



Rose Street Advisors

BENEFITS • HR CONSULTING • INVESTMENTS • LIFE INSURANCE • RETIREMENT

BUSINESS PROTECTION PLANNING STRATEGIES



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WHO ARE THE KEY PEOPLE?

- **Key People in a Business**
 - Business Owner(s)
 - C-Suite
 - Sales Person
 - Director of HR

BUSINESS DISRUPTION WHEN KEY PERSON IS LOST

Business Owner(s)

- In the event a business owner becomes disabled or deceased, who are the decision makers?
 - Is there a succession plan?
 - Is the succession plan formally laid out and funded?
 - Buy–sell plan in businesses with multiple owners
 - Is the business on the hook for purchasing that owner’s value?
 - If there is no succession plan, is a business owner’s spouse or children stepping into an important role?
 - How would this impact the rest of the company?
 - Employees depend on their leadership to keep the business healthy

BUSINESS DISRUPTION WHEN KEY PERSON IS LOST

C-Suite

- What's the true cost of losing a C-Suite executive?
 - Recruiting – average cost is 25%-30% of annual salary and 90 – 120 days of recruitment time
 - How long does it take for this person to get up to speed in this new role?
 - Average time is 6-9 months
 - Total of a year of lost “productivity” from this person, plus 25% to 30% of annual salary

BUSINESS DISRUPTION WHEN KEY PERSON IS LOST

Sales-Person

- Most organizations have some sort of sales or business development component
 - What is lost in the event of untimely death or disability?
 - Business revenue
 - Customer relationships
 - Experience
 - What is lost if the sales person goes to work for a competitor?
 - Business revenue
 - Customer relationships
 - Experience
 - Market share

BUSINESS DISRUPTION WHEN KEY PERSON IS LOST

Director of HR

- We know how important taking care of employees and their benefits are – what is lost if this individual is suddenly gone?
 - Gatekeeper
 - Responsible for putting the team together
 - Legal compliance
 - Culture champion
 - If this person leaves the organization, what does that say about the workplace?

KEY PERSON - TERM INSURANCE



The company is owner, beneficiary and premium payor on a Term life insurance policy insuring the employee.



Term insurance provides low-cost death protection in the event of the insured employee's untimely death.

Term insurance does not have any cash surrender value.

Special Note for C-Corporations: Life insurance death benefits paid to a C-Corporation may impact the calculations used to determine the Alternative Minimum Tax. C-Corporations should consult with tax and or legal advisors before implementing a Key Person insurance plan.

KEY PERSON - TERM INSURANCE

- **What is it for?**
 - Funding buy-sell agreements between business owners
 - Replacing lost revenue while:
 - Recruiting and training new hire
 - Pay off any debts that may be called by creditors upon death of the business owner

KEY PERSON - PERMANENT LIFE INSURANCE



The company is the owner, beneficiary and premium payor of a policy on the life of the employee.



The policy is an asset of the company.



The cash value of the life insurance can be used to (wholly or partially) pay a retirement benefit to the insured and/or purchase a retiring shareholder's stock

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KEY PERSON - PERMANENT INSURANCE

■ What is it for?

- Funding buy-sell agreements between business owners
- Replacing lost revenue while:
 - Recruiting and training new hire
- Pay off any debts that may be called by creditors upon death of the business owner
- Rewarding a key person
 - Cash value can be used to pay a retirement benefit to the insured
 - A portion of the death benefit can be paid to a key person's family
- Retention of organizations' most important people
 - "Golden handcuffs"

EXECUTIVE BONUS WITH “REBA”

A REBA (aka “golden handcuffs”) is an Executive Bonus Plan with one added step: a restricted endorsement. The provisions can be negotiated, but the standard restricted endorsement may prevent the executive/key person from...

- **Surrendering** the life insurance for cash
- **Withdrawing** cash from the policy
- **Borrowing** against the policy cash value
- **Assigning** or pledging the policy as collateral
- **Changing** the ownership until retirement or a specified time



After the restriction period has expired, the endorsement is removed from the policy and the employee receives full rights over the policy, including access to the potential cash value.

BUY-SELL LIFE INSURANCE



A buy-sell agreement ensures that surviving owners of a business have the right to purchase the interest of any owner when an owner dies



The buy-sell agreement also guarantees that the deceased's beneficiaries are fairly compensated for a business interest they inherit.



Life insurance is often used in conjunction with a buy-sell agreement, as it provides liquidity to fund the succession plan exactly when it is needed – upon the death of an owner.

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BENEFITS OF AN EXECUTIVE DISABILITY PLAN

- Comprehensive benefits package
- Plan stability
- Reduce unintentional coverage gaps
- Guaranteed issue
- Reduced cost to employees
- Employee retention opportunity

DISCLAIMERS

- For federal income tax purposes, life insurance death benefits are generally paid free of income tax to beneficiaries under Internal Revenue Code (IRC) Section 101(a).
- In certain situations, life insurance death benefits may be partially or wholly taxable. These include:
 - The transfer of a life insurance policy for valuable consideration unless the transfer qualifies for one of the exceptions in IRC Section 101(a)(2).
 - Arrangements that lack an insurable interest under state law.
 - An employer owned policy, unless the policy qualifies for exception under IRS section 101(j).
- Section 101(j) applies to all employer owned life insurance contracts that are issued or materially modified after August 17, 2006.
- The exceptions under Section 101(j) include:
 - Insurance on an employee who was employed by the employer within the last 12 months.
 - Was a Director or highly compensated employee at the time the contract was issued.
 - Life insurance death benefit proceeds that are paid to the insured's heirs or are used in a stock redemption plan to purchase an insured's interest in the employer.
- Section 101(j) also requires:
 - The executive must be given written notice before the issuance of the contract and provide written consent to such life insurance.
 - The employer must annually report the life insurance arrangements to the IRS by filing form 8925 with the employer's tax return.