



Menu of Services

Prepared for:

Provided by:

Our Menu of Services

Group Medical Insurance, Group Life Insurance

Buy-Sell Funding

Key Person Indemnification

Split Dollar Insurance

Disability Income—Individually Owned

Disability Buyout

Tax-Deductible Retirement Planning

Personal Estate Planning with Corporate Dollars

Salary Continuation

Business Debt Liquidation

Personal Life Insurance

Business Mortgage Insurance

IRC Section 162 Executive Bonus

Group Long-Term Care

Business Overhead Expense Insurance

Non-Qualified Deferred Compensation

Executive Carve Out

Line of Questioning for Fact and Feeling Finding

The following is a line of questioning to use with each of the fifteen items on the Menu of Services. The important thing is not so much to memorize each question, but rather to gain a feel for the thrust of the line of questioning for each item. Through questioning you are trying to expose problem areas to the business owner and to lead to the conclusion that planning is necessary to reach objectives. Don't forget to check out the VS A's client presentations and concept pages for use in helping to further explain any of the plans in which the owner expresses interest.

1. Group Medical Coverage, Group Life Insurance

"Do you already have group medical coverage/group life insurance here at work?"

(Wait for response. If the answer is no, ask the owner if he/she has been thinking about it, and ask if you can shop around for some coverage for the business. Then complete a census form for this purpose.)

(If the answer is yes [that he/she has group medical coverage/group life insurance], find out if the owner is interested in having you shop around for different coverage when it next comes up for renewal. And ask if it will be worthwhile for you to do this. That is, do you stand a chance of getting the new business or is the owner wedded to the current agent or company? Here are words to use after the owner says, "Yes, I have group medical coverage/group life insurance"):

"I find that most competitive businesses do have some kind of group medical coverage/group life insurance. Let me ask this:

1. "Have you included dental and vision care insurance in your plan? (If not, are these of interest?)"
2. "What about group life and group disability coverage?"
3. "How satisfied are you with your group coverage?"
4. "When was the last time you changed your coverage? Why did that come about?"
5. "Do you shop around for new coverage at renewal time?"
6. "Would it be worthwhile for me to shop around for you at renewal time? Then you're not necessarily locked into your current agent or company? When is your renewal date for the group insurance?"

2. Buy-Sell Funding

"Buy-sell funding. As you may know, Business Owner, this has to do with written transfer-of-ownership agreements.

"Do you have any formalized plans for transferring your ownership of this business at death?"

(If no:) "Have you ever thought about making such plans?" (After he/she answers:)

"Has your attorney ever talked with you about the consequences when no plans are made in advance?" (Wait for response). "This is extremely important, Business Owner. Can we pursue this a bit further right now?"

(If yes, and if the owners already have an agreement, however outdated, do this: Find out how current the buy-sell agreement is, whether it's funded, how it's funded, how much it's funded for, who are the parties, how many owners there are, whether the agreement includes all owners, if it's funded with life insurance, when the policy amounts were last increased, whether the value in the agreement matches the current value of the business, whether the owner would like to review the existing buy-sell agreement.)

(If the owner has no existing buy-sell agreement but is willing to talk now, ask as follows):

"What do you want to happen to your business when you die?"

"What do you want to happen to the business when a co-owner/partner dies?"

"Do you think your co-owners/partners want the same sorts of things to happen?"

"Have you looked at what practical, legal and financial roadblocks might prevent this from happening when one of you dies?"

"Are you equal owners/partners? (If not, percentages?)"

"What are your ages?"

"What's the market value of your business if you sold it today?"

"Can I get together with you and the other owners early next week?"

3. Key Person Indemnification

"Key person indemnification. Do you have insurance on any of the key profit makers...to make up for lost profits and added costs you'll have if one dies? Or if one becomes disabled?"

(If no:) "Have you ever thought about doing this? (Wait for reply.) Have you ever looked into it?" (Wait for reply.)

"Has your CPA ever talked with you about the consequences of your death – or another key person's death – on the financial viability of the business? Or the consequences of a disability?"

"This is extremely important. Most business owners insure virtually every asset on their balance sheet but tend to forget about insuring the human money makers, the key people responsible for the bottom line on the income statement. I can't urge you too strongly to take the first step in exploring this as soon as possible. Can we do that?"

(If yes to the initial question of "Do you have key person insurance?" then ask: "Who is covered? For how much? What other key people are there? What about the other owners? When was the coverage provided? When was it last reviewed? When was it last increased? Is any of the coverage primarily debt coverage? Has your debt level risen since then? By how much? Has the level of insurance been increased too? Are there other key people you should consider insuring?")

4. Split Dollar

"Do you provide split dollar insurance on any of the owners or other key people? Would you like to have more information about it?"

If he or she wants more information right now, you can say, "Split dollar insurance is a time-tested fringe benefit that enables key employees and owners to obtain life insurance at a favorable cost or at no cost. You can be as selective as you want in who gets this perk. A corporation's outlay for this is eventually recouped from either the policy's cash values or its death benefits."

5. Disability Income—Individually Owned

"Do you have any group disability income insurance provided by the business?"

(If no, make a note to pursue this later.)

(If yes, ask: "How long does it pay? Does it discriminate against the highly-paid employees?") (The owner may not know what you're talking about. The fact is, all tax-qualified group plans discriminate against the highly-paid employees in that the law limits benefits for the highly-paid employees to no more than two times the benefits of the lowest-paid group, even if the top salaries are substantially greater than two times the lowest group's salaries. In other words, by law, highly-paid employees receive proportionately less in benefits [compared to salary] than do lower-paid employees.)

"Would you like to see how the business can help you pay for offsetting that discrimination?"

(See number 13 below. It describes a life insurance bonus plan, but the identical rule applies to disability income policies wherein the premium is paid to the employee as a bonus by the business.)

(Individual insurance like this, superimposed on top of a group plan, is referred to as an "executive carve out"...as in carving a couple of pieces of wood to fit together, and as in carving out a piece of something for your own benefit.)

(If the answer to the earlier group insurance question were no instead of yes, ask:)

"If you had become seriously disabled last night, what would you expect your company to do insofar as income to you is concerned?"

(Most owners would expect to receive the same salary level, and to receive it for as long as the owner were disabled and as long as the company could afford it.

(What they don't know is that, by law, such payments of "salary" to a disabled person are not salary at all insofar as the IRS is concerned. Instead they are considered, for this particular employee, as ad hoc payments which are NOT tax deductible by the business.

(To be tax deductible, all that must be done is to establish a plan for such payments, prior to any disability. Not setting up such a plan in advance is foolish.

(Once set, the question is how to fund it. Disability insurance always wins that contest, hands down.

(Moving to an extension of the above theme, ask:)

"How long could your company continue to pay both your salary and your replacement's salary?"

(Whatever the answer:)

"Have you considered that by insuring yourself with adequate disability income insurance you could thereby free up what would have been your salary and use it instead to pay your temporary replacement?"

6. Disability Buyout

"Disability buyout: This pertains to ownership of your business following an owner's extended disability. It's similar to number two on this list.

"What would you want to happen to this business if your business associate had become disabled last night?" (Or, if this is a one-owner business, "What would you want to happen to this business if you had become disabled last night?")

"Do you have a written agreement that spells out what will happen when one owner is stricken with a long-term disability that prevents him/her from working?"

(Wait for response.)

(If no:) "Have you ever talked with your attorney or CPA to see what kind of a legal and financial bind the business would be in if you or another owner is disabled and can't function?"

(Wait for response.)

"The chances of being disabled are very high compared with the chance of dying at any one age, so this is an area where the odds say we should at least find out what problems will face us.

"What kind of priority do you want to give this?"

(If yes, there is an agreement regarding disability:) Find out how current the buy-sell agreement is, whether it's funded, how it's funded, how much it's funded for, who are the parties, how many owners there are, whether the agreement includes all owners, when the policy amounts were last increased, whether the value in the agreement matches the current value of the business, whether the owner would like you to review the current buy-sell agreement.

7. Tax-Deductible Retirement Planning

"Do you have a business-sponsored tax-deductible retirement plan?"

(If yes:) "What kind of plan is it? Are you satisfied with the proportion of benefits going to you (and the other owners), compared with the portion benefiting your other employees?"

(If there is dissatisfaction or uncertainty, you will eventually want to pursue this area further to see if there is any way to skew the benefits more toward the highly-paid employees.)

"Does the plan have a pre-retirement death benefit?"

(If no, make a note to pursue this. Literally translated, a pre-retirement death benefit is a life insurance death benefit associated with the retirement plan.)

"Are you satisfied with the number of dollars going into the plan for you personally (compared with the proportions mentioned in an earlier question)?"

8. Personal Estate Planning with Corporate Dollars

"Has your attorney or accountant ever talked with you about using Section 303 of the Internal Revenue Code—a tax-free partial stock redemption used to pay probate costs and death taxes and certain other expenses?"

(If yes:) "Did you pursue it? Did you implement such a stock redemption plan? Do you have life insurance to provide the funds for the redemption?"

(If no:) "A Section 303 stock redemption is one of the very few ways an owner of a closely held corporation can get some money out of the corporation without its being taxed. Have you ever heard of it?" (Wait for response.)

"Can I bring you more information about Section 303 tax-free stock redemptions?"

9. Salary Continuation

"This refers to continuing your salary for a number of years when you retire, or paying it to your family if you die before retirement. It's paid in addition to normal retirement and insurance plans. It's also called deferred compensation.

"Do you have anything like it on yourself or on your key people?" (Wait for response.)

"This is one of the few ideas left that lets you pick and choose who will be covered and for how much. It doesn't have to cover everyone. It can cover just one or two people.

"Is this something you'd like to hear more about?"

10. Business Debt Liquidation

"Would I be correct to assume that you have ongoing business loans?"

(Assuming a yes answer is given:) "How constant is the amount?"

"Who signed the notes?"

"Who guaranteed the notes?"

(Usually the owners of small corporations have to personally guarantee repayment of loans by their corporation. This means that they are personally on the hook for the loan, and are responsible for the corporate debt if the corporation can't pay it.)

"Will your spouse be comfortable in paying off these notes?"

"Would you want to pass your business on free of that debt if you died?"

"Have you any insurance on your life that will cancel those debts when you die?"

"Can I show you some specific figures on what premium it would take to cancel that debt?"

"What's your age? How much does the debt average? How much of the business do you own?"

11. Personal Life Insurance

"When you die, what would you want your family's financial situation to be? Their standard of living?"

"If you had died last night, what would your family's financial situation be like?"

"How long has it been since you've analyzed it?"

"Shall we put that on our list of things to do soon?"

12. Business Mortgage Insurance

(If the owner was interested in pursuing item 10, there is no need to pursue this except this might be a debt bypassing the corporation. If so, this might be different from 10. Also, some business owners not interested in item 10 may nonetheless be interested in Business Mortgage Insurance.)

"This is like number 10, but what it covers is an amount equal to the mortgages on the buildings.

"Do you have mortgages on any buildings?"

"Can I work up some mortgage insurance figures for you...this is the kind where if you die we pay your surviving heirs (or surviving owners) enough to pay it off."

13. IRC Section 162 Executive Bonus

"Business Owner, this is another way of using business dollars to help buy your personal life insurance.

"Do you have any Section 162 Executive Bonus plans in effect?"

(If no:) "Do you know how it works?"

- Company pays for your insurance and deducts it as salary.
- You treat it as income for tax purposes.
- You own the policy personally. All the policy values and rights belong to you.

"I'll work up some dollar illustrations for you, if you'd like?"

14. Group Long-Term Care Insurance

"This is insurance that pays some of the heavy expenses of things like nursing home care. Do you have any of this coverage? Do you know how it works?"

15. Business Overhead Expense Insurance

"For some reason, this is one of the insurance world's best kept secrets. It covers some of the overhead expenses of the business when you're disabled. The premiums are usually tax deductible for federal income tax purposes.

"Would you like to see how it works?"

16. Non-Qualified Deferred Compensation

"This is a way to use business dollars to help provide for your retirement. As a non-qualified plan, you can pick and choose which employees to whom you offer deferred compensation benefits. For this reason, many businesses use a non-qualified deferred compensation plan to reward and retain key executives. Would you like more information on how it works?"

17. Executive Carve Out

"Income tax must be paid on the economic value of employer-provided group life insurance benefits in excess of \$50,000. For this reason, some businesses prefer to limit the group life insurance benefits paid to company executives to \$50,000, providing amounts in excess of \$50,000 of coverage through another arrangement that enhances the benefits provided to valued executives. Would you like me to provide you with additional information on how an executive carve out works?"

NOTES:

This fact finder serves to help identify your financial needs and priorities and may be used in developing proposed solutions consistent with your needs and objectives. In completing this fact finder, you are entrusting our organization with certain personal and confidential financial data. We recognize that our relationship with you is based on trust and we hold ourselves to the highest standards in the safekeeping and use of your confidential information.

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