Planning For The Future:
A Guide for Small Business Owners

Transamerica

Transamerica Life Insurance Company
Transamerica Financial Life Insurance Company

You've worked hard to build your business—putting in countless hours during the week, sacrificing weekends and postponing vacations. Have you thought about what would happen to your business when you finally decide to retire—or if you should become disabled or die?

Planning for your Business' Future

Like estate or retirement planning, business succession planning is something that most people —no matter how financially or professionally savvy they are— would rather put off indefinitely.

When business owners do not make any contingency plans to transfer the business in the event of retirement, disability, death or other circumstance resulting in a separation from the business, negative consequences can arise for the owner, his or her loved ones, the remaining owners, employees and the business itself.

The death or disability of a principal owner of a closely held business can create serious financial problems for the estate, the business, and the survivors of the deceased. In fact, studies show that less than 1/3 of small businesses survive the second generation and less than 5% make it to the third.[1]

If you're a certified professional, such as an engineer or accountant, then the pool of potential candidates is even smaller because your successor would also need the correct credentials and certification to take over the business. Thus, even if you wanted to create a business succession plan, you may have to go through the process of locating a third-party buyer.

This is where a buy-sell agreement becomes a useful alternative. Having a buy-sell agreement in place can help business owners mitigate conflict and speed up the transition by creating a road map for the future. A buy-sell agreement is a legally binding contract that can be used with all types of businesses. Life insurance would be purchased to fund the agreement at the owner's death or retirement.

What is at stake?

Without a succession plan in place, a business could suffer the following events at the owner's death or disability:

- Downturn in revenue, resulting in inability to make payroll or other liabilities
- Loss of clients due to a lack of trust or image of instability
- Reduction or complete loss of income stream for your spouse and family
- Poor operational decisions from uninformed or unqualified employees or family members
- Conflicts and disagreements amongst family members and employees
- Employees defecting to competitors
- Liquidation for certain businesses such as sole proprietorships or professional companies

[1]Business Week March 2, 2010; businessweek.com

Funding a Buy-Sell Agreement

Having a buy-sell agreement in place is crucial for business owners who want to ensure a troublefree transfer, as well as the continuing vitality of their businesses. There are three primary ways to fund a buy-sell agreement:

Pay Cash

This requires large sums of liquid assets that may not be readily available, particularly when an unforeseen event occurs. The client may have to liquidate their valuable personal or business assets at below-market value to quickly raise enough cash.

Borrow the Money

The loss of an owner or key person may significantly impact the credit rating of the business and its ability to borrow. Additionally, the business owners must pay principal plus interest. This could be a tremendous strain on the business budget.

Purchase a Life Insurance Policy

With a life insurance policy, money is available from the policy cash values or death benefits for the purchase of the business interest. This liquidity is available at the time it is needed without the need to raise funds by either selling the business or borrowing funds. Policy cash values grow tax deferred and death benefits are federal income tax–free.*

*For a C corporation, the annual increase in cash value and the life insurance death benefits may be subject to the corporate alternative minimum tax.

What are the Benefits?

Retirement, disability and death are facts of life. However business owners who take the time to develop a blueprint for what should happen to their business if—or when—something happens, will gain more than just peace of mind.

- Allows the business to continue without losing revenue, assets or clients after the owner is gone.
- Determine who will continue to run the business so that it can remain closely held if desired, or prevent the termination of business status, such as a subchapter S corporation or sole proprietorship.
- Reduce the chance of complications during transition that could threaten the future of the business, or the value or income to the surviving co-owners and the owner's heirs.
- Reduce difficulties in purchasing the owner's interest in the business.
- Provide the estate with liquidity to pay taxes and allow for pre-funding, often with life insurance.
- Decrease the chances of conflict as to valuation of a departing or decedent owner's interest in the business.

Conclusion

After many years of effort and hard work of building your business it is only natural to want it to survive and continue into even after you are gone.

Successfully transitioning a business can be a challenge. Creating a business continuation plan can help you ask the right questions, clarify your goals, and identify a source for funding your succession plans.

Strength and Stability from an Industry Leader

Transamerica Life Insurance Company and Transamerica Financial Life Insurance Company (collectively "Transamerica") have the strength and experience to help business owners such as yourself as you look ahead to the future. Transamerica was built on a simple, but powerful, promise: to provide quality financial products at competitive prices. Transamerica has been helping families and businesses to secure their financial futures for more than a century, and this tradition of excellence continues today.

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