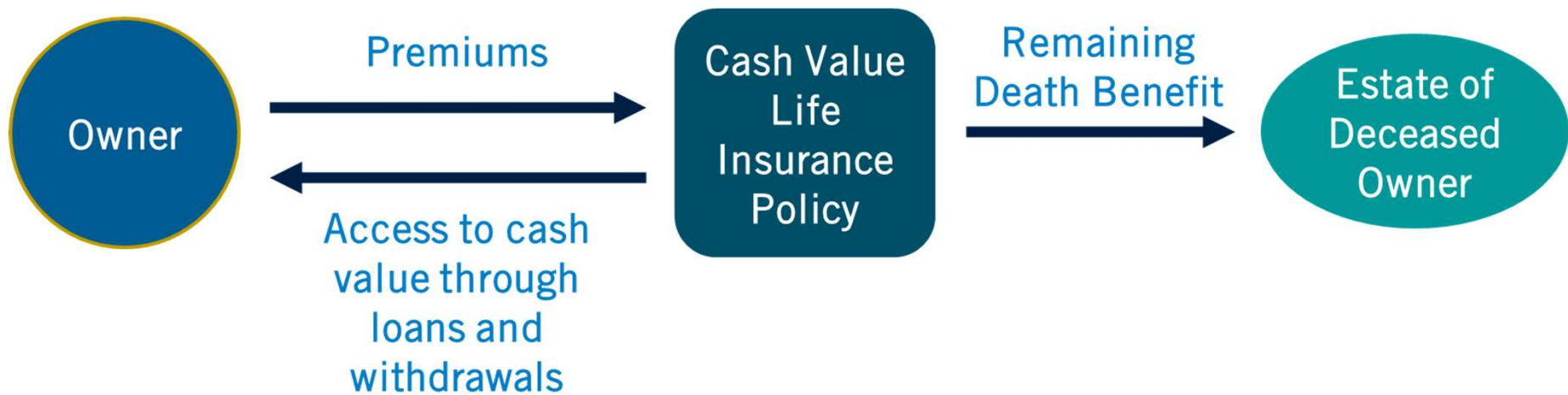
- Using the flexibility of life insurance, a policy is purchased to:
 - Provide death benefit protection for the family of a business owner
 - Create a source of supplemental income for a business owner's retirement
- Policy is designed to have owner contribute maximum amount of premium for minimum amount of death benefit

What are the benefits?

- A flexible product solution solves multiple challenges
- Hedges against both premature death and an increase in taxes
- Life insurance offers tax-deferred cash accumulation potential
- Owner has the ability to access, use, and control policy cash values



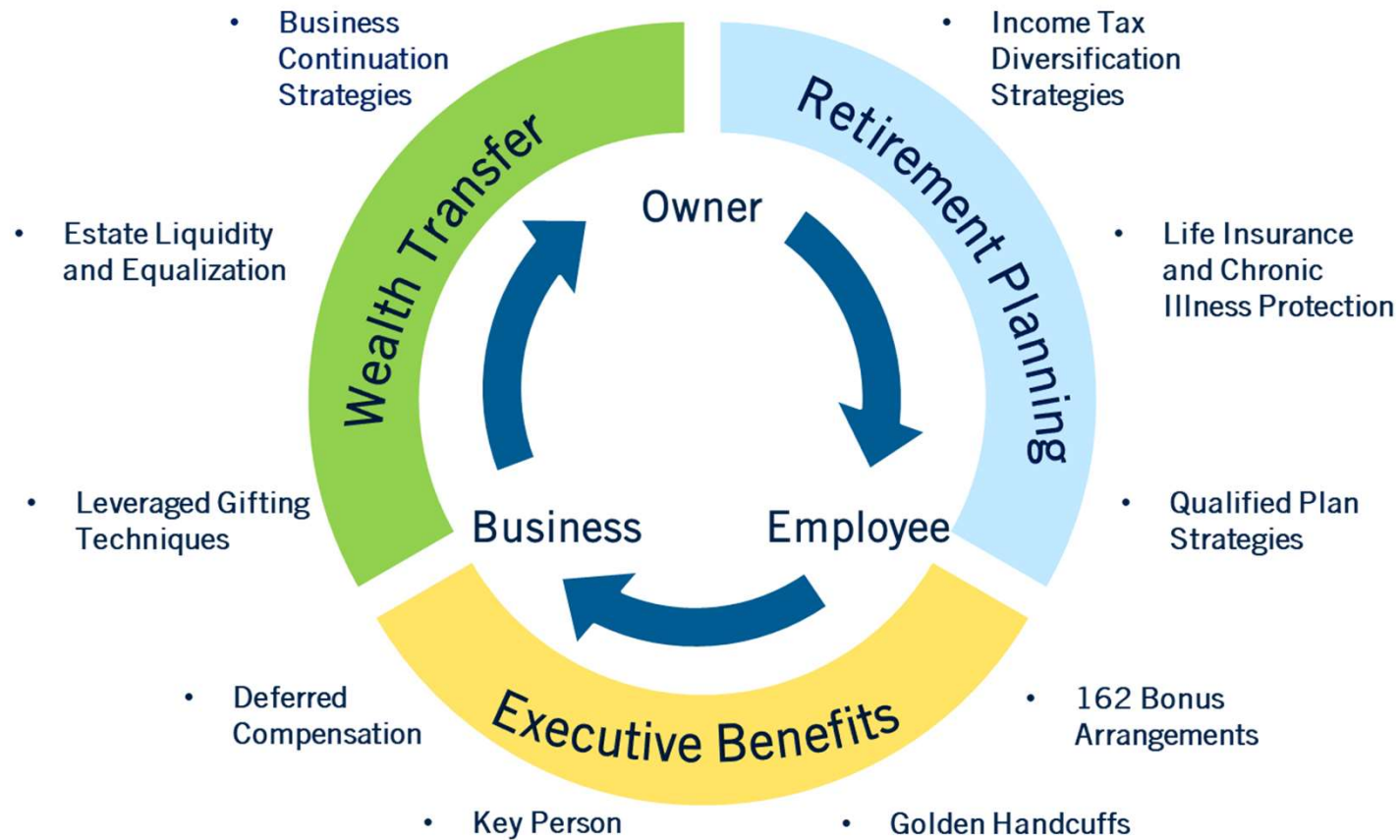
SOLUTION #5: LIFE INSURANCE IN RETIREMENT PLANNING



Cash value is accessed through loans and withdrawals. In general, loans are not currently taxable, and withdrawals are taxable only when owner takes more money out of the policy than he or she has paid in premiums. Loans and withdrawals may impact the ultimate death benefit payable to estate.



SMALL BUSINESS NEEDS



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