



MERRILL LYNCH INSURANCE GROUP

Business Insurance Planning

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Facts on Family Businesses

- Over 80% of all businesses in North America are family owned.
- Family businesses account for 78% of all new job creation, 60% of the nations employment, and 50% of the GDP
- 40% of all U.S. family owned businesses are “high-net-worth” (gross over \$1 million a year), and 5% gross more than \$25 million a year.
- Translates into 1.4 million high-net-worth family businesses across the nation.

Source: The Phoenix Study, 4/2005



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Facts on Family Businesses

- 63% of business owners do not have a formal business succession plan, and
- 50% don't have a business transfer or continuation plan, and
- 68% of high net worth business owners never had their companies professionally valued.
- Lack of planning causes 70% of the nations family owned businesses to fail to survive to the next generation (Study by Family Firm Insititute,2004)

Source: The Phoenix Study, 4/2005



If There Are Two Business Owners, What Are the Odds of One Dying Prior to Age 65?

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If the Ages of the two owners are:		Then the chance that one of them will die prior to age 65
30	40	47%
30	50	44%
35	50	43%
35	60	35%
40	45	44%
40	55	39%
45	55	38%
50	60	32%
55	60	27%

Source: 1980 CSO Table



Consider the Odds of a Business Owner Becoming Disabled for 90 Days or Longer Prior to Age 65:

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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: 1985 CIDA Table and 1980 CSO Table



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What we will cover today....

- Business Continuation Planning
- Buy Sell Agreements
- Key Person Insurance



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Business Continuation Planning

- An arrangement for the sale of a business interest
- Plan is activated upon an owner's:
 - Retirement
 - Disability
 - Death
 - Other factors
- Plan provides for the funding of the arrangement



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Business Continuation Planning

- Business Valuation
- Buy Sell Agreements
- Funding Alternatives



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Buy-Sell Agreements

➤ Types of Arrangements

- Cross purchase (Individually owned)
- Stock redemption (Corporate owned)
- Wait and see (Stock Redemption and Cross Purchase)



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Funding Buy-Sell Agreements

- Four Methods
 - Cash Method
 - Installment Method
 - Loan Method
 - Insured Method
 - Life Insurance
 - Disability Income Insurance



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Advantages of Buy Sell Planning w/Insurance

- Payment is prompt and certain
- The event creating the need for cash—death or disability-- also creates a source of cash
- Purchase price may set the value for federal estate tax purposes
- Maintain harmony
- Helps assure the business will continue to operate



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Key Person Insurance

- Covers the financial loss created by the loss of the key person (indemnify the business)
- Life insurance and disability income insurance
- Corporation is the owner, pays the premiums and is the beneficiary
- Premiums not tax deductible; life or disability proceeds tax-free to corporation (beware of Corporate AMT)



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THANK YOU

DO YOU HAVE ANY QUESTIONS?

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