

# Executive Benefit Planning Issues

Have you considered the impact on your business if a key employee were to terminate employment? Are you taking advantage of business dollars to help satisfy your personal financial security needs?

Prepared for:

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*Life Insurance, Annuities and  
Long-Term Care*

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## Impact of Key Employees

**"Take away my factories, my plants; take away my railroads, my ships, my transportation; take away my money; strip me of all of these, but leave me my men and in two or three years, I will have them all again."**

**-- Andrew Carnegie**

For a business to continue to grow, owners must be able to delegate some responsibility for the success of the business to others.

### **BUT...**

**With business success becoming somewhat dependent on the skill and experience of key employees, have you ever considered the impact on your business if a key employee were to terminate employment?**

**"The business that insures its buildings and machinery and automobiles from every possible hazard can hardly be expected to exercise less care in protecting itself against the loss of two of its most vital assets -- managerial skill and experience."**

***U.S. Court of Appeals, Third Circuit  
The Emeloid Company, Inc. v. Commissioner  
189 Fed. 2nd. 230, 1951***

## Ask Yourself

- Do you have key employees who make a substantial contribution to the success of your business?
- Do you know what the financial impact on your business would be if a key employee terminated employment?
- Have you ever lost a key employee to a competitor?
- Have you ever had a key employee become a competitor?
- Do you offer any benefits on a selective basis to your key employees? Do your competitors?
- Are you taking advantage of business dollars to satisfy your personal financial security needs?

## The Facts Are...

- Key employees are frequently the glue that hold a business together.
- When a key employee terminates employment, it can result in a reduction in profits, increased competition, replacement costs and a loss of confidence among customers and creditors.
- Business owners cannot rely on others to assist in achieving their personal financial

The objective of **executive benefit planning** is to assist you in identifying key employees who should be rewarded with selective executive benefits in order to retain their services, and to help you determine how you, as a business owner, might make the most effective use of business dollars to provide for your personal financial security needs.

## Reward and Retain Key Employees

### *Objective: Reward and Retain Key Employees*

Your most valuable business assets are not your buildings and equipment, but the key employees who make a significant contribution to the success of your business.

Without executive benefit planning, however, it may not be possible to adequately reward your key employees on a selective basis in order to retain their services.

### **When a key employee terminates employment, it can result in:**

- a reduction in profits.
- increased competition.
- the costs of recruiting, hiring and training a replacement.
- a loss of confidence among customers, creditors and other employees.

**When your objective is to selectively reward key employees in order to retain their services, these are some of the issues you should consider:**

- Which of your employees make a substantial contribution to the success of your business?
- What is the value of these key employees to your business?
- What would be the cost to your business of replacing one of these key employees?
- What would the impact on your business be if a key employee started a competing business or went to work for a competitor?
- What types of benefits do your competitors offer to their key people?
- What do you feel are the highest priority financial security needs of your key people?
- Is your current benefit plan meeting the expectations of your key employees?

## Satisfy Personal Financial Security Needs

**Objective: Use Business Dollars to Satisfy Personal Financial Security Needs**

If you are like most business owners, you devote much of your time and energy to building and maintaining a profitable business...a business that produces the stream of income upon which your lifestyle and that of your family depends.

As an independent business owner, however, you cannot depend on others to assist you in achieving your personal financial security goals.

**Because you devote so much time to managing your business, you may not have considered how your business can be used to satisfy your personal financial security needs, needs such as:**

- protecting your income in the event of your death or disability.
- providing funds to pay the mortgage on the family home in the event of your death.
- meeting education and investment goals.
- planning for an adequate retirement income.
- providing sufficient estate liquidity.

**When your objective is to use business dollars to satisfy personal financial security needs, these are some of the issues you should consider:**

- If you had died or become disabled yesterday, would there be an adequate income to maintain your family's lifestyle?
- If something were to happen to you, would your family be able to stay in the family home?
- What concerns you most about providing for your children's education? Have you started a college savings plan?
- Do you have a savings and investment plan? Are you satisfied with its performance?
- Do you plan to retire in the future? Do you have a retirement plan?
- Will your estate have sufficient liquidity to pay estate taxes and other estate settlement costs?
- Do you know how much of the value of your estate is represented by your business?
- Do you have personal life or disability income insurance premiums that legally can be paid by your business?
- Do you feel that you are currently taking full advantage of your business to meet your personal financial security goals?

## Important Information

The information, general principles and conclusions presented in this report are subject to local, state and federal laws and regulations, court cases and any revisions of same. While every care has been taken in the preparation of this report, VSA, L.P. is not engaged in providing legal, accounting, financial or other professional services. This report should not be used as a substitute for the professional advice of an attorney, accountant, or other qualified professional.

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