



## Thought Leadership in Action for Life Insurance

### Turning Challenges into a Plan for Success Series *Identifying Business Concerns*



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Your business-owning clients have worked hard to make their business what it is. But, do they have plans in place to address business challenges including the loss of a key person, succession planning, and estate planning? While these topics can be uncomfortable, avoiding them could lead to unintended consequences down the road.

By assisting your business-owning clients with creating a plan for the future, you could help them achieve their financial goals and ensure ongoing success for their company.

#### **Identify Their Top Planning Concerns**

The first step in any planning effort is to evaluate where they are today and identify their top priorities. This guide can help you evaluate their priorities and identify any areas that might require attention.

#### **Loss of Key Employee(s)**

For many businesses, a handful of people are critical to the success of the company. Your business-owning clients probably already know who these key employees are. Your client has likely invested a significant amount of time into developing them, and they hold a high level of trust and responsibility. Many business owners purchase key employee life insurance to protect against the loss of an essential person. This coverage could pay the business if a critical individual were to become disabled or pass away prematurely.

#### **Questions to ask your clients about key employees:**

- Are there any individuals, including yourself, whose loss (if the individual left the company or died) would pose a significant financial hardship to the business?
- If yes, has your business taken any steps to protect itself financially in the event of the death of one of these key employees?
- If yes, has your business implemented strategies that are having a meaningful impact on retaining these key employees?

## Business Succession

One of the greatest challenges facing small business owners today is business succession. As much as 70% of small business owners would like to pass on their business to the next generation but only about 15% are successful.<sup>1</sup>

Preparing for the unexpected can be uncomfortable, but it's critical to planning the future success of your clients' business. Unexpected retirement, potential disability, or even early death can tragically affect their company's future.

Planning ahead could cover employees and human resources, legal and financial documents, physical and digital access, customer and vendor lists, and more.

*“As much as 70% of small business owners would like to pass on their business to the next generation but only about 15% are successful.<sup>1</sup>”*

### Questions to ask your clients about business succession:

- Do you currently have a formal succession plan in place?
- If yes, does it reflect your current goals regarding how you would ideally like to exit your business?
- What legacy do you hope to leave behind?
- Will your business continue to thrive when you are not around?
- How will you transition the ownership of your company when you're ready to retire?
- What would happen to the business or your family if something were to happen to you unexpectedly?

## Retirement Planning

One of the main challenges of business owners may be deciding how to balance continuous investing in the business and setting aside funds for personal retirement. Determining how much is needed can be challenging. According to Forbes, some experts say you should have at least 10 times your final salary at age 67 set aside.<sup>2</sup>

### Question to ask your clients about retirement planning:

- Are you prepared to enjoy a comfortable retirement?
- Do you have adequate retirement assets other than the business so that you're not so reliant on the business as your sole source of retirement income?

## Estate Planning

Estate planning can be one thing that keeps getting pushed off, especially when other priorities seem to be more critical. Some may think estate planning is just for the ultra-rich. However, it can be vital to any business, employees, family, and loved ones who need to be taken care of.

1 Source: Benjamin Gran. "All You Need to Know About Small Business Succession Planning." PNC Insights. May 2021. <https://www.pnc.com/insights/small-business/business-planning/all-you-need-to-know-about-small-business-succession-planning.html>

2 Source: Teresa Ghilarducci. "How Much Do You Need to Retire?" Forbes. January 2021. <https://www.forbes.com/sites/teresaghilarducci/2021/01/10/how-much-do-you-need-to-retire/?sh=55934f38716d>

If your client's estate is subject to estate taxes, there could be a substantial bill waiting for their heirs. For 2022, their estate will be subject to tax if it surpasses \$12.06 million in the case of a single person, or \$24.12 million in the case of a married couple. They could owe anywhere from 18% to 40%, depending on the size of their estate.<sup>3</sup> Many people purchase life insurance to help pay the potential cost of the estate tax. The policy can provide liquidity to pay the tax so heirs don't have to pay it out of pocket.

#### Questions to ask your clients about estate planning:

- Is your estate large enough that you may be subject to federal or state estate taxes upon your death? If yes, do you have adequate liquidity so that estate taxes do not adversely impact your ability to pass on your business to your heirs?
- Do you have non-business heirs that you want to ensure are treated fairly as part of your estate plan? If yes, do you have adequate non-business assets to accomplish your goal of treating them fairly?
- Is your business the primary source of financial support for your family? If yes, if something unexpected were to happen to you, do you feel confident that your family will be provided for?



#### Summary

Your business-owning clients may face many challenges and decisions; however, planning the future of their business is a critical step. You can help them have peace of mind knowing that their business, employees, family, and loved ones will be taken care of if something unexpected happens. They can also have peace of mind knowing that they can enjoy the life and retirement that they want while providing a legacy as well.

The first step to turning their concerns into a plan for success is help them take a self-assessment and determine their top priorities.

*This article "Identifying Business Concerns" is Part One of a three-part series—Turning Challenges into a Plan for Success. Part Two of this series will go further into identifying and implementing specific strategies for your business-owning client's particular situation, and Part Three will focus on overcoming these challenges.*

3 Source: Jim Probasco. "Estate Tax Exemption, 2022." Investopedia. February 23, 2022. <https://www.investopedia.com/estate-tax-exemption-2021-definition-5114715>

The primary purpose of life insurance is to protect the policy beneficiaries from the adverse financial consequences of the insured's death.

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