

Attracting Small-Business Owners to Your Practice

PART OF THE LIFE LESSONS SERIES



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Attracting Small-Business Owners to Your Practice

Gaining a better understanding of the small business market will help you identify owners who fit the profile for life insurance, and ultimately allow you to engage owners with your practice.

You can attract these owners by understanding the opportunity and the needs of a small business. Learn how to approach small business owners through leading conversation starters, which will help you tailor the solutions you can offer based on their specific needs.

Chapter 1 The Opportunity

Chapter 2 Reaching Out to Businesses

Chapter 3 Identifying Needs

Chapter 4 Offering a Solution

Chapter 5 Questions Regarding Key Topics



The Opportunity

This is an untapped market. Choosing to serve this market could give you a competitive edge and distinguish yourself from other financial professionals.

Many agents are working with small business owners currently, but only on a personal basis, typically for two reasons:

1. Agents don't understand that there is an opportunity with small business.
2. Agents aren't comfortable talking to the small business, because they don't think they have the knowledge and/or background in this market.

Understanding the risks and needs of small business owners will help you overcome the challenges mentioned above.

These four steps can help you approach small business owners:

- Reaching out to businesses
- Fact-finding
- Identifying needs
- Offering a solution



What is the definition of a small business?



A small business can be defined as any employer that has 500 or fewer employees.

This encompasses over 99% of the firms in the U.S. and accounts for about 28.8 million businesses. Of the almost 29 million businesses, small businesses employ 48% for the working population¹.

Bottom line - [this market is huge](#).

The types of business entities include:

- Sole proprietorship
- Partnership
- S corporation
- C corporation
- Limited liability company (LLC)

The type of business entity can impact the solution that is utilized, but in general, life insurance can be a valuable business strategy for all different business types. In addition to the type of business, it's important to understand where each business is in its lifecycle. In other words, is it a *start-up* business, is the business in its *growth* phase or is it a *mature* business? Knowing this will help you understand what the business may be needing.

¹ Source: United States Small Business Profile - 2016. SBA Office of Advocacy.

Why do small businesses need your help?



An estimated **10 million** small business owners plan to sell or close their business over the next 10 years to help supplement their retirement. They will use these dollars to fund 60% to 100% of their retirement. Yet, less than 30% have a written succession plan.² This is a great opportunity for agents when working with small business owners.

2 Source: FPA/CNBC Business Owner Succession Planning Survey – April 13, 2015

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Reaching Out to Businesses

Before you can offer the right solutions, you need to find the right clients.

Start by looking at your existing client base. You may be working with an existing business owner on a personal level and you simply need to ask about their business.

Identifying the right people is key. Take the below steps to reveal potential opportunities:

1. Contact current clients who you think may be affiliated with or be an owner of a small business. You can utilize client mailers to reach these clients as well as follow-up phone calls.
2. Join networking groups such as your local chamber of commerce, alumni associations, church/religious groups, and business organizations (such as the Lions Club or Rotary International).
3. Partner with other financial professionals such as attorneys, accountants, CPAs and bank trust officers with whom it may make sense to establish a mutually beneficial relationship. Set aside a few hours a week to drop in on these professionals to see how you can partner together to provide a larger range of solutions to clients.



Many small business owners may not realize the pivotal role that life insurance can play in their business continuation strategy. A fact-finding conversation can help uncover those wants and needs. Additionally, hosting a lunch-and-learn program for business owners may be beneficial in showcasing the value life insurance can bring to a business.

Introductory Fact-Finding Questions

Once you meet with a small business owner, it's very important to conduct a fact-finder. In addition to gathering general information regarding the business, you can set the stage early and help them uncover the plans the owner has for the business. The best way to do this is to ask questions. Here's a sample of some initial questions that could be addressed:

- How is your business doing?
- What is the size of your business? How many employees?
- How many owners?
- What type of benefits do you offer?
- How do you attract, reward and retain key employees?

Many of our carrier partners have nice fact finders that are tailored for the business owner. You can find them on carrier websites or contact us for more information.



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Identifying Needs

During the fact-finding process, you'll discover your clients' goals, needs, and concerns. Highlighted are some of the key areas where you can provide support:

- Preservation strategies are important considerations during the early phases of establishing a company. Such strategies are used to assist family members and current business owners plan against catastrophic events.
- General employee benefits are for the rank-and-file employees and are potentially needed in the early stages of a business. Benefits may include group term, qualified retirement plan, health and disability protection.
- Executive benefits help retain critical talent and are not as essential in the early stages of a business. Only highly compensated employees and/or management may receive executive benefits.
- Exit and transition planning allows the current business owners to establish a strategy to eventually exit the business and capture its value. It is typically considered at the mature stage of the business.



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Identifying Needs

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Succession Planning

One of the most important discussions to have with business owners is succession planning. Few family businesses ever make it beyond a second generation, often due to lack of planning. Before finding a solution that meets the needs of your client, there are a number of financial and psychological factors that have to be taken into account. These include decisions regarding:

- Which family members should be involved?
- How do you compensate non-active family members?
- What purchase or sale rights will arise upon the occurrence of a triggering event?
- How will the purchase price be determined?
- How will the purchase price be paid?



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Identifying Needs

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Offering a Solution

There are many solutions that can be utilized. The following three are probably the most common: **Buy/Sell, Key Person, and Executive Bonus**. We will take a high level look at each of these three concepts and how you can help your client's business by utilizing these concepts. In addition to the three, there are other concepts such as:

- Non-qualified deferred compensation
- Split dollars plans
- Executive bonus plans (Section 162 bonus)

There are a number of resources available to help educate you on these concepts so you are positioned to help your business clients. **Contact us for more information.**

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Provide Solution for “Buy/Sell”

A Buy/Sell Agreement establishes a transition of the ownership interest of one owner to the remaining owners or a new owner.

It is important to note that this is a legally binding agreement and needs to be established through an attorney. The price is predetermined or a valuation formula is utilized and is triggered by a qualifying event. An attorney should be involved to help value the business and set up the buy/sell agreement. Life insurance is purchased on each owner to offset the cost of the buy-out.

This gives business owners a way to keep their business in capable hands should they no longer be able or want to manage it. It also:

- Provides money to create a fair market value exchange and promotes equitable and orderly transfer of ownership and management because the price has been predetermined, or a valuation formula is utilized. Most importantly, this has been agreed upon.
- Defines what qualifying event(s) trigger the buy/sell. It could be a disability as well as death.
- Guarantees heir(s) a buyer for the business and provides them with cash to pay estate debt, expenses and taxes as well as provide income for the future.
- Minimizes and in some cases eliminates estate tax problems. If the decedent is contractually bound by the buy-sell agreement to sell their interest at a certain price, that price should constitute the estate value of the interest.

The result of a formal, written buy-sell agreement will satisfy concerns of all the parties involved.

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Starting the “Buy/Sell” Conversation

Engaging your client in a conversation regarding their succession plan may direct you to the need for a Buy/Sell plan.

Conversation Starters:

- If your business partner dies, who receives the company stock?
- What is your plan for the business when you die or retire?
- Would you have the cash to buy out your partner’s heir(s) if something happened to them?
- Are you okay with who will step in to take your place, and will there be enough cash for this to happen?
- Are you okay with a partner’s heir(s) becoming your new partner?



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Different Types of “Buy/Sell” Agreements

Buy/Sell Cross Purchase

A cross-purchase is a plan in which a business owner buys a life insurance policy covering the life of every other owner. Each person owns the policies he or she buys and is the beneficiary of those policies. The death proceeds are utilized to buy out the decedent’s share of the business.

One of the downsides to a cross-purchase arrangement is that it may become cumbersome if there are several owners. In this situation you may want to consider an entity purchase.

How it works:

Owners A and B are equal owners of a company worth \$1 million. They each take out a \$500,000 life insurance policy on each other.

- A owns life insurance policy on B
- B owns life insurance policy on A

If owner B dies:

- Owner A uses the death benefit to buy out B’s interest in the company.
- Owner A now owns 100% of the company.



Owner A owns policy on B:
\$500,000



Owner B owns policy on A:
\$500,000

Hypothetical Example

Buy/Sell Entity Purchase

With an entity purchase agreement, the company purchases and owns a policy on each of the company’s stockholders. The business will pay the premium and is the beneficiary. This type of buy/sell will obligate the company to buy the shareholder’s predetermined business interest from the deceased’s heirs and transfer that interest back to the company.

The Buy/Sell Entity Purchase may be a preferred approach if there is a wide age disparity among the owners, where the younger owners bear a greater premium burden compared to the older owners.

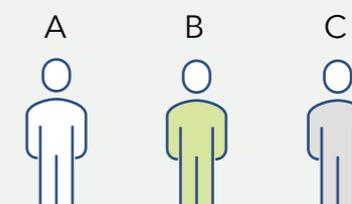
How it works:

Owners A, B and C are equal owners of ABC Corp. - currently worth \$1.5 million.

ABC Corp. purchases a \$500,000 life insurance policy on each owner.

If owner C dies:

- ABC Corp. collects the death benefit and buys the owner out by a liquidation payment to their estate.



\$500,000 Policy on Each Owner



ABC Corp

Hypothetical Example

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Provide Solution for “Key Person”

Key person coverage is one of the most important business uses of life insurance because it provides cash to help business owners survive the expenses and losses caused by the death of a key employee.

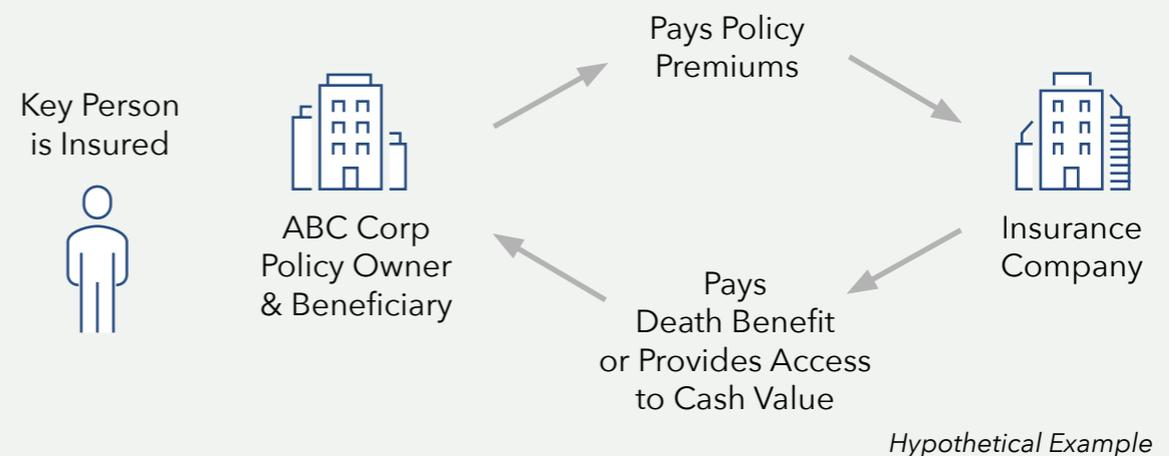
A “key person” can be any employee who is critical to the success and profitability of a business. This could be due to a person’s management skills or could be a top salesperson. Key person insurance covers one or more of these key employees, with the primary goal of protecting the value and ongoing operations of the business and any associated expenses of hiring and training a replacement.

71% of firms claimed they were very dependent on one or two key employees yet only 22% had key person life insurance.³

The business applies for and is the owner and beneficiary of a life insurance policy covering the key employee. Premiums will be paid by the business. These premiums are NOT deductible, however the death benefit proceeds are generally income tax free to the business.

Again, the goal of key person insurance is to protect the company.

How it works:



³ Source: Insurance Information Institute, “Life insurance for key employees” December 12, 2016

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Starting the “Key Person” Conversation

Here are a few questions you can use to engage your client regarding the utilization of a key person plan.

Conversation Starters:

- Do you have any key employees?
- Who do you turn the keys over to when you go on vacation?
- What have you done to protect against lost revenues if you were to lose a key employee?
- Would you need funds to keep the business afloat while you replaced the key employee?



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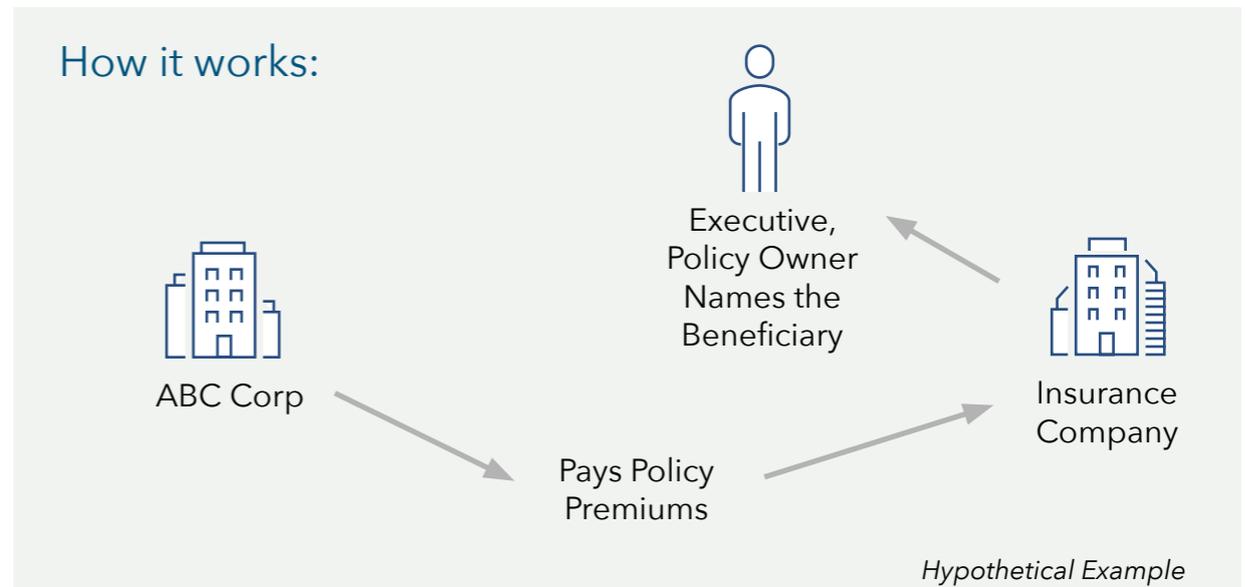
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Provide Solution for “Executive Bonus”

With an executive bonus plan, the company is looking to reward and retain a valuable employee.

Life insurance is purchased on a valuable employee for death benefit protection and supplemental retirement income. The business pays the premium in the form of a bonus, which can be a way to reward and retain a valuable employee. The key executive names the beneficiary.

As owner and insured, the executive will have full control of the life insurance policy and access to the cash value for retirement. At the death of the valuable employee, their beneficiaries would receive a tax-free death benefit.



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Starting the “Executive Bonus” Conversation

A plan for executive bonus may be a solution if the small business has concerns about retaining employees.

Conversation Starters:

- Have any of your employees recently left?
- Are you ever concerned about any of your employees leaving and going to work for one of your competitors?
- Are you providing enough benefits to keep your employees happy?
- Have your employees ever indicated dissatisfaction with their compensation package?



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Questions Regarding Key Topics

There is no one-size-fits-all approach to working with small businesses, and other important topics may arise during your conversations with small business owners. Here are a few examples of ways to guide those conversations.

Family business succession challenges

- If one of your children will take over the business, do you have other children who are not involved?
- Are you planning to give all children a share of the business?
- How will your children, who have worked hard to operate the business, feel if their sibling suddenly also becomes an owner?
- Do you have liquidity to give the non-active children a share of your estate?

Liquidity for estate taxes

- What do you believe is your net worth?
- Does your net worth expose your estate to taxation?
- If you died today and an estate tax is due, how will your estate pay the tax?
- Will your estate need to sell the business or take an expensive loan?
- Even if your current estate is under the exemption, could it grow to a point where it will be taxable?

Retirement

- Are you saving a sufficient amount for your retirement?
- Does your company offer a retirement plan?
- If so, are you able to put away enough money for your retirement in your company plan?
- If not, how are you saving for retirement?
- Are you looking to utilize company assets/stock to help fund your retirement?

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Chapter 5

Key Topic Questions



Summary

Serving this virtually untapped market can give you a competitive edge and set you apart from other financial professionals.

But doing so requires both an understanding of the needs of the small business, as well as the multiple solutions available to meet those needs. After reviewing this material and included conversation starters, we hope you have gained the knowledge and confidence to engage business owners with your practice.

For more information on how to identify owners who fit the profile for life insurance or what solutions you can offer, please contact us.



For more information, call
American Benefits Exchange at **512.430.5511**.



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