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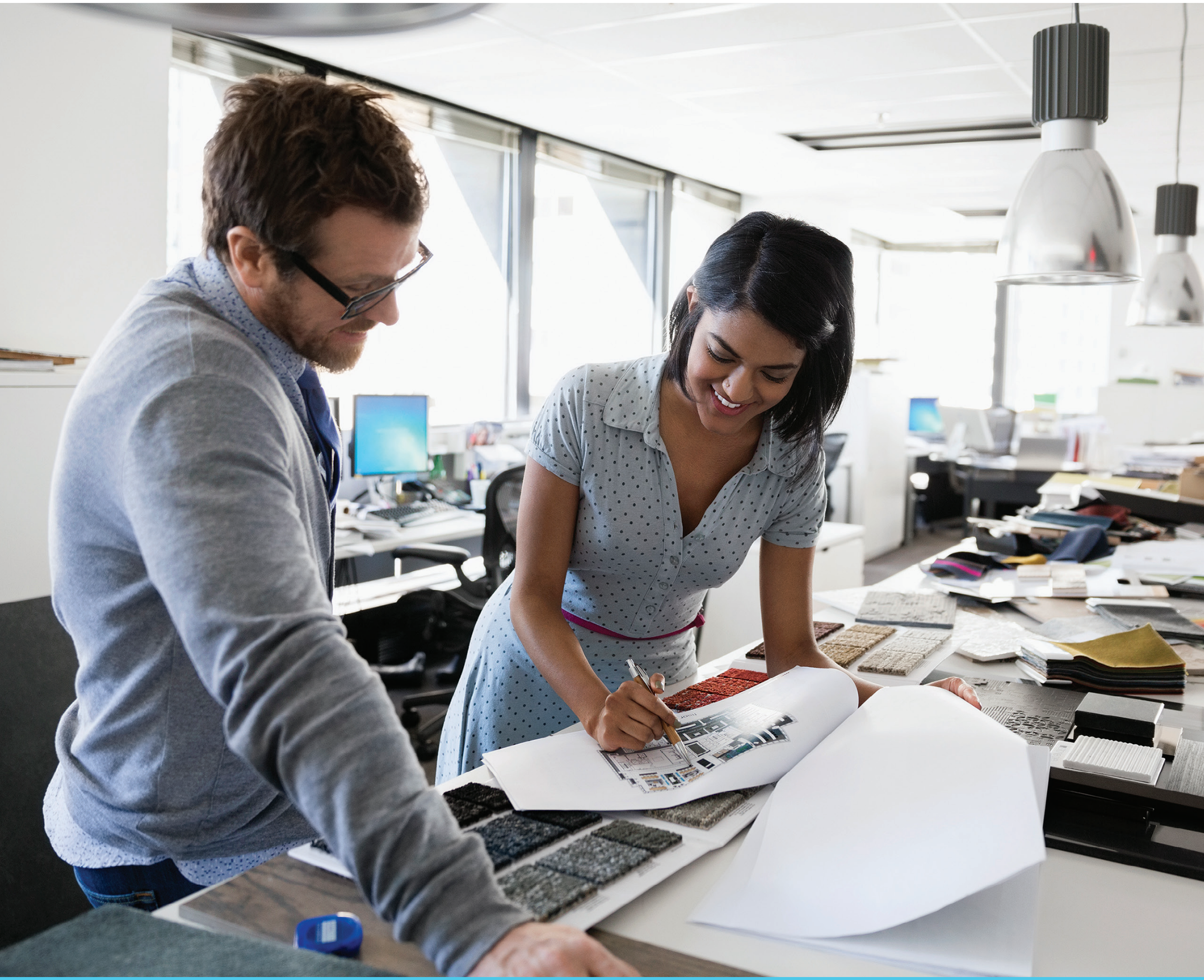
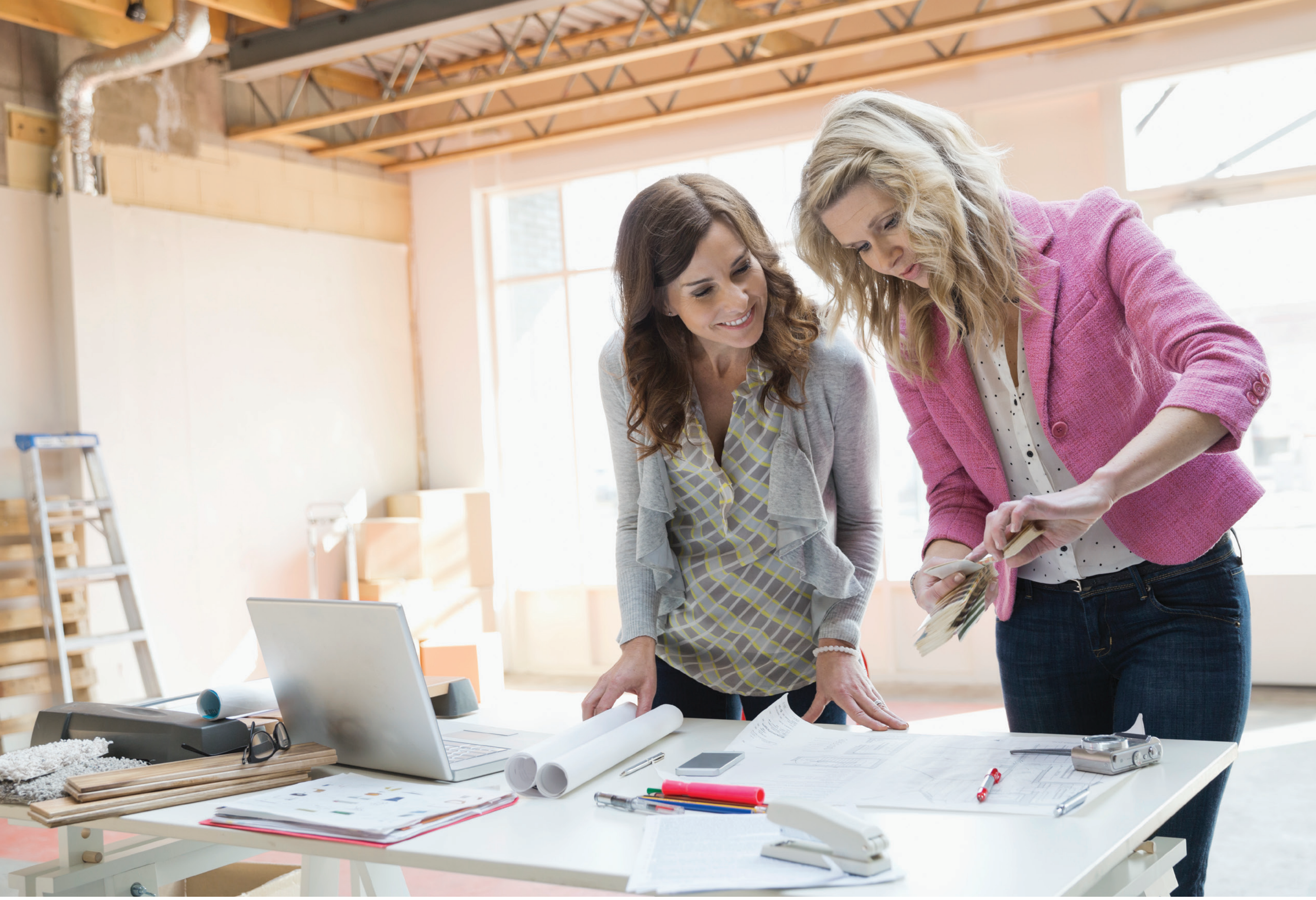


The Successful Business Owner

Strategies for effective business planning



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What it Takes to Build a Successful Business

If you are like most business owners, you have worked hard and made many sacrifices to grow your business. That is why you should put just as much effort into protecting it as you did building it.

Ask Yourself These Important Questions:

- What will happen to my business when I retire?
- Is my business capable of continuing its success in the event of my or my partner's death or disability?
- Is my family adequately protected if something were to happen to me?
- Have I done everything I can to attract, retain, and reward the key employees that are critical to the success of my business?

Proper planning can help you protect your business, attract and retain key employees, and ensure that your business transfers in the manner that you choose.

Prepare for the Unexpected

It is important to have a long-term strategy to protect the continuity of your business if you, a partner, or key employee decides to retire or leave the business, becomes disabled, or dies unexpectedly.

Massachusetts Mutual Life Insurance Company (MassMutual) understands the needs of today's business owners — we have been working with business owners for over 160 years. Our financial professionals will take the time to listen, learn about you and your enterprise, and help you prepare for the unexpected. Consider the information on the following pages and talk to your financial professional about helping you design a strategy that may protect and ensure the continued success of your business.

Attract and Retain Key Employees

In today's highly competitive marketplace, it has become increasingly difficult to attract and retain top talent. Salary is no longer the only compensation driver. Talented employees are looking for a benefits package that will help them protect the financial security of their families and prepare for retirement. The good news is you can offer insurance and retirement benefits that can make a difference for both your key employees and your business.[1]

You probably already have a standard benefits package in place — one that includes medical and dental coverage, disability income insurance, and a retirement plan. However, your competitors probably offer similar benefits. Today, employees are looking for additional benefits above and beyond the standard packages most employers offer. These benefits provide an incentive for key employees to join and remain loyal to your company.

The following describes some incentive benefit arrangements that you can offer to your key employees. They may even be of benefit to the most important employee in the business — you!

Nonqualified Deferred Compensation Arrangements (NQDC)

NQDC arrangements are designed to provide additional retirement benefits for key employees above and beyond a pension, profit sharing, or 401(k) plan. You can choose which employees are to be covered, the benefits to be provided, and whether the benefit is subject to a vesting schedule. In fact, you can use this type of arrangement just like it is used by large, publicly owned corporations — to reward and attract employees with "golden handcuffs."

NQDC arrangements are ideally suited to employers that:

- Want to provide additional retirement income to select, highly compensated employees;
- Have a stable, mature corporation that is likely to be in existence to pay the retirement and/or death benefit as promised by the NQDC arrangement; and
- Have key employees who have maximized contributions to their qualified retirement plans.

These arrangements can be, and often are, supported by life insurance that is paid for and owned by the business.

Split Dollar Arrangements

Split Dollar arrangements are a cost-effective and tax-efficient way to provide benefits using life insurance. Split Dollar gets its name because it involves splitting the benefits of a life insurance policy between your business and your key employee. These arrangements can be structured in different ways, depending upon the type of incentive you are trying to provide.

[1] There may be implications under the Employment Retirement Income Security Act (ERISA) depending on how certain types of insurance policies are made available to employees and whether such an arrangement constitutes an "employee benefit arrangement" under ERISA. Employers should consult their own tax and legal advisors for further information on potential ERISA implications.

Under most Split Dollar arrangements, the employee's annual cost is limited to a taxable economic benefit based on his or her share of the death benefit. In addition, the death proceeds received by his or her beneficiary are income tax free.

Executive Bonus Arrangements

An Executive Bonus arrangement is a type of incentive plan whereby the business provides an executive with funds that are used to purchase a life insurance policy owned by the employee. You can choose which employees receive this incentive. The employee owns the policy and chooses the beneficiary. There are optional arrangements that can restrict the employee's access to the cash values.

The bonus amount the business pays is fully tax deductible to the company and taxed as ordinary income to the employee. You have the option to work out an arrangement with the employee to help cover the income tax liability.

Supplemental Disability Income Insurance

As a business owner, you have the option of giving your employees the opportunity to apply for (or decline) supplemental disability income insurance on either a voluntary or employer-paid basis. Supplemental disability income insurance can augment existing group long-term disability income insurance (LTD), helping to reduce the gap between LTD benefits and your employees' pre-disability income. This type of plan adds to your benefit package and helps attract and retain quality employees and executives.

Insurance can be offered on a Guaranteed Standard Issue (GSI) basis for businesses with 10 or more eligible employees for employer-paid coverage (75 or more eligible employees for voluntary coverage). GSI gives eligible employees the opportunity to apply for an individual disability income (IDI) insurance policy with simplified underwriting. The employee must meet certain eligibility requirements.

Retirement Contribution Protection

If you, your partners, or employees become totally disabled before reaching retirement age, each of you may not only lose your ability to earn an income, but also the opportunity to accumulate additional funds for retirement.

MassMutual RetireGuard® can help replace an amount equal to the retirement plan contributions (both the employee's and the business's contributions) that would have been made to an eligible defined contribution arrangement if the participant had not become disabled. It is not a retirement plan or a substitution for one. However, during a period of total disability, MassMutual will pay benefits into an irrevocable trust that offers different investment options to help meet that person's retirement goals.

Protect the Business You Worked so Hard to Build

What would happen to your business if you, your business partner, or a key employee were to unexpectedly die or become too sick or injured to work? There is no doubt that this would have a huge impact on your business and its continued success.

The following are some common business planning strategies designed to protect your business by insuring the people who have the biggest impact on your company's success.

Key Person Insurance

Key person insurance can help ensure the financial stability of your business is protected in the event of a valued employee's death.

Under this type of arrangement, your business purchases a life insurance policy to cover the life of that individual, naming your business as the beneficiary. If the key employee dies, the policy proceeds are paid back to the business to help keep it going while you seek to fill the void left by the deceased employee.

This arrangement is ideally suited for businesses with:

- Owners, partners, or executives that have a direct impact on company earnings;
- Salespeople who continually exceed goals or have relationships with important clients; and
- Individuals who have specialized skills or technical knowledge that cannot easily be replaced.

Premiums for key person insurance are not tax deductible since the business is the owner of the life insurance policy. Proceeds are typically exempt from federal income tax.

Qualified Sick Pay Plan (QSPP)

A Qualified Sick Pay Plan sets company policy before an employee disability occurs. It establishes who to pay, how much to pay, when to start payments, and how long to pay. The plan must be instituted prior to an employee becoming disabled, and the employee must be aware of the terms of the plan. It must also be in writing, and the board of directors or partnership must have a resolution adopting the plan.

You can fund your QSPP with a disability income insurance policy issued on each employee to be covered, which allows you to avoid having to pay disability benefits out of your company's assets. The insurance company determines eligibility for benefit payments, processes the claims, and provides all insured benefits. This also enables you to budget for the disability while you and your employees are healthy and to deduct the premium as a necessary business expense.

Business Overhead Expense (BOE)

A business overhead expense disability insurance policy reimburses business owners for existing overhead expenses incurred while they are disabled, keeping the company up and running while the owner recovers. Regular expenses that could be covered under a BOE policy include employee salaries, rent, leases, and utilities, to name a few. And, BOE premiums are generally tax deductible as a business expense.

Buy-Sell Agreements

In the event of a business owner's death or disability, a Buy-Sell agreement will define the terms of the buyout of the owner's interest in the business. By establishing a Buy-Sell agreement, you can help ensure a smooth transition of ownership, with minimal disruption to the day-to-day operations of the business.

An effective Buy-Sell agreement must establish:

- Who will purchase the decedent's or disabled owner's share of the business;
- At what price the decedent's heirs or estate will sell the share; and
- When the sale will take place and how it will be funded.

Life and disability buy-out insurance can be used to fund the Buy-Sell agreement. In either case, the total amount of insurance should approximate the anticipated purchase price of the insured's share of the business.

In a **Cross Purchase Buy-Sell agreement** each business owner purchases a life or disability insurance policy covering the life of every other owner. Each business owner pays the premiums and is the beneficiary of the policies that he/she is purchasing. If an owner dies, the surviving owners use the life insurance death benefit to purchase the deceased owner's interest. If an owner becomes disabled, the Buy-Sell agreement provides an agreed upon payment to the disabled owner for his or her interest in the business.

In an **Entity Stock Redemption Buy-Sell agreement** the business purchases a life or disability insurance policy covering each owner. The business pays the policy premiums and is the beneficiary on each policy. If one of the owners dies, the death benefit from his/her policy is paid to the business, which in turn uses the benefit to purchase the deceased owner's interest in the company. If an owner becomes disabled, the Buy-Sell agreement provides an agreed-upon payment to the disabled owner for his or her interest in the business.

A **One-Way Buy-Sell agreement** can be used when there is a sole owner and no co-owners to buy out the owner's interest. It is called a "one-way" buy-sell because only one party (a non-owner) is obligated to purchase the business when a triggering event occurs. If a potential buyer can be identified, perhaps a family member or a key employee, this arrangement can allow the sole owner to exit the business and still receive fair market value for the business from another party looking to assume ownership in the future.

MassMutual...

Helping you secure what matters most.

Your business isn't just your largest asset, it also provides income for your family and the families of your employees, a legacy for the next generation, and is the lifeblood of your community. Begin by working with your financial professional to outline your long-term personal and business financial goals. With proper planning you can help secure your future and help protect your business and those who depend on it most.

Learn more at **www.MassMutual.com**.

The information provided is not written or intended as specific tax or legal advice. MassMutual, its subsidiaries, employees, and representatives are not authorized to give tax or legal advice. Individuals are encouraged to seek advice from their own tax or legal counsel. Individuals involved in the estate planning process should work with an estate planning team, including their own personal legal or tax counsel.

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