



# SELECTED BUSINESS RISKS: AXA BUY SELL PLANNING & KEY PERSON LIFE INSURANCE

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**Risk Factor:** Less than one third of family businesses survive the transition from first to second generation ownership. Another 50% don't survive the transition from second to third generation.

<sup>1</sup> <http://www.forbes.com/sites/aileron/2013/07/31/the-facts-of-family-business/>

## WHAT ARE THE ALTERNATIVES WHEN A BUSINESS OWNER DIES?

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- ➔ Liquidate the business.
- ➔ Survivors continue in business with the deceased's heirs.
- ➔ Survivors' interest is sold to deceased's heirs.
- ➔ Survivors' interest is sold to outsiders.
- ➔ Deceased's interest is sold to outsiders.
- ➔ Deceased's interest is sold to survivors. (employees?)

- ➔ Not all children may be active in the business
- ➔ Children may not be ready to run business when it suddenly becomes necessary
- ➔ A surviving spouse may still depend on income derived from the business
- ➔ Estate “equalization” may be an issue

- ➔ Entity Purchase (Stock Redemption)
- ➔ Cross Purchase
- ➔ One way Buy Sell
- ➔ Trusteed
- ➔ Wait and See Buy Sell


## Why Insure Key People?

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- Four potential things that happen to key people:
  - They stay with the company
  - They quit – usually to join a competitor
  - They retire
  - They die
- Employers can influence, but not really control the first three events
- The last three events create problems for the employer
- The fourth event is beyond their control and particularly troubling when the key person and the employer are one and the same

## What Key Person Life Insurance Provides

- Death Benefits provide cash that can help:
  - **Keep the business running**
  - **Assure the creditors that their loans are safe**
  - **Cover the losses from mistakes the successor will make until s/he gains experience**
  - **Cover the special expenses of finding, securing and training a new person**
  - **Pay for needs which cannot be determined in advance because they will depend upon the unique circumstances of each business**
- Cash Values provide an emergency reserve for times of uncertainty



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