

Small Business eBook

Life insurance strategies to capitalize on small business opportunities.



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Big opportunities in small businesses

32.5 million small businesses in the United States¹

5.4 million new business applications were filed in 2021, breaking the record previously set in 2020²

Almost two-thirds of small businesses are currently profitable³

CLIENT OPPORTUNITIES

There are exponential opportunities by initiating just one conversation with a business owner. When working with a business owner, it is not only the varied needs of the business itself that presents an opportunity. Don't forget about the personal planning needs of the business owner and employees, as well as family members involved in the business and those who are not.

RETIREMENT PLANNING

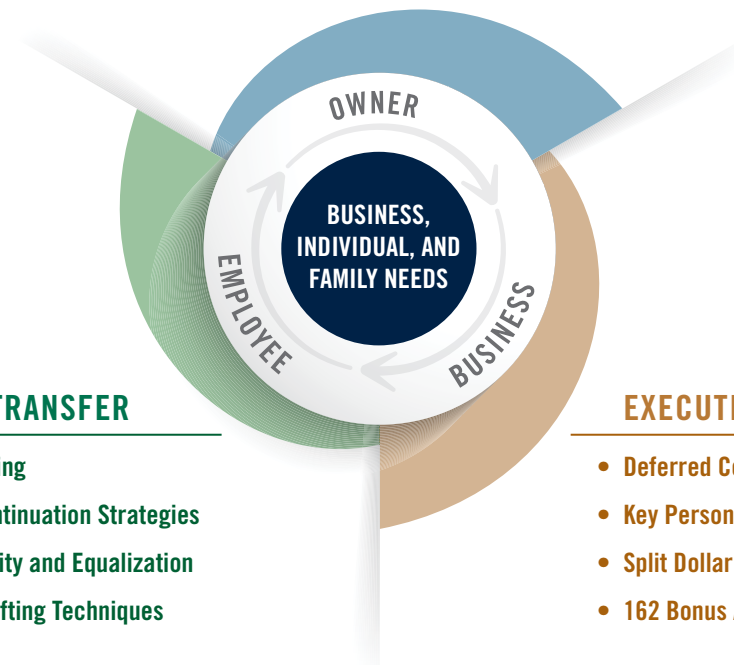
- Income Tax Diversification Strategies
- Life Insurance and Benefits for Chronic Illness
- Life Insurance in Retirement Planning (LIRP)
- Qualified Plan Strategies

WEALTH TRANSFER

- Estate Planning
- Business Continuation Strategies
- Estate Liquidity and Equalization
- Leveraged Gifting Techniques

EXECUTIVE BENEFITS

- Deferred Compensation
- Key Person
- Split Dollar
- 162 Bonus Arrangements



Consider a business in terms of its stage



DETERMINING THE STAGE

Get the conversation started to determine the stage with the owner:

1. How many years have you been in business?
2. Is your business growing or is it fairly stable in size and volume?
3. Is your cash flow stable?
4. When are you thinking of retiring?
5. What are your plans for expansion?

CONCERN	START-UP	GROWTH	MATURE	TRANSITION
Death or disability of an owner	●	●	●	●
Creditor protection	●	●	●	●
Death of a key employee		●	●	●
Employee retention		●	●	●
Succession planning		●	●	●
Retirement planning		●	●	●
Estate planning for owner(s)			●	●
Estate equalization				●
Selling to next owner				●

Start-up stage



- Typically has short-term outlook
- Often cash poor
- Fluctuating cash flow and may not be generating profit
- Tend to have unrealistic expectations of time and sacrifice to build the business



THE OPPORTUNITY

- Long relationship ahead of you
- Growth phase is coming in the years ahead
- Contacts and referrals from other business owners and employees

START-UP'S RISKS

Owner becomes disabled or dies

A Start-up's business is almost always completely dependent upon the owner. If that owner is gone, for either reason, the value of the business could be significantly reduced, a family may lose control of the business, and ownership transfers could become tricky if the beneficiary isn't ready or doesn't want to assume control.

A financial loss could be significant.

Personal property as collateral for a business loan

Many times, a Start-up will be funded with a business loan ... using personal property as collateral. A family could stand to lose so much if the business should encounter rough times. Many times, banks will require individual life insurance as collateral.

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Start-up stage



Why a life insurance policy for a Start-up stage

The right life insurance policy and strategy can help protect the business and an owner's family.

Protection if an owner dies or is disabled

If the owner dies, the death benefit could help the family or estate continue with the business or pay off debt the business may have incurred. In the case of a qualifying chronic or terminal illness, a policy with a rider for chronic or terminal illness can allow the death benefit to be accelerated to provide money for anything that might be needed.

Protection to pay back business loans

A life insurance policy could be used to repay a business loan, if needed. Many times, a bank may require the business owner to buy a life insurance policy as collateral against the loan. The death benefit from a life insurance policy could give the family enough liquidity to keep a business afloat as they work through their loss.

CONVERSATION STARTERS

1. You have obviously put a lot of time and energy into your business. Have you taken any steps to help protect it if something happens to you?
2. Do you have a family who might have to change their lifestyle if you should die and, as a result, your business fails?
3. Does your family rely on your business as its primary source of support?
4. Are you concerned about being in business with your partner's (co-owner's) spouse or family members if your partner were to pass away?

Concepts to consider and applicable materials

- **Basic Life Insurance** [What Every Consumer Should Know About Life Insurance](#)
- **Buy-Sell Agreement** [A Buy-Sell Agreement Solution to Protect the Future of Your Business](#)



Growth stage



- Increased demand for goods and services
- Cash flow fluctuating but may be generating profit
- Looking for leaders and/or employees
- Looking for credit relationships and quality suppliers
- Looking for diversity from core business



THE OPPORTUNITY

- Long relationship ahead of you
- With growth comes great potential
- Time to lay the groundwork for retirement and business transition
- Contacts and referrals from other business owners, employees, and family members

GROWTH'S RISKS

Business assets as collateral for a business loan

A Growth's situation may still have the original business loan that is being repaid, and if they are expanding, they may have additional loans. Personal property and the business itself could be lost if financial protection isn't in place.

Death or loss of a key employee

There are some employees who are critical to a business' success. If any of those employee should die or leave, there are impacts to many areas of the business. The business could experience disruption to management, operations, or product development. Some customers could leave, credit could become impaired, and it could take significant time and money to replace them.

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Growth stage



Why a life insurance policy for a Growth stage

Protection if a key employee should die

A death benefit from a life insurance policy, used in a **key person strategy**, could help the business get through a potentially difficult time if an employee who is critical to the business passes away. It can potentially help a business access credit, which may be needed more than ever. These proceeds could assist with a search for new talent that could provide the skills and expertise needed by the business.

Protection to pay back business loans

The death benefit of a policy, used for **creditor protection**, could be used to repay business loans or other debt so the business assets don't need to be touched. The death benefit from a life insurance policy could give the family enough liquidity to keep a business afloat as they work through their loss. It could also help pay back a bank loan that required a life policy as collateral.

CONVERSATION STARTERS

1. You have obviously put a lot of time and energy into your business. What have you done to ensure the continuation of your business after your death?
2. Do you have a family who might have to change their lifestyle if you should die and, as a result, your business goes under?
3. Do you have key employees who are capable of managing the business in your absence?
4. Is there an employee whose departure to a competitor would devastate your business?
5. Are you concerned about being in business with your partner's (co-owner's) spouse or family members if your partner were to pass away?

Concepts to consider and applicable materials

- **Basic Life Insurance** [What Every Consumer Should Know About Life Insurance](#)
- **Buy-Sell Agreement** [A Buy-Sell Agreement Solution to Protect the Future of Your Business](#)
- **Key Person Insurance** [Key People Help Drive Your Business Client Brochure](#)



Mature stage



- Developing a strong management team
- Cash flow is generally stable and profitable
- Looking to manage employee retention costs
- Exploring exit strategies



THE OPPORTUNITY

- The future of the business—next generation is a whole new opportunity
- Transition is coming
- Retirement around the corner
- Contacts and referrals from other business owners, employees, and family members

MATURE'S RISKS

No succession plan

As a business matures, the business' value may grow. There may be interest in the business lasting beyond the original generation. There is potential for liquidity and tax issues, parents may have difficulty in equalizing an inheritance for children who aren't in the business, and loved ones may be dependent on the business for income with nowhere else to turn.

No retirement plan

Owners many times create plans for their business to live on without them, but they fail to create a plan for them to live on without their business. If they don't adequately plan, they may find it hard to maintain their lifestyle in retirement. Also, if they haven't taken an active interest in diversifying their assets, they may find themselves with "all of their eggs in one basket" ... and they may have an unrealistic expectation of their business' value, too.

A key executive is being wooed by other companies

There are certain executives who are so valuable to a business that they need to be protected and kept secure. If these executives should be wooed away to a competitor, it could have a major effect on a business.

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Mature stage



Why a life insurance policy for a Mature stage

Facilitate a succession plan

A life insurance policy used in a **Buy-Sell Agreement** can help ensure that business owners have an established plan for transferring the business to those whom the owners agree upon when one passes away. This type of plan can help ensure that the business continues smoothly, and that the remaining owners aren't forced to work with family members of the deceased owner if they don't want to, and can help establish boundaries for other family or interested party involvement.

Supplements a retirement strategy

A life insurance policy, used in a **Life Insurance for Retirement Planning (LIRP) strategy**, can be used to supplement income in retirement for the retired owner. This can help fill in any income gaps that might exist through gaps in planning.

Create an incentive for executives

A life insurance policy, used in an **Executive Compensation** arrangement, could be used to create a financial incentive for a critical employee to remain with the business or to attract new talent. This can help that employee to “pass” on offers from competitors and remain satisfied in that decision.

CONVERSATION STARTERS

1. Who keeps your business' doors open?
2. Do you have key employees who are capable of managing the business in your absence?
3. Is there an employee whose departure for a competitor would devastate your business?
4. Are you concerned about being in business with your co-owner's spouse or family members if your co-owner were to pass away?
5. Do you know the value of your business?
Have you had a formal business valuation?

Concepts to consider and applicable materials

- **Key Person Insurance** [Key People Help Drive Your Business Client Brochure](#)
- **Split Dollar** [Collateral Assignment Arrangement Split Dollar Flyer](#)
- **Executive Bonus (Section 162 Bonus)** [Executive Compensation Plans Brochure](#)
- **Non-Qualified Deferred Compensation Plans** [Comparison of Non-Qualified Executive Benefit](#)
- **Life Insurance in Retirement Planning (LIRP)** [LIRP Consumer Brochure](#)



Transition stage



- Executing a business transition and succession strategy
- Cash flow generally stable and profitable
- Taking care of employees
- Planning for next phase in life



THE OPPORTUNITY

- Long relationship with family taking over or subsequent owners
- Potential shift to individual needs
- Contacts and referrals from other business owners, employees, and family

TRANSITION'S RISKS

No business 'exit' strategy

It's important for a business to have an owner "exit" plan. If there is no plan in place, it leaves the business, the owners, and the families at risk. Many times a thriving business will falter when an owner wants to retire because there was never a clear plan in place to transition it.

Unequal distribution of assets among children

If an owner's children and family members are not equally involved in the business, there may be an inequitable distribution of wealth when the owner passes away. Having a great difference in inheritances can cause messy estate issues, not to mention hard feelings among family members.

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Transition stage



Why a life insurance policy for a Transition stage

Establish a road map for the sale of the business or business share

In a family-owned business or business with co-owners, when the time comes and an owner is no longer part of that business, what happens to their share? It is important that a plan be created so there is nothing left to chance. A **buy-sell strategy** using life insurance is a way to make that happen.

Ensure an equitable division of assets

In situations where there are family members who want to be part of the business and others who don't, a life insurance policy, in an **estate equalization strategy**, can help equalize the inheritance. Using a life insurance strategy can provide a death benefit to the family members who will not be getting an ownership interest in the business. This type of strategy can also help structure the details of when to equalize, how it will be done, who will get it, etc.

CONVERSATION STARTERS

1. Are you concerned about being in business with your co-owner's spouse or family members if your co-owner were to pass away?
2. What is your walk-away number?
3. What is your business worth? Where did this number come from? Was a valuation done? If so, by whom and how long ago?
4. Will less than one-half of your retirement income be dependent on your business?

Concepts to consider and applicable materials

- **Estate Equalization** [Estate Equalization Consumer Brochure](#)
- **Buy-Sell Agreement** [A Buy-Sell Agreement Solution to Protect The Future...](#)
- **Retirement Planning for an Owner** [Retirement Income Worksheet](#)
- **Personal Policy Including Chronic Illness Rider** [LI with BenefitAccess Rider Brochure](#)



Action steps



Put your knowledge to work.



TAKE ACTION

1. Review your book of business and identify clients who have or are part of a small business.
2. Try to group them by: Start-up, Growth, Mature, Transition.
3. Reach out and utilize the Conversation Starters from the chapters.
4. Set up a time you can meet to talk about their business. Use the [Confidential Business Fact Finder](#).
5. Be prepared to give them information about business strategies.
6. Schedule a follow-up appointment.

ADDITIONAL OPPORTUNITY

Work with centers of influence

Building a relationship with Certified Public Accountants (CPAs) and attorneys can put you in a position to get referrals to help their business clients. Your Prudential representative together with Prudential's Advanced Planning team regularly conducts CE Events that discuss strategies relevant to the small business market. Reach out to your Prudential representative to learn how to schedule a CE event.

THE PRUDENTIAL ADVANTAGE

Prudential offers you strong support in every part of the sales process. Take the first step and identify the opportunity that's waiting in your own book of business. Learn more about the [Prudential Advantage](#).

REACH OUT

to your Prudential Wholesaler with questions
and for case discussions.

¹ 2021 Small Business Profile, U.S. Small Business Administration Office of Advocacy

² Hsu, A., New businesses soared to record highs in 2021. Here's a taste of one of them, NPR.org, Jan. 12, 2022, <https://www.npr.org/2022/01/12/1072057249/new-business-applications-record-high-great-resignation-pandemic-entrepreneur>, accessed Oct. 5, 2022.

³ Small Business Trends 2022, Guidant, <https://www.guidantfinancial.com/small-business-trends/>, accessed Oct. 5, 2022.

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