



SMALL BUSINESS PLANNING

Ensuring the Continuation of Your Business

You hope your small business has become a reflection of yourself: it's an efficient, dependable and well-run operation that follows through on your customers' wants and needs. But what would happen if a change in ownership was necessary, perhaps due to unmanageable costs or even the death of you or your business partner? Could the surviving partner pay for unforeseen expenses? Could the business retain its employment base?

Whether your company is just emerging, flourishing or maturing, your business and personal financial needs are unique. But sooner or later, most small business owners ask themselves three basic questions:

- How do I prepare for the problems that come with changes in ownership?
- As the owner of my company, is there a way to use business dollars to pay for some personal expenses?
- Am I getting the most I can out of my employee benefit dollars?
 - Each of these situations can be dealt with through adequate business planning.

Strategies for Changes in Ownership

If you or a business partner died, it would be comforting to know now that your business would continue to run smoothly. There are several options to ensure its continuity.

One method is a buy/sell agreement. This establishes the value of your business and assures a ready market for your share in the business after the death of an owner. With life insurance funding the agreement, the surviving partner(s) are assured of the means to buy out heirs and retain control over the business, and the deceased owner's stock can be converted into cash for the heirs.

If you should lose a key employee, you may lose considerable time and money trying to find and train a replacement. *Key employee life insurance* provides you with the funds you need to keep the business running smoothly during this difficult period.

Another option is to carefully incorporate your business needs into a total estate plan. This way you'll avoid severe liquidity problems for the heirs of your estate after you die. At the same time, you'll be able to meet your estate tax and liquidity needs while you preserve the full value of your business for your family and business associates.

Using Business Dollars for Personal Expenses

There are also ways to provide benefits for yourself by using your business' checkbook. The fact is, you can actually pay some of your personal expenses using your business' money, and receive favorable tax treatment at the same time.

Your business can help you pay for your own life insurance by "advancing" you money to pay the annual premium. The cost is low and the advance is paid back from the insurance proceeds. This benefit can also be extended to your key employees.

Disability insurance is always a desired form of insurance to have when owning a business since the likelihood of a career-ending disability is far greater than a premature death. Your business can provide you and your employees with personal disability insurance which continues a portion of your salary when you're unable to earn it, and the premiums (in most cases) are tax deductible.

In addition, *your business may be able to help you pay your estate taxes and settlement costs if your stock is worth more than 35 percent of your adjusted gross estate.* The business can redeem some of the stock from your estate and produces cash to meet your estate's obligations.

How to Use Employee Benefits to Increase Income and Improve Key Employees' Retention

Can you keep your employee benefits competitive yet still affordable? One way to do this is with a *salary continuation plan*. With a salary continuation plan in place, you have the financial means to protect you, your key employees and your business from the adverse financial consequences of disability. If the program is funded with disability insurance policies, the premium payments in many cases are tax deductible as a necessary business expense of your company.

In addition, *company-sponsored employee pension and profit-sharing plans* are a necessity when retaining your best employees and ensuring the success of your business long after you're gone. Employees may save pre-tax dollars, and invest them on a tax-deferred basis for retirement. Any contributions you make to the plan are tax deductible.

Other benefits that can help you hold on to key employees include *executive bonus plans*, which are methods of providing life insurance to employees and a current income tax deduction for your company. A *personal financial analysis*, made available to your key employees, helps them effectively manage their money while achieving their financial goals.

Finally, when trying to attract new employees (as well as retain existing ones) keep in mind that today's employees look for and expect strong insurance programs, especially for *medical, disability and life insurance* as a part of the entire compensation package. In return, you'll receive tax deductions for the premiums you pay out.

With effective business planning, you'll be able to achieve the best of both worlds: overall reduced business costs to retain your competitive edge in the current marketplace and the retention of effective, highly motivated employees who can provide the financial strength and stability to your business that will ensure its continuation long after you're gone.



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