

Special Report:

How to futureproof
your business with
Partnership/Shareholder
Protection

*If your business partner died last week,
who would you be in business with today?
Their spouse? their children? a lawyer?
an accountant?... a total stranger*

Compiled by

Lindsay Armishaw

Risk management & lifestyle protection advisor

www.futureprooflife.com

How to make sure your business doesn't fail if a business *partner* dies or becomes seriously disabled

Running a business is demanding enough when you're alive and healthy, and too often we like to think we're bullet proof.

But accidents do happen, and major illness such as cancer, stroke and heart attacks can have a devastating impact on your business, your cashflow and your lifestyle.

In today's competitive environment, survival usually depends on our ability to respond to change or crisis. Medical statistics, (and experience), tell us that the most dramatic impact on your business (and your lifestyle) is the loss of a *partner* through death or disability.

However, when we understand the benefits of *partnership/shareholder* protection, we can create a risk management plan specifically designed to hold our business together in a crisis.

The purpose of this report is to look at your business from a risk and resilience point of view, and to help you make an informed decision on the following:

If your co-owner or *business partner* died last week, who would you be in business with today? - their spouse? their children? a lawyer? an accountant? ...a total stranger?

If your business partner suddenly dies or becomes seriously disabled, what's really going to happen to your business?

Who will control your business?

If your business partner were to die, not only could your business suffer financially, but you could also be forced to work with someone new. That person (and it could be your deceased partner's spouse) may have no knowledge of your business and no interest in it.

However, because they now own a share of the business, they have just as much say as your fellow shareholder did before they died.

Ask yourself the following

- Could your business continue if one of your partners were to die or suffer a major illness?
- Could you work with your partner's spouse if they inherited a shareholding? Would they demand a say in the running of your business?
- If a trust is involved, would the trustees understand the business operations? Will the trustees demand dividends on the shares to provide an income to the deceased's family

- If one of your business partners were to become seriously ill, could you predict when it would be that they would return to work?
- Do you and your partner/fellow shareholder have the funds to buy out your partner (or their estate)?

If you answered 'no' to any of the above, you need to protect yourself and your business with *Partnership/Shareholder* protection.

What might happen if you or one of your partners suffers a major illness, such as cancer, stroke, heart attack, or an untimely death?

- They or their family might want to sell their share of the business. This could be to a competitor or some other unsuitable buyers.
- You could be forced to wind up or sell the business
- A family member may wish to become involved in the business, which could be disruptive and possibly unacceptable to other owners of the business.
- You may need to buy your partner out to keep a controlling interest.
- In the event of a traumatic illness, such as cancer, stroke, or heart attack, there could be uncertainty over the likelihood of the business owner's recovery.
- The remaining business owners may end up doing all the work, but splitting the profits with the non-working owner.

Imagine running your organization without your business *partner* (or key person) for even just six weeks... let alone six months or longer.

If you need to upgrade old equipment, purchase new equipment, add a staff member or give someone a raise, but your new partner needs money for a dying business, you have a problem.

Unfortunately, no matter how much hoping, wishing, or praying you do, no one can guarantee you that your business *partner* will be working with you for even just one more week.

Consider the statistics.

In New Zealand...

- ⇒ 2 out of 5 males over the age of 30 will suffer a major illness before they reach 65
- ⇒ 1 out of 4 females over the age of 30 will suffer a major illness before they reach 65

- ⇒ 40% of disabilities are due to disease or illness, 34% are due to accident or injury
- ⇒ 32% of males will be disabled for 6 months or more before age 65
- ⇒ 78% of stroke victims will still be alive 1 year later
- ⇒ 60% of cancer sufferers will be alive 5 years after diagnosis
- ⇒ 57% of heart attack patients will be alive 1 year later

In 2003, it was estimated that 1,880 businesses ceased operation partly due to an injury of the owner or a key staff member. **ACC May 2008**

Individually, these risks are substantial. Together, they may form an unacceptable threat to the continued profitability of your business. The irony is that while every business insures against the risk of losing assets, many neglect to insure the people who create the wealth.

If you (or your business partner) suffered a major illness, such as cancer, stroke, heart attack, or an untimely death - will your business survive?

Does your business have succession plan?

Maybe you have *life* insurance that'll provide some relief for your family to maintain their present lifestyle (on your death), or you have *income protection* that will provide cash flow if an accident or illness prevents you from earning an income.

However, at best, most people only have *life* cover (paid on death) but neglect to cover the events that are 3 -4 times more likely to impact their health before the age of 65 – suffering a major illness, such as cancer, stroke, heart attack etc. (*Trauma* cover)

If you had just been diagnosed with cancer, or suffered a heart attack, would you prefer a get well card – or a cheque for \$500,000?

Your risk management plan should include *Trauma* cover, and be structured in such a way, that, regardless of which unfortunate event impacts your life, you will have financial certainty, and a predictable outcome:

- ✓ cash will be injected into your business (**Key person** protection)
- ✓ cash will be available to your family (**Lifestyle** protection)
- ✓ cash will fund your succession plan (**Partnership/shareholder** protection)

The temporary or even permanent loss of a partner doesn't have to mean the end of your business.

You see, thanks to the benefits of *partnership/shareholder* protection, (and *key person* protection) even if you, or your *partner* can't work any more in your business because of death or disability, your business will still be able to survive (and even prosper).

This is because, even if all of the events I shared with you at the beginning of this report were to take place upon the death or disability of your partner, *partnership* protection (and *key person* protection) would provide you with the cash to keep your business going.

- ✓ Your *partnership/shareholder* protection provides capital for the pre-arranged change of ownership when a partner dies or is seriously disabled - making sure that control of the business remains in the hands of those running the business – and the family of the deceased are treated fairly.

When a business partner is seriously disabled, or dies, there is no tool like an *insurance funded buy/sell agreement* to provide a predictable outcome in the event of a crisis, and the smooth handover of control and ownership.

(NOTE: If you're the sole owner of a business, you won't need *partnership/shareholder* protection, but *key person* protection - owned by your business, and *lifestyle* protection - owned personally)

One of the main reasons many business owners haven't protected their businesses with *partnership* protection (or *key person* protection)... is they think disasters, such as death or disability, will never happen to them, their partners, or their key people.

How many times have you heard someone say...

“I never thought that would ever happen to us!”

Probably at least dozens of times, right? Perhaps you've even said it yourself many times.

Unfortunately, even though we may know entrepreneurs and professionals whose businesses had to be shut down after they (or their *partners*) died or became disabled... we still think these unfortunate events could only happen to somebody else. It's this kind of thinking that has prevented so many business owners from preparing themselves for the unexpected. You've probably heard of this statement...

If you fail to plan...then you're planning to fail!

It's fine to expect things to turn out well... as long as you've planned for the worst. This is because, in business, as in life, things *don't* always turn out the way you want them to ... *life* is unpredictable.

Like many other responsible people, you've probably bought life, home/contents, vehicle, health and other types of insurance to protect yourself, your family, and your valuable assets, such as buildings, stock, vehicles, equipment, and so on, haven't you?

Partnership/shareholder protection is about cash, control and financial certainty - when it is needed most.

Now, while losing your tangible business assets, most of which can be replaced, will probably disrupt your business operation somewhat, the sudden loss of a business *partner* (or *key person*) could be far more damaging and disruptive to the survival and success of your business.

So, if you've protected your tangible business assets with various types of insurance, then it would make economic sense to protect your most valuable resource – the people and relationships that are most important to your business.

Insurance should be used to provide funding for the plan, not be the plan.

Once you have the right kind of *partnership* protection, you'll gain security and peace of mind, knowing if a sudden unfortunate event should ever happen to you, your *partner*, (or your *key person*), then your business and your lifestyle won't have to suffer financial hardship.

You'll have the financial resources to keep your business going.

Partnership/Shareholder protection creates a win-win situation!

You may not have *partnership* protection, or you may be paying too much for your existing cover. Or, you may have a *key person* policy, and think it will work as *partnership* protection. Or, have several old policies in place, but no "*Buy/Sell Agreement*".

Either way, an independent, confidential, no-obligation review of your existing policies will remove uncertainty, and provide you with a jargon-free summary, and industry comparisons, quotes and options. You can then make an informed decision on your risk protection needs.

If you buy the wrong piece of office equipment or computer, it's usually not a big deal. On the other hand, if you buy the wrong type of insurance or not enough of the right kind of insurance, then you're putting your business, as well as your personal assets, and lifestyle, at enormous risk.

Partnership protection ensures that the family of the deceased are treated fairly... and control of the business is retained by those in the business.

At the end of this report, you'll discover how to get a *Free, No-Risk and No-Obligation Partnership/Shareholder protection Analysis*, which will let you know if you have the right levels of risk protection for your business, your cash flow and your lifestyle - at the best price.

If your business partner died last week, and you were meeting with their spouse in 15 minutes, what would you have to tell them?

Your *Partnership/Shareholder* protection provides for the pre-arranged change of ownership when a partner dies or is seriously disabled - creating cash exactly when required for the ongoing shareholders to purchase a deceased or seriously disabled partner's interest in the business.

Buy-Sell Agreements (Your business "Will")

A *Buy-Sell Agreement* involves the business owners entering into a written agreement, setting out what would be done with their business interests should they die, become disabled or suffer a major illness, such as cancer, stroke, heart attack etc.

What provisions should be included in a Buy-Sell Agreement?

A *Buy-Sell Agreement* should be set up in consultation with your solicitor and accountant. Questionnaires are available to help you identify the key issues.

Typically, you would expect the following provisions:

- Clearly defined circumstances, such as death or incapacity, covered by the agreement and what will happen on each
- When the required insurance premiums will be paid
- How the business will be valued
- Claim payments specifics – i.e. where deposited, time frames of payment etc.
- Formula to cover any shortfall or surplus.
- Termination clauses
- Review period
- Dispute resolution

How do you determine the sum insured?

The sum insured should generally be the same as the agreed value placed on each business owner's interest as determined by an annual valuation.

For example, if the business has two owners and is valued at \$500,000, the sum insured on the life of each business owner would be \$250,000 (Assuming equal ownership)

Your *Buy/Sell Agreement* ensures that the cash is used as intended... guaranteeing financial certainty for both parties: The deceased's family is paid out the agreed amount - and your business remains in the hands of those working in the business.

Anyway, for your security and peace of mind, let us help you figure out the right amount of *partnership* protection for your business, at the best price, and from the best insurance company.

The next step is to call us on **09 413 6070** for your *Free, No-Risk and No-Obligation Key Person/Partnership Insurance Analysis*. (Ask for Lynne, or Heather my PA if I'm unavailable).

Let me assure you, during our meeting, you won't be asked to buy anything. Our objective is to look at your business from a risk protection point of view and discuss various options that could work for you.

The purpose of your *Free, No-Risk and No-Obligation Key Person/Partnership Protection Analysis* is for me to share some important ideas and information with you. This way, you'll learn how to best protect your business and your lifestyle.

And, if it works out that we can help you... great. We'd love to.

But, if we find you have a better deal, are adequately covered, or can improve your coverage by making a few changes with your current insurance company, we'll let you know. There's absolutely no obligation on your part, whatsoever. Thank you.

Lindsay Armishaw

Risk management & lifestyle protection advisor

lindsay@futurerooflife.com

021 673 019

P.S. Even if you think you already have the right insurance protection for your business, getting an all important professional "second opinion" to confirm your good judgment will give you even more peace of mind.

"Perception is strong and sight weak. In strategy it is important to see distant things as if they were close and to take a distanced view of close things".

- Miyamoto Musashi (1584 - 1645)

"Life can only be understood backwards, but must be lived forwards"

- Soren Kierkegaard