

CREATIVE WAYS TO FUND BUSINESS OWNER RETIREMENT

A Macro-Economic Context

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SCHOOLS OF THOUGHT

- × Traditional Theory
 - + Personal Insurance
 - × Need Driven
 - * Lowest amount
 - * Lowest price
 - * Shortest period
 - × Lends itself to:
 - * Term
 - * Underfunded
 - × CAUL
 - × VUL
 - × IUL

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SCHOOLS OF THOUGHT

- × Traditional Theory
 - + Business Insurance
 - × Need Driven
 - * Lowest amount*
 - * Lowest price*
 - * Shortest period
 - × Lends itself to:
 - * Term
 - * Underfunded
 - × CAUL
 - × VUL
 - × IUL

*Exception with Executive Benefits

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LIFE INSURANCE

× Personal Markets

- + Fundamentally a good thing
- + Generally bought on a need basis
 - × Subjective
 - × Assumption dependent
 - × Mortgage replacement
 - × Income replacement
 - × Estate planning
 - × Etc.

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LIFE INSURANCE

× Business Markets

- + Fundamentally a good thing
- + Generally bought on a need basis
 - × Subjective
 - × Assumption Dependent
 - × Buy-Sell
 - × Non-Qualified Plans
 - × Key Person

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SCHOOLS OF THOUGHT

- × Macro-Economic Theory
 - + Personal Insurance
 - × Insuring the value of the asset lost
 - * Human Life Value or Human Capital Concept
 - × Insuring the Asset Permanently
 - × Insuring First/Investing Second
 - × Lends itself to:
 - * Permanent Insurance
 - * Quasi-Permanent Insurance

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SCHOOLS OF THOUGHT

- × Macro-Economic Theory
 - + Business Insurance
 - × Insuring Prospective Values
 - * Debt Elimination
 - * Future Business Value
 - * Key Person
 - × Insuring the Asset Permanently
 - × Lends itself to:
 - * Permanent Insurance
 - * Quasi-Permanent Insurance

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CONTEXT

× 'Traditional'

+ Death is:

- × Likely
- × Relatively Soon

× 'Macro-Planning'

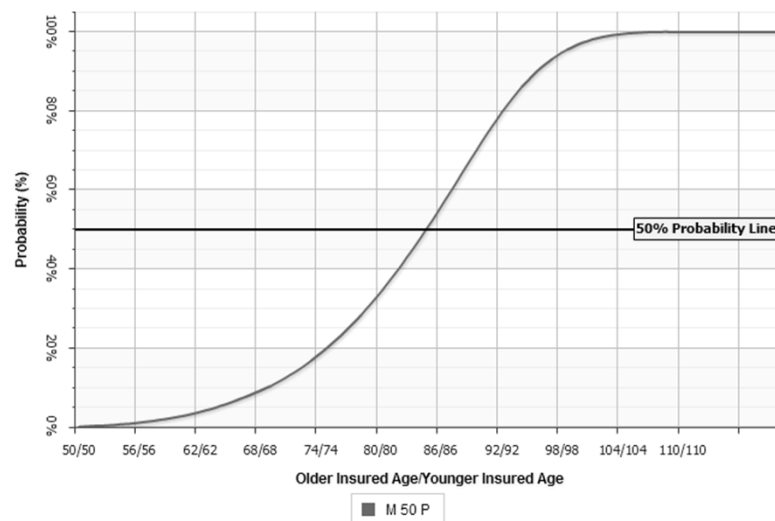
+ Death is:

- × Unlikely Now
- × Likely eventually

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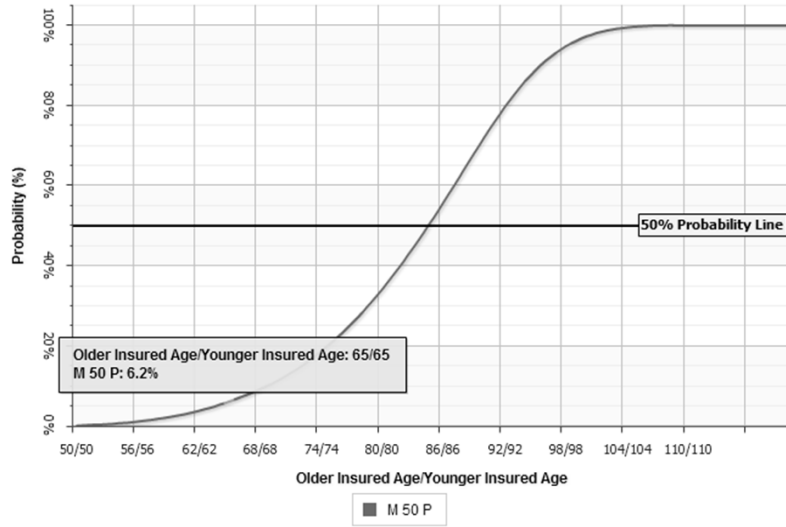
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MORTALITY-50 YR OLD MALE



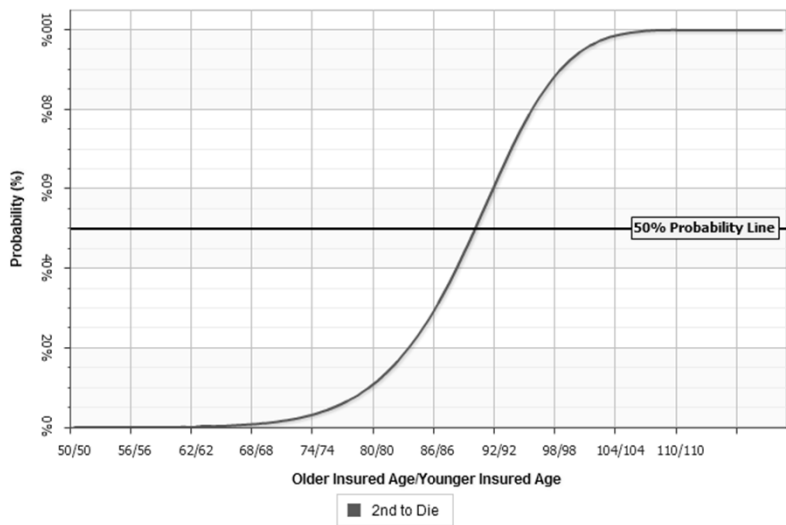
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MORTALITY—50 YR OLD MALE



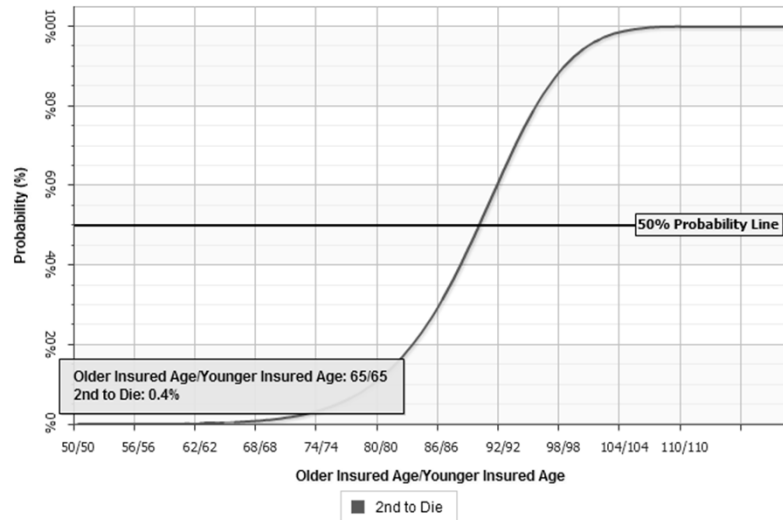
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MORTALITY—PAIR OF 50 YR OLD MALES



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MORTALITY—PAIR OF 50 YR OLD MALES



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HOW DO WE LEAVE OUR BUSINESS?

- ✘ Toes Up?
 - + 94% chance of being wrong
 - + Virtually 100% chance of being wrong
- ✘ Standing Up?
 - + New Realm of Exit Planning

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STANDING UP

- × Sale to Third Party
- × Transfer to one or more Key Employees
- × Transfer to Family Member
- × Initial Public Offering (Rare for most middle market companies)
- × ESOP
- × Sale to one or more Co-Owners
- × Passive Ownership
- × Liquidation

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LIFE INSURANCE

- × Internal Role
 - + Protecting Current Value
 - × Key People are Assets
 - × Key people are those who affect profits
 - × Insure Key People
 - + Protect Future Value
 - × Sale or transfer of business
 - × Death of business owner
 - × Stay Bonuses
 - × Insure Owners

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SALE TO THIRD PARTY

× External

+ Allows for Maximum Potential in Retirement

- × Charitable Strategy Possibility
- × Optimum Consumption Model

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Assumptions		Scenario #1	Scenario #2
Study Period (in years):	25	Asset Value:	\$10,000,000
Present Value Discount Rate:	0%	Rate of Return:	6%
		Tax Rate %:	35%
			Asset Value:
			Rate of Return:
			Tax Rate %:
			Death Benefit:
			Summary
			Recalculate
			Clear

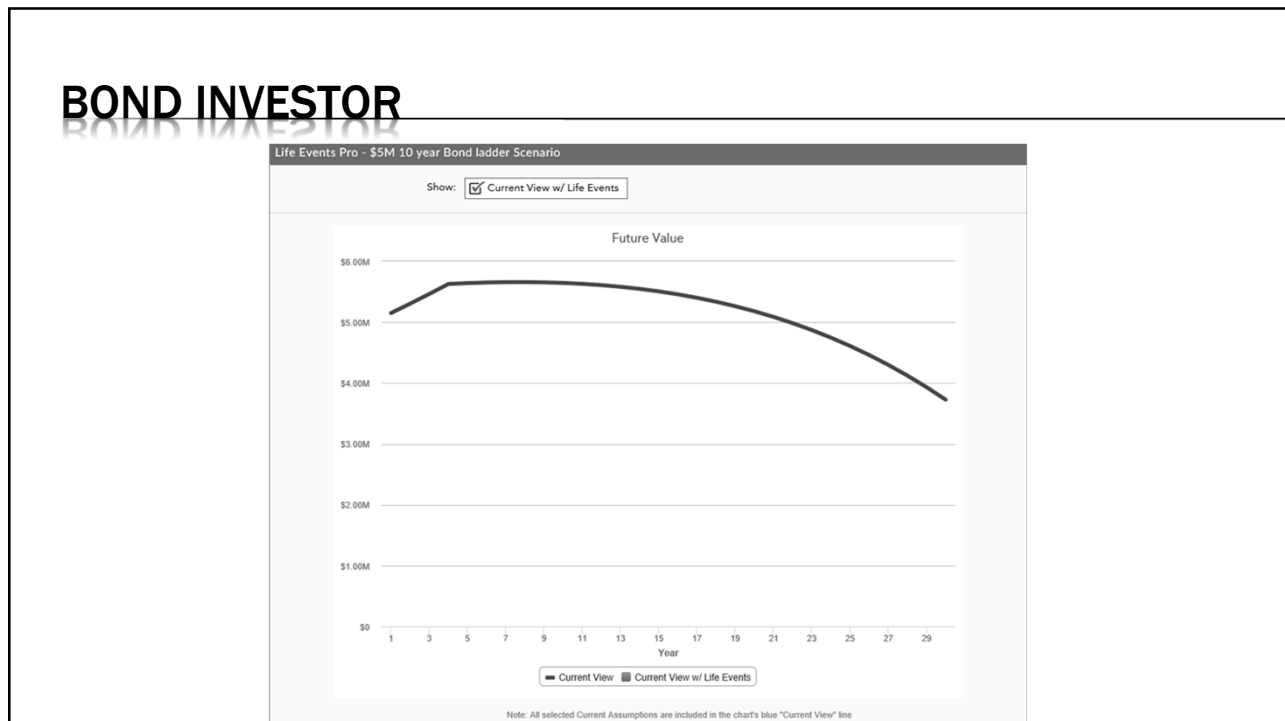
Year	Net Cash Flow	Legacy Value
SCENARIO 1		
1	\$390,000	\$10,000,000
2	\$390,000	\$10,000,000
3	\$390,000	\$10,000,000
4	\$390,000	\$10,000,000
5	\$390,000	\$10,000,000
6	\$390,000	\$10,000,000
7	\$390,000	\$10,000,000
8	\$390,000	\$10,000,000
9	\$390,000	\$10,000,000
10	\$390,000	\$10,000,000
11	\$390,000	\$10,000,000
12	\$390,000	\$10,000,000
13	\$390,000	\$10,000,000
14	\$390,000	\$10,000,000
15	\$390,000	\$10,000,000
16	\$390,000	\$10,000,000
17	\$390,000	\$10,000,000
18	\$390,000	\$10,000,000
19	\$390,000	\$10,000,000
20	\$390,000	\$10,000,000
21	\$390,000	\$10,000,000
22	\$390,000	\$10,000,000
23	\$390,000	\$10,000,000
24	\$390,000	\$10,000,000
25	\$390,000	\$10,000,000
Totals	\$9,750,000	

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Assumptions			Scenario #1			Scenario #2		
Study Period (in years):	25		Asset Value:	\$10,000,000		Asset Value:	\$7,500,000	
Present Value Discount Rate:	0%		Rate of Return:	6%		Rate of Return:	6%	
			Tax Rate %:	35%		Tax Rate %:	35%	
						Death Benefit:	\$10,000,000	
						<input type="button" value="Summary"/> <input type="button" value="Recalculate"/> <input type="button" value="Clear"/>		

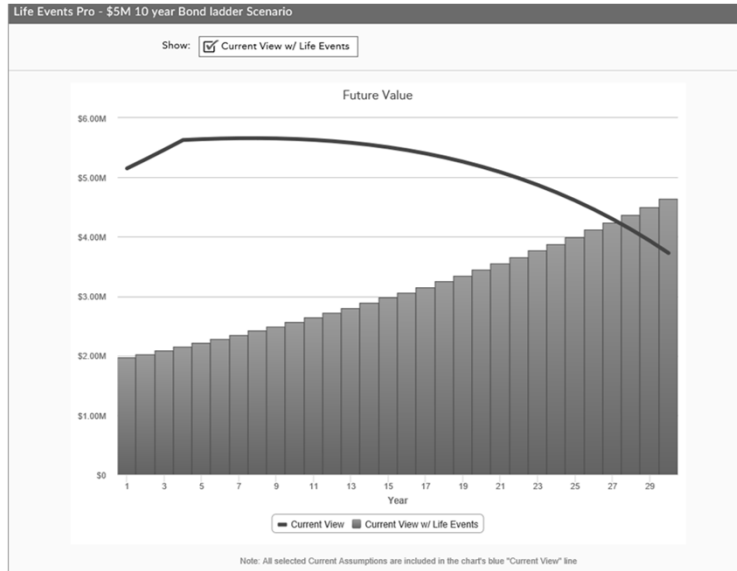
Year	Net Cash Flow	Legacy Value	Year	¹ Net Cash Flow	Legacy Value
SCENARIO 1			SCENARIO 2		
1	\$390,000	\$10,000,000	1	\$429,200	\$17,363,300
2	\$390,000	\$10,000,000	2	\$432,071	\$17,218,398
3	\$390,000	\$10,000,000	3	\$435,114	\$17,064,802
4	\$390,000	\$10,000,000	4	\$438,339	\$16,901,990
5	\$390,000	\$10,000,000	5	\$441,758	\$16,729,409
6	\$390,000	\$10,000,000	6	\$445,382	\$16,546,474
7	\$390,000	\$10,000,000	7	\$449,224	\$16,352,562
8	\$390,000	\$10,000,000	8	\$453,296	\$16,147,016
9	\$390,000	\$10,000,000	9	\$457,613	\$15,929,137
10	\$390,000	\$10,000,000	10	\$462,188	\$15,698,185
11	\$390,000	\$10,000,000	11	\$467,038	\$15,453,376
12	\$390,000	\$10,000,000	12	\$472,179	\$15,193,879
13	\$390,000	\$10,000,000	13	\$477,628	\$14,918,812
14	\$390,000	\$10,000,000	14	\$483,405	\$14,627,241
15	\$390,000	\$10,000,000	15	\$489,528	\$14,318,175
16	\$390,000	\$10,000,000	16	\$496,018	\$13,990,566
17	\$390,000	\$10,000,000	17	\$502,898	\$13,643,300
18	\$390,000	\$10,000,000	18	\$510,191	\$13,275,198
19	\$390,000	\$10,000,000	19	\$517,921	\$12,885,010
20	\$390,000	\$10,000,000	20	\$526,115	\$12,471,411
21	\$390,000	\$10,000,000	21	\$534,800	\$12,032,996
22	\$390,000	\$10,000,000	22	\$544,007	\$11,568,276
23	\$390,000	\$10,000,000	23	\$553,766	\$11,075,673
24	\$390,000	\$10,000,000	24	\$564,111	\$10,553,513
25	\$390,000	\$10,000,000	25	\$575,076	\$10,000,024
Totals	\$9,750,000			\$12,158,866	

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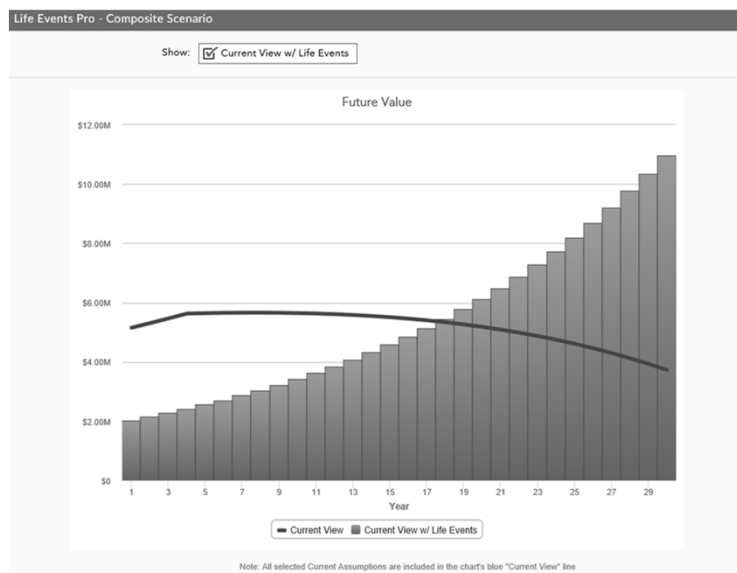
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ANNUITY PURCHASER



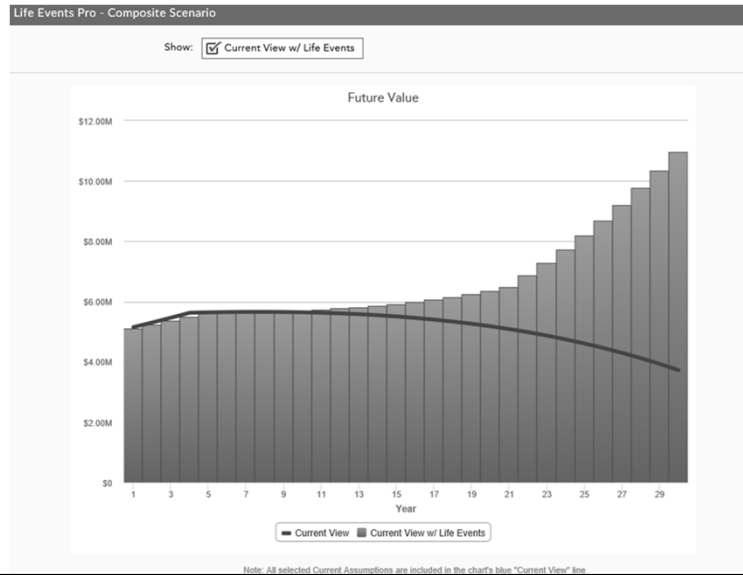
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ANNUITY PURCHASER W/INVESTMENT



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ANNUITY PURCHASER W/INVESTMENT AND DEATH BENEFIT OF ANNUITY



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TRANSFER TO ONE OR MORE KEY EMPLOYEE(S)

- ✘ Key Employees have no money
- ✘ Virtually all are earn-outs
- ✘ External Use
 - + Offsets the risk of default
 - + Optimum Consumption Model

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TRANSFER TO FAMILY MEMBER

- ✘ The Riskiest Transfer of All
 - + Estate and Gift Tax Consequences
 - + Equalization Issues
- ✘ External Use
 - + Optimum Consumption Model
 - + Offset for Spouse
 - + Estate Tax Payment
 - + Equalization

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INITIAL PUBLIC OFFERING

- ✘ Internal
 - + Same as Above
 - + Life Insurance generally required for Business Owner as Key Person
- ✘ External
 - + Optimum Consumption Model
 - + Transfer of Personal Insurance to Company
 - + Offset for Section 144 Stock

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ESOP

- × Internal
 - + Same as above
 - + Repurchase liability
 - + Key Person to take out bank
- × External
 - + Optimum Consumption Model
 - + Estate and Gift taxation
 - + Equalization

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SALE TO ONE OR MORE CO-OWNER(S)

- × Buy Sell
 - + Cross-purchase
 - + Entity redemption
- × External
 - + Optimum Consumption Model
 - + Offsets sale at lowest defensible value
 - × Lifetime–Non-Qual substitute
 - × Death-Time–Lower formal buyout/trust owned offset

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PASSIVE OWNERSHIP

- × External
 - + Optimum Consumption Model
 - + Estate and Gift Taxation
 - + Personally Owned “Key Person”

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LIQUIDATE

- × External
 - + Optimum Consumption Model
 - + Offset for not planning for business exit

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OBSERVATIONS

- ✘ The future is indeterminate
- ✘ Business owners haven't thought through their exits
- ✘ They generally will not know their paths now
- ✘ Flexibility is critical

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OBSERVATIONS

- ✘ Life is not a Math Problem
- ✘ Business Owners often leave a spaghetti bowl of interrelationships and know-how
- ✘ I have never heard, "I bought too much life insurance".
- ✘ I have heard most say, "I should have bought more life insurance".
- ✘ Life Insurance can be repurposed and repositioned

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LESSONS

- ✘ Buy as much personal life insurance as possible
- ✘ Buy as much permanent personal life insurance as possible
- ✘ Buy as much business life insurance as possible
- ✘ Buy as much permanent business life insurance as possible

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THANK YOU!

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