Protecting Your Most Valuable Asset
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Team Planning Approach

• **BUSINESS PLANNING TEAM**

• **Include other financial professionals**
  – Multi-disciplined approach
  – Fewer surprises
  – More thorough planning
  – All on same team

• **Team members?**
Planning for the Business Owner
Stages of Business Value

Preserve
- Estate or Legacy

Unlock
- Succession or Sale
- Retirement Income

Grow
- Income Taxes
- Diversification
- Delegation

Protect
- Business
- Family
- Partners
Why Start with Protection?

• **Growth is a process** that
  – happens slowly and
  – builds over time

• **Loss is an event** that
  – can happen anytime and
  – instantly make a valuable asset worthless.

All Businesses risk loss just by being in business.
It’s All About Risk

Successful businesses identify their key business assets, assess the risks, and proactively decide how to handle them.

- Avoid it
- Reduce it
- Retain it
- Transfer it

Insurance is typically the most practical and affordable way to manage many risks to key business assets.
It’s All About Risk

What are the most common key business assets?

• Buildings
• Equipment
• Vehicles
• People
Which Business Assets are Typically Insured?

<table>
<thead>
<tr>
<th>Asset</th>
<th>Insured?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buildings and property?</td>
<td>Yes</td>
</tr>
<tr>
<td>Machinery?</td>
<td>Yes</td>
</tr>
<tr>
<td>Vehicles?</td>
<td>Yes</td>
</tr>
<tr>
<td>People?</td>
<td>No</td>
</tr>
</tbody>
</table>

Why Are People Not Insured?
Why are Key People Not Insured?

- Bank doesn’t require coverage
- Don’t want to think about death
- Doesn’t seem as likely to actually happen
- More difficult to quantify the value
- Mistaken assessment in value

Which is more valuable: Your People or Your Assets?
What’s the Bottom Line for A Successful Business?

The loss of a key person could mean the difference between the success or failure of the business!
The need for life insurance in any business may never be greater

Life insurance owned by your business can provide cash at the death of an owner or key employee

Why is this so important?
Many threats to a successful business increase in times of uncertainty or instability

What event creates more uncertainty or instability than the death of an owner or key employee?

• Will sales stay constant or decrease?
• Will efficiencies remain or will business expenses increase?
• Will business credit lines stay intact?
• Will business loans be called?
• Will employees leave?
• Will business relationships be severed?
Potential Key Employee Issues

• **Issues involved:**
  – Loss of confidence with customers & suppliers
  – Weaken credit rating
  – Co-employee morale
  – Expensive to hire and train replacement
Your business purchased term life insurance

The term life insurance policy your business owns can infuse cash into your business in the event of a death to meet a variety of business needs, including:

- Debt repayment
- Buy-Sell to facilitate the transfer of ownership (to family members or business partner)
- Cash for contingencies
- Key person to source, hire and train employees critical to the success of the business
Why Start Succession Planning Now?

- Protect family’s security
- Establish a successor
- Establish an estate tax value
- Ensure prompt transfer
- Minimize conflicts
- Prepare business for sale
When might my business terminate insurance coverage?

**Perfect World**

- When debt is retired
- You’ve left the business by selling or retiring
- Your key people are cross-trained and you have strong “backup”
- You’ve accumulated enough cash to cover the “issues”
When might my business terminate insurance coverage?

**Real World**

- Debt may continue or increase
- You may be unable to exit the business when desired
- You may lose a key person or are unable to cross-train
- All businesses are subject to unforeseen economic, commercial and financial cycles
Where would your business get cash?

**Banks or other sources?**
- Line of credit?
- Draw against receivables?
- Borrow from family?

**Sell assets?**

**Slow down payables to create cash?**

**Draw upon personal resources?**
How does permanent insurance add value to my business?

Permanent insurance can build cash value which can be used for many purposes

- Funding a supplemental benefit plan to “handcuff” key employees to your business
- Serving as a line of credit for business growth
- Providing cash for any other business expenses, including unforeseen ones
- Serving to supplement your retirement cash flow when you exit the business
How does permanent insurance add value to my business?

**Funding a Buy-Sell agreement**
- Maintain the death benefit as long as you remain an owner so that your family receives cash value for your interest in the business upon death

**Retirement**
- If you exit the business (e.g., retire) the policy can be transferred to the insured as a personally owned policy to provide life insurance coverage for personal or estate needs*

* May trigger recognition of gain in the policy depending on form of entity
What’s the Bottom Line for A Successful Business?

A strong foundation is built on protection.

Protection not only for the business, but the business owner, his family, and his partners.