Making Sure Your Family Business Survives for Future Generations

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Editor’s Note

Small businesses make up a large percentage of corporate America, and a large number of those are owned and operated by families, with numerous family members working in the business. Insurance agencies are a prime category of family-owned businesses because a family can reap substantial profits, fueling the desire to keep the wealth in the family. This issue deals with many aspects of keeping that family business solvent and profitable, and ensuring that it continues to thrive so the grandchildren and great grandchildren will reap the financial rewards.

However, in many family-owned businesses, the children of the owners don’t necessarily want to work in the business – as most people, they have their own interests, talents and career aspirations and may want to do something completely different such as being a landscape architect or librarian. This is seen in IAIP member Chris Kelly-Storbeck’s family business, where one of her three children has chosen to work in the agency.

Another challenge for family-owned businesses is that oftentimes, children and grandchildren don’t continue the same money management and business skills that their parents or grandparents used when they built the business. One of the authors in this issue discusses ways for business owners to determine how well their children and grandchildren manage money and how to teach them better wealth management skills. Attorneys and CPAs give their advice in other articles about the legalities involved in business succession planning, and other authors discuss the specifics involved when an owner does step down from the business.

If you don’t own a business, there are articles that may appeal to you, such as how to grow your own wealth, and the social media trends that everyone in business must keep up with. Other authors mention that the old-fashioned business methods of great customer service and constantly marketing your company are unbeatable methods of maintaining your business. I hope you learn skills from the articles about how to improve your business, whether or not you own your business.

Sharon Smith
Managing Editor

To submit an article for Today’s Insurance Professionals®, email the Managing Editor at marketing@iaip-ins.org.
2013-2014 President’s Message

There are more than 5 million family businesses operating in the United States. Per Joseph Astrachan, professor of management and entrepreneurship at Kennesaw (GA) State University, only one in three family businesses make it to a second generation. The oldest US family business per my Google research is Tuttle’s Red Barn, which was established in 1639. This farm has been passed down across eleven generations.

In this issue of Today’s Insurance Professionals®, you’ll hear from IAIP members as well as guest writers who share valuable insight into how family businesses can survive and thrive from generation to generation. Many of the issues faced by family businesses are the same that challenge any business -- strong leadership, strategic planning, conflict resolution, clear communication, and navigation of market changes, just to name a few.

Of course from an insurance perspective, risk management of the exposures facing a business is certainly needed for the family business to remain viable for future generations. They need:
• Property insurance to protect from disasters;
• Liability insurance for auto, general, products, workers compensation, employer’s liability, directors and officers, risk transfer and other exposures;
• Umbrella coverage for financial security;
• Life and health insurance to adequately protect those involved in the business, especially key employee insurance.

Everyone who reads this issue will be enlightened in how to assist those they insure who need the appropriate risk management tools to secure that their family business continues for future generations.

The mission of Insurance Professionals is to Connect Members and Build Careers through education, networking and leadership opportunities. The vision is to attract and retain those employed in the insurance and insurance-related fields throughout the US and the world because of the value garnered by their membership.

Join us at the 73rd IAIP Convention in June 2014 in San Diego, where our focus will be...

...Connecting Members...Building Careers.

Jane Densch, CPCU, AIC, ARe, ARP, AIS, CPIW
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Will Your Beneficiaries Beat the Odds?

Tips for Helping Your Family Survive the ‘3 Generations’ Rule

By John Hartog, Jim Kohles and Haitham Ashoo

Two-thirds of baby boomers will inherit a total $7.6 trillion in their lifetimes, according to the Boston College Center for Retirement Research -- that’s $1.7 trillion more than China’s 2012 GDP.

But they’ll lose 70 percent of that legacy, and not because of taxes. By the end of their children’s lives -- the third generation -- nine of 10 family fortunes will be gone.


There are a number of reasons that happens, and most of them are preventable.
Give them some money now and see how they handle it

Many of the “wealth builders,” the first generation who worked so hard to build the family fortune, teach their children social responsibility; to take care of their health; to drive safely. “But they don’t teach them financial responsibility; they think they’ll get it by osmosis,” says estate lawyer Hartog.

If those children are now middle-aged, it’s probably too late for that. But the first generation can see what their offspring will do with a sudden windfall of millions by giving them a substantial sum now — without telling them why.

“I had a client who gave both children $500,000. After 18 months, one child had blown through the money and the other had turned it into $750,000,” Hartog says.

Child A will get his inheritance in a restricted-access trust.

Be willing to relinquish some control

Whether it’s preparing one or more of their children to take over the family business, or diverting some pre-inheritance wealth to them, the first generation often errs by retaining too much control, says CPA Kohles. “We don’t give our successor the freedom to fail,” Kohles says. “If they don’t fail, they don’t learn, so they’re not prepared to step up when the time comes.”

In the family business, future successors need to be able to make some decisions that don’t require the approval of the first generation, Kohles says. With money, especially for first-generation couples with more than $10 million (the first $5 million of inheritance from each parent is not subject to the estate tax), parents need to plan for giving away some of their wealth before they die. That not only allows the beneficiaries to avoid a 40 percent estate tax, it helps them learn to manage the money.

Give your beneficiaries the opportunity to build wealth; hold family wealth meetings

The first generation works and sacrifices to make the family fortune, so often the second generation doesn’t have to and the third generation is even further removed from that experience, says wealth manager Ashoo.

“The best way they’re going to be able to help preserve the wealth is if they understand what goes into creating it and managing it — not only the work, but the values and the risks,” Ashoo says.

The first generation should allocate seed money to the second generation for business, real estate or some other potentially profitable venture, he says.

Holding ongoing family wealth meetings with your advisors is critical to educating beneficiaries, as well as passing along family and wealth values, Ashoo says. It also builds trust between the family and the primary advisors.

Ashoo tells of a recent experience chatting with two deca-millionaires aboard a yacht in the Bahamas.

“They both built major businesses and sold them,” Ashoo says. “At this point, it’s no longer about what their money will do for them — it’s about what the next generations will do with their money.”

John Hartog is a partner at Hartog & Baer Trust and Estate Law. He is a certified specialist in estate planning, trust and probate law, and taxation law. Jim Kohles is chairman of the board of RINA accountancy corporation. He is a certified public accountant specializing in business consulting, succession and retirement planning, and insurance. Haitham “Hutch” Ashoo is the CEO of Pillar Wealth Management, LLC, specializing in client-centered wealth management. All three are based in Walnut Creek, Calif., and advise ultra affluent families.
Making Sure Your Family Business Survives for Future Generations

By Shawn Byerly, IAIP Member

It’s no secret that 10,000 baby boomers are turning 65 every day for the next 19 years. Many of these boomers are family business owners and it’s estimated that they will transfer approximately $10 trillion to the next generation – the largest generational transfer of wealth in the history of humankind. The vast majority of this wealth is held as stock in more than 12 million privately-owned businesses. During the next 8-15 years, more than 70 percent of these companies are expected to change hands. When the business founders turn their organizations over to the next generation, will the transition be smooth or painful? Will there be a transition at all? How do owners “cash-in” when exiting the business? With the retirement of many boomer executives and owners on the horizon, succession, transition and exit planning are more important now than ever before.
It’s estimated that 75 percent of these businesses have no succession plan in place. Is your business included in that figure? If so, I would highly suggest creating your own succession, exit and transition plan before you ever start a conversation with your clients. It’s an excellent approach to learning the process and gives you instant credibility. How will your clients see value in the process, if you haven’t? Insurance professionals who understand these issues and can take advantage of opportunities (or partner with someone who does) will enjoy a tremendous amount of success. Remember, it’s about quality and not quantity since one case a year can change your income dramatically. Engaging in this process will deepen client relationships, increase your referral factor and differentiate you from your competition. Most importantly, it can elevate you out of the commodity trap. In my opinion, commoditization is the biggest threat facing agents today and in the future. This is a disease that eats away at your knowledge, wisdom and professionalism. It strips away your value proposition -- your professional purpose for existence -- to a number. If price becomes the primary point of differentiation, then how do you create loyalty?

The Problem

Family businesses, and the families that own them, are the strength of America. Entrepreneurs possess a spirit and attitude that is infectious, forming the backbone of the world’s most powerful economy. But, the statistics of family business survival are discouraging. In fact, out of every 100 family-owned businesses, only one-third will pass to the second generation. A mere 3 will make it to the fourth generation. What a shame!

Studies tell us that one of the most important factors that affect family business transactions is the lack of a clear, well-defined succession plan. Succession planning is disaster planning. Without a succession plan, key employees may leave, the business could be liquidated, and a lifetime of hard work and sweat equity is flushed down the drain. In Japan, they have a saying for this phenomenon, “from rice paddies to rice paddies in three generations.” Not only can the business be destroyed, but the relationships between siblings, parents, children and extended family may be damaged forever. The lack of such a plan may create a conflict between the potentially inconsistent goals of family unity and the continued financial success of the business.

Another very important factor is the failure to address the issue of who will run the business – the issue of “control.” Unfortunately, even the brightest business minds fall prey to the natural human tendency to procrastinate. Procrastination kills thousands of businesses each year. Furthermore, many business owners are always stuck working in their business, and never find time to strategically work on their business. No one wants to think about after-death scenarios, or how permanent disabilities can dramatically alter the profitability of the business going forward. Many closely-held business owners are in deep denial when it comes to the risks and continuously act like nothing can ever happen to them.

Building a Foundation

The time to evaluate a business is when all the owners are in good health and the business is a “going concern” – a business that functions without the threat of liquidation for the foreseeable future, usually at least 12 months. When one of the owners dies or becomes disabled, the perspective of all changes. A critical piece to succession planning is establishing a buy / sell or business continuation agreement. It’s as important to succession planning as blocking and tackling is to football. In effect, it controls the transfer of the business ownership. The events that trigger this agreement could be the death or disability of an owner, the sale or transfer of stock between owners or an outside party, or the retirement of an owner. A written and funded buy-sell agreement allows for the orderly disposition of the business. (It amazes me how many times people draft the agreements and then never fund them. It’s analogous to buying a brand new car and never putting gas in it. You aren’t going anywhere!)

The agreement can be made between shareholders of a corporation, or partners of a partnership, or between a key employee and an owner. The agreement obligates the remaining business owner(s), key employee(s), or the business itself to purchase the interest of the deceased owner. A buy-sell agreement creates a market for the business interest, allows the business to operate without the interference from the deceased or disabled owner’s heirs, provides liquidity for the deceased owner’s estate and establishes the value of the business for federal estate tax purposes.

The primary objective is to motivate the business owner(s) to act, although this
is much easier said than done. Until they understand the stakes, then they will not be motivated to implement your advice. Often, the business owner doesn’t even know what a buy-sell agreement accomplishes! As an insurance professional, it’s your duty to educate them on what it is, how it works, and the reasons why they should implement the agreement into their business. Here is one way you can phrase a conversation and motivate them to act.

Dustin (Agent): “Jake, I just buried a bomb in your yard. It isn’t large enough to kill you or your wife, or another member of your family, but it would certainly maim you or them if they stepped on it.”

Jake (Business Owner): “Where is it?”

Dustin: “I’m not going to tell you where it is. But don’t worry. Chances are it is so well-hidden that no one will ever step on it. Maybe it will never explode.”

Mr. /Mrs. Client -- if you knew that there was a bomb in your company yard that could harm you or your family, would you not stop until you found it and had it disarmed?

But many business owners do the exact opposite. They believe “it won’t happen to our business” until it does. Or they procrastinate until it’s too late. If a business owner hasn’t taken the time to create a buy-sell agreement with his/her partners, then they need the equivalent of a bomb squad. By inaction, they have placed themselves, their families and their company in real financial danger. Furthermore, it’s common for the value of the business to represent 60-75% of the business owner’s net worth, which should make planning even more of a priority.

Don’t Forget the Disability Conversation

Unfortunately, agents often neglect having the disability conversation with their clients even though the odds are much greater that a disability will occur instead of a death before age 65 with multi-owned businesses. In addition to the legal issues that need to be dealt with, a long-term disability can raise serious moral issues among fellow business partners. More often than not, individuals who work closely together in a small business establish not only a business relationship, but also many times a personal one that may involve other family members such as spouses and children. They often go to the same social events, have the same hobbies, and attend the same church. Their lives are truly intertwined. When the other partner dies, the decision-making is cut and dry. However, there are unique problems to consider when a disability occurs:

1. How long can the business afford to continue to pay the salary of the disabled partner?
2. At what point does a discussion begin about what to do with the disabled person’s interest?
3. What happens to the outstanding business loans?
4. How long will the disability last?
5. How can the well owners continue to include the disabled owner in the strategic discussions when the disabled partner can no longer participate?
6. Can the disabled owner sell his or her interest? Can they sell it to a competitor?
7. Where will the business get the money to buy out the disabled owner’s interest?

For small business owners who drive revenue, the implications of disability go beyond their personal finances. A disability will also adversely affect their business finances, so they face a dual problem. If the business owner doesn’t have a Business Overhead Expense (BOE) policy, then, in effect, most of the benefits of the personal policy will go toward business expenses instead of supporting the family. If the business doesn’t survive the owner’s disability, the owner will have no job to return to upon recovery. There are three DI products that were specifically designed for the business market.

- Business Overhead Expense (BOE) - This policy reimburses the normal and customary (i.e. with a demonstrated history) fixed business expenses on a monthly basis. This premium is recognized as a legitimate business expense by the IRS, and is tax deductible. This is an excellent product to lead with since the premium is very affordable. Prime candidates are business owners who generate most or all of the revenue for the business. A professional practice generates close to zero revenue when the doctor, dentist, lawyer, CPA, architect, or engineer becomes disabled. Businesses with less than 10 employees are also ideal clients.

- Key Person - Key person benefits are always payable to the company. The key person must not have a controlling percentage of the company. A cover letter to the underwriter, explaining why a key person would be difficult to replace and what the financial impact would be, is essential. Waiting periods are 30-90 days and benefit periods range from 12-24 months. The premium is not tax deductible, but the benefits are received tax free.

- Buy-Sell - Refer to question 7 above. The buy-out is typically funded after 18-24 months, to give adequate time to determine the prognosis and to see if the disabled owner will be able to return to work. The disability component in the drafted buy-sell agreement should address the critical concepts:

1. How long a total disability must last before a buy-out is triggered.
2. How a total disability is to be defined or determined.
3. 12-24 months. The premium is not tax deductible. This is an excellent product to lead with since the premium is very affordable. Prime candidates are business owners who generate most or all of the revenue for the business. A professional practice generates close to zero revenue when the doctor, dentist, lawyer, CPA, architect, or engineer becomes disabled. Businesses with less than 10 employees are also ideal clients.

Insulate From Within

For most closely-held businesses, the most valuable assets are the key employees that drive profitability. What distinguishes someone as a key person is that his or her loss would severely impact a business until a replacement is found. Key people can be found in a variety of positions and with various titles. They are business management executives such as presidents and vice presidents, as well as research and development executives, production executives, and...
key sales representatives. The bottom line is that any person considered vital to the success of the business and essential to its profitable operation is a key person. This is especially true in service organizations, where people are the primary revenue generator, not a product. Key employees are a tremendous stabilizer for the company when the business is transferring to the next generation.

One way to be proactive in transition planning is to invest in your key executives. However, most businesses haven’t even been approached about investing in their key employees. According to LIMRA’s June 2012 study, Executive Benefits Arena, there are 1.1 million businesses with 10-999 employees. Approximately 648,000 of these midsize firms currently don’t offer executive benefits and 324,000 have never been approached about them. The transition to the new healthcare rules will be confusing and messy. But, at the end of the day, health insurance will be available to everyone. Health insurance will no longer be a benefit that can be used as a recruiting and retention tool. Business owners will be looking for new strategies (such as non-qualified plans that use life insurance) to attract, retain and reward key employees.

Nonqualified plans give the sponsoring employer a variety of design choices that offer strict control of plan assets to arrangements that offer a structured sharing of assets between employer and employee. The plans will differ on policy ownership, employer control, funding obligations, and cost recovery. Choosing the appropriate plan usually depends on the degree of control and policy ownership required by the sponsoring employer. The only real constraints on plan design are the competitive forces applicable to the employer and the designer’s imagination. For example, a design I’m partial to is referred to as “triple duty dollars.” With only one policy, we can provide key man insurance for the business, a death benefit to the executive’s family during his/her working years, and tax free supplemental retirement benefit until death.

Show Me The Money!

Exit planning is the creation of a comprehensive road map to allow a business owner to successfully exit a privately held business. However, it’s time consuming and complex. An exit plan asks and answers all of the business, personal, financial, legal, and tax questions involved in selling a privately-owned business. The purpose of an exit plan is to maximize the value of the business at the time of the exit, minimize the amount of taxes paid, and ensure that the business owner is able to accomplish all of his or her personal and financial goals in the process. In spite of overwhelming evidence that exit planning is a vital part of ownership, most business owners don’t create an exit plan. Even if the business goes on after they exit, they are losing a part of themselves that has provided extraordinary value and meaning to their lives.

A well designed exit plan enables the business owner to:

1. Control how and when they exit.
2. Maximize company value in good times and bad.
3. Minimize, defer, or eliminate capital gains taxes.
4. Retain control and be generating a number of exit options.
5. Ensure they achieve all their business and personal goals.
6. Reduce their stress and that of their employees and families.
7. Ensure continuity of the business.
8. Preserve family harmony.

In spite of the importance of exit planning, most business owners spend more time planning a family vacation than they spend on when and how to exit their business. Change is imminent and unavoidable for many retiring baby boomers, and the advisor who can help clients make that change smoothly and painlessly becomes invaluable.

Shawn Byerly, LTCP, DIA, is the Chief Operating Officer for Insurance Designers of Oklahoma, a brokerage general agency. They consult directly with independent insurance professionals and financial advisors in more than 30 states who work directly with business owners. Byerly is also a member of Insurance Professionals of Tulsa. He can be reached at 1-800-766-7266 or by email at shawnbyerly@gmail.com
Succession Planning for Family-Owned Businesses

By Jeffrey C. Rambach, JD
Business succession planning is one of the most complex and critical challenges facing the owners of family-owned businesses. Notwithstanding the complexity of the process, the creation of a business succession plan provides family business owners with a great platform to maximize business, financial, and tax planning opportunities and create a multi-generational institution that embodies the business owner’s mission and values long after he or she is gone.

Business succession planning is a very material subject in today’s U.S. economy because 95% of U.S. businesses are family-owned or closely-held, 72% of those businesses have 20 or fewer employees and approximately 65% of those businesses have a leader who plans to retire within the next 5 years. According to an American Family-Business Survey, 85% of family business owners would like to pass their businesses to the next generation; however, fewer than half will do so. Eighty-eight percent of current family business owners believe the same family or families will control their business in five years. Instead, statistics reveal that only 30% of family businesses survive into the second generation, 12% are still viable into the third generation, and only about 3% of all family businesses operate into the fourth generation or beyond. A recent study indicates that a majority of family business failures are traced almost entirely to a lack of family business succession planning.

Analyze Business Issues

The transition of a closely-held family business and development of a business succession plan involves the analysis of many different issues that include:
(i) a determination of how (and whether) to create a family legacy;
(ii) the short and long-term goals and objectives, both personal and financial, of the business owner;
(iii) the cash flow needs of the business owner to ensure financial security;
(iv) the ongoing retirement income for the business owner and minimization of taxes;
(v) the timing of the transition of control;
(vi) the dynamics between the business owner and family members (including both those active and those inactive in the business);
(vii) methods for achieving family harmony while maintaining family values and lifestyles;
(viii) clarifying career paths for family members with appropriate training;
(ix) ensuring viability of the business by minimizing liquidity demands and ensuring competent leadership;
(x) the future management of the business;
(xi) the methods that will be employed to transfer the business interests to the new owners that are viewed as unbiased and fair to the extent possible;
(xii) survival of the business over the long term (to avoid a forced liquidation);
(xiii) minimizing income, gift, and estate taxes, and
(xiv) provide for contingencies and revisions of the business succession plan.

To develop an effective business succession plan, a comprehensive analysis of all of the above issues is recommended and encouraged. However, for purposes of this article, the focus is on strategies that a business owner may consider when the potential future owners are the business owner’s children, some of whom are actively involved in the business and others whom are not. In the latter context, business owners frequently struggle with the competing desires to treat children equally and to provide the business with the successive ownership that will provide it with the best opportunity to succeed.

An Illustration of Strategies

For purposes of illustrating the strategies, the following fact pattern will be used throughout the article. Art and his spouse, Susan, each own 1,000 shares of the total 2,000 shares outstanding in Acme Inc. Art and Susan are each 67 years old and are considering how and when to transition Acme Inc. to their children or alternatively to key employees. The value of Acme Inc. as determined by an independent appraiser is $10 million with a basis of $6 million. Art and Susan have approximately $4 million in additional nonbusiness assets for a total taxable estate of approximately $14 million. Art and Susan have three children. Their son, Roger, has worked in the business his entire life. He started out in sales and is now the CEO. Their daughter, Elizabeth, a CPA, is the CFO of Acme Inc. Their daughter, Judy, an advertising executive, has never worked in the business. While Judy has a sentimental attachment to Acme Inc., as it is the family business, she does not want to be actively involved with the business. Art and Susan want to treat all of their children equally, but they recognize that not all of their children have an interest in the business.

I. Gifting Program

One alternative that a business owner may consider is making gifts of stock, including split gifts with a spouse, to transition business interests to children without incurring any transfer tax liability. Business owners may use the annual gift tax exclusion ($14,000 for 2013) to transfer business interests to those children actively involved in the business. This strategy not only assists the business owner in transitioning the business to the next generation, but it reduces the taxable estate of the business owner.

Prior to making the decision to make annual gifts, the business owner may want to consider the following: (i) whether the transfer would result in loss of control, and if so, whether that is acceptable; (ii) whether it is desirable for the business owner to retain a sufficient number of shares to generate adequate dividend income; and (iii) whether the business owner has sufficient nonbusiness assets to make the gifts to the children who are not active in the business.

After consideration of the above issues, if the business owner elects to make gifts of
shares to the children actively involved in the business, the business owner may consider making equalizing gifts to the inactive children. Gifts to the children not actively involved in the business may be made from nonbusiness assets.

**EXAMPLE:**

If Art and Susan decided to begin transitioning the business utilizing annual exclusion gifts, they may begin transferring Acme Inc. to Roger and Elizabeth, the children who are actively involved in the business. To treat all children equally, nonbusiness assets could be used to make gifts to Judy. For gifting purposes, with a 30 percent valuation discount applied, the value of Acme Inc. is $7 million ($3,500 per share). Art and Susan could make a combined gift of 14 shares of Acme Inc. (7 shares each) to Roger and Elizabeth (7 shares to Roger and 7 shares to Elizabeth) without exceeding the $14,000 annual gift tax exclusion. Art and Susan could then make a combined gift of $14,000 to Judy to equalize the gifts of stock made to Roger and Elizabeth.

If the business owner is ready to relinquish control, or a larger portion of the stock than is permitted utilizing only the annual gift tax exclusion amount, the business owner may consider making a larger gift. Currently, the gift tax lifetime exemption amount is “unified” with the estate tax exemption, meaning that the amount of the gift tax exemption is $5,250,000.

**EXAMPLE:**

Art and Susan may gift all or a larger number of their shares to Roger and Elizabeth if they have a sufficient amount of the unified exemption amount available to cover the value of the shares. However, Art and Susan may consider the following when making that decision: (i) the degree of control that they are ready to relinquish, (ii) the amount of nonbusiness assets available if they intend to make equalizing gifts to other children, and (iii) the loss of income associated with the transfer of shares.

### II. Sale of Shares

An alternative to gifting shares is for the next generation of owners to purchase the shares from the business owner. This option enables the business owner to treat all children equally. The children who are actively involved in the business will be purchasing the business at the fair market value.

In addition, the proceeds from the sale will provide the business owner with assets during retirement. In many cases, the purchase price is paid over time in installment payments pursuant to a note. The payments under the note will provide the business owner with a stream of income during retirement years.

However, a sale of the shares from the business owner to the children is not the most tax advantageous form of transaction. Upon the disposition of the shares, the business owner will recognize capital gain from the sale to the extent of the excess of the amount realized over the adjusted basis of the shares being transferred. In addition, if any portion of the purchase price is paid in installment payments, the business owner will recognize ordinary income on the interest portion of the payments.

**EXAMPLE:**

In an effort to treat all of their children equally and not reduce their nonbusiness assets by making equalizing gifts to the children who are not actively involved in the business, Art and Susan decided to sell their shares to Roger and Elizabeth. Neither Roger nor Elizabeth has sufficient assets to purchase the shares with cash, so they made a 20 percent cash payment, and the remainder is payable pursuant to a ten year note. Art and Susan would realize $4 million of capital gain on the sale ($10 million FMV and $6 million basis). Art and Susan will receive the net proceeds from the sale and the stream of income from the note for ten years. In addition, they have transitioned the family business to their children who are actively involved in the business.

One potential more tax-efficient wealth transfer alternative for the business owner to consider involves a sale, gift or combined sale and gift, to one or more irrevocable trusts (intentionally structured to be a “grantor trust” or an “intentionally defective trust” aka an “IDGT”) established for the benefit of the business owner’s children or more remote descendants in exchange for a promissory note. The result is that the shares sold to the trust and any subsequent appreciation is removed from the business owner’s taxable estate for estate tax purposes and is replaced with the promissory note. In addition, the sale of fractional and/or non-voting control business interests can leverage the tax-free gifting of the business interests through the application of valuation discounts.

A comprehensive discussion of the use of IDGTs in a sale or gift transaction is beyond the scope of this article. However, a summary of the tax benefits to a business owner and spouse desiring to transfer business interests to children follows.

- If the business owner dies during the note term, only the value of the note will be included in his/her gross estate – i.e., the value of the asset sold has been “frozen” in the estate for estate tax purposes.

All appreciation on the business interests sold in excess of the Applicable Federal Rate of interest used in the note grows transfer-tax free outside of the business owner’s estate for the benefit of the trust beneficiaries.

- The amount of the valuation discount is a gift tax-free transfer to the trust beneficiaries and all future growth attributed to that sum grows tax-free outside of the business owner’s estate.

- The consequence of the business owner being deemed as the owner of the trust assets for federal income tax purposes is that:
  1. The sale of the business interests to the IDGT is a non-taxable event so that the transaction is disregarded for income tax purposes, meaning the business owner will not recognize any gain from the sale; and
  2. Annual interest payments payable to the business owner by the IDGT are
not taxable as additional income. Any payment of principal will be taxable to the business owner as additional income.

- Trust income is taxable directly to the business owner on his or her personal income tax return. In effect, the income tax payments by the business owner are additional tax-free transfers of wealth to the trust beneficiaries. Note, however, that the trust may be converted at any time to transfer the taxability of the trust income to the trust beneficiaries.

III. Recapitalization of Business Interests

A recapitalization is a tax-free reorganization. Neither the IRC nor the Treasury Regulations define what qualifies as a recapitalization. The United States Supreme Court and the Second Circuit Court have defined a recapitalization as a “reshuffling of a capital structure within the framework of an existing corporation.” Recapitalizations are tax free transactions in which a shareholder can exchange common stock for preferred stock. The preferred stock can be voting stock so the shareholder relinquishing common stock retains control.

A recapitalization of the business interests into voting and nonvoting shares enables the business owner to retain voting control and have the ability to participate in future dividends. For income tax purposes, there is no gain reported on the recapitalization.

The business owner will also have the ability to gift the preferred shares and the common shares, if any are retained, to the new owners of the business. This gives the business owner the ability to make gifts of common or preferred shares. If transferring the business to children, the business owner may decide to gift or sell the business interests to all children, but transfer voting shares to the children active in the business and nonvoting shares to the children who are not active in the business. This gives the business owner the opportunity to gift an ownership interest to all children while giving the control only to the children who are actively involved in the family business.

While a recapitalization may be helpful in providing the business owner with voting and non-voting shares to possibly equalize distributions between children, it will inevitably raise for discussion the issues of company control, stock allocation, and future dividend policy.

EXAMPLE:
Art and Susan decide to recapitalize Acme Inc. with each of them converting 500 of their 1000 shares to preferred voting shares. The recapitalization of Acme Inc. may help Art and Susan equalize the disposition of the business to their children. At a later date, they could gift preferred voting shares to Roger and Elizabeth, the children active in the business, and gift common nonvoting shares to Judy, the child not actively involved in the business. This maintains the control of the family business with the children who are actively involved in the business. This also enables Judy, who has a sentimental attachment to the family business, to have an ownership interest in the family business without having to be actively involved.

IV. Buy-Sell Agreements

Regardless of the manner of disposition, once shares have been transferred to
the new owners it is important that all shareholders enter into a binding buy-sell agreement. A buy-sell agreement provides for the allocation of shares upon the death, disability, retirement, or termination of employment (“Triggering Events”) of the departing shareholder. The buy-sell agreement will typically include all of the terms and conditions that will govern the treatment of the shares following one of the Triggering Events including the formula for determination of the purchase price and the payment terms.

There are two primary types of buy-sell agreements: the cross purchase agreement and the redemption agreement. The cross purchase agreement allows the remaining shareholders to buy the stock of the departing shareholder. The redemption agreement requires the corporation to purchase the shares of the departing shareholder.

A buy-sell agreement can be drafted to protect the goals and objectives of the shareholders. For example, if the objective is for the active children to maintain control, the buy-sell agreement can be drafted to restrict transfers and prevent transfers to children not actively involved in the business. In addition, the buy-sell agreement will dictate how the shares are to be transferred upon a Triggering Event. For example, if the objective is for the remaining shareholders to purchase the interest of a deceased shareholder, the terms of the buy-sell agreement can require such a purchase.

The terms and conditions of a buy-sell agreement are critical to the transfer of shares and the smooth transition of the family business from one generation to the next. Thoughtful and careful consideration and analysis should be used in drafting the provisions of a buy-sell agreement.

Please note that this article is not intended to be a comprehensive analysis of all of the strategies or related tax consequences for the transition of a business from a business owner to family members. The focus of this article is on several potential strategies that a business owner may consider when the objective is to transfer the family business to the children who are actively involved in the business, while attempting to treat all children equally. To develop a comprehensive business succession plan, a complete analysis of all the issues, both tax and nontax, is necessary. A properly developed business succession plan will help to ensure a smooth transition of the business and provide it with the best opportunity to successfully continue for generations.

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End Notes

References to “family-owned businesses” include closely-held businesses whether or not owned by two or more related persons.

Lisa Stewart, The Gailliard Group, 2010 Presentation to the Family-Owned Business Institute of The University of Tulsa.


References to “business” includes all business entities, including corporations, partnerships and limited liability companies.

References to “business interests” include stock, LLC units or membership interests and partnership interests.

Helvering v Southwest Consol Corp, 315 US 194 (1942), reh’g denied, 315 US 829 (1942), and reh’g denied, 316 US 710 (1942); Commissioner v Neustadt’s Trust, 131 F2d 528 (2d Cir 1942).

IRC §368(o)(1)(c).
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Are You Prepared to Leave the Business You Built?

Experts Share 3 Crucial Planning Steps

By Kathleen Richardson Mauro and Jane Johnson
More and more small business owners are selling their companies, with sales hitting a four-year high earlier this year in the United States, and Canada predicting its largest small business turnover ever in the next five years.

“Many of our CEOs are baby boomers approaching retirement age,” says Kathleen Richardson-Mauro, co-author with Jane M. Johnson of a practical new guide, “Cashing Out of Your Business.”

“We’re about to see a tsunami of ownership transitions and Kathleen and I worry that too many of these small business owners are not taking steps early enough to plan for it,” adds Johnson.

Richardson-Mauro, a Certified Financial Planner, and Johnson, a Certified Public Accountant, specialize in helping business owners successfully transition out of companies and achieve their goals. They recently launched an educational website, Business Transition Academy, to help owners plan their exits on their own.

“Most CEOs don’t realize they need to start planning years before they might, potentially, be ready to sell or hand off their business,” Johnson says. “And while a lot of that planning is to ensure they’ll have the money to meet their lifestyle goals, there are other equally important considerations.”

Small business owners tend to pour their lives into their companies and it doesn’t take long before their identity is entirely defined by their job, the women say. In order to achieve a successful after-life, they need to start laying the groundwork early for their emotional separation.

Johnson and Richardson-Mauro suggest these steps for small business owners of any age to begin preparing mentally for their non-CEO future:

1. Start now
You never know when you might receive an unsolicited purchase offer or what life events might rock your world. Most owners do not start thinking about transitioning out until some event gives them a jolt: a significant birthday; children graduating from college or starting their own families; illness or injury.

“Planning improves your chances for a successful outcome and gives you more control over the process,” Richardson-Mauro says. “We sometimes don’t realize just how much our lives revolve around our business — or we do realize it and don’t want to think about it because the future looks scary.”

With planning, you can ensure you still have a social life, a sense of accomplishment, challenges, and the other intangibles that make us satisfied and gratified.

2. Identify what you want to get from your ownership transition
You’ll have both financial and non-financial goals and objectives. Financial may include receiving enough money to live on for the rest of your life and creating a foundation to further a cause important to you. Non-financial may include regaining balance in your life and following a passion you gave up when you started your business.

Consider goals in every area of life, the authors say, from health, to family, to social connections.

“This is about remembering your true passions, determining what’s most important to you, and deciding what you want to do when you can spend less or no time with your business,” Johnson says.

“This will re-energize you and provide you with direction as you figure out the best way to transition the ownership of your business. It will also enable you to minimize any chance for regrets.”

3. Identify your fears, concerns and other barriers that prevent you from planning
Many owners fear what will come next and worry about losing their life’s purpose. Most wonder if they will have enough money to live the lifestyles they desire, and they’re concerned about their employees’ futures, Johnson says.

“Take proactive action to address these concerns by having a family meeting; discussing the future with your spouse; and identifying your actual financial needs. That will allow you to find solutions and work through them,” says Richardson-Mauro.

The two women say they’ve met many business owners who one day just decided they were tired of the headaches and ready to relax. They sold their business or otherwise transitioned out, only to discover they were bored, lonely and unhappy.

“After all of your years of work and sacrifice, you deserve a happy life after business,” says Johnson.

“It’s completely doable,” adds Richardson-Mauro, “with planning.”

Kathleen Richardson-Mauro, CFP, CBEC, CM&AA, CBI, has owned and operated five small companies and has successfully assisted more than 150 business owners in achieving their transition goals.

Jane Johnson, CPA, CBEC, CM&AA, started her career in public accounting and finance at General Electric, then established her own practice. Fourteen years later, she negotiated the sale of her firm, retaining all of her clients and team members. In 2010, Jane received the Excellence in Exit Planning Achievement Award from Pinnacle Equity Solutions.
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Often, entrepreneurs try to avoid risk because they want to protect their businesses from harm. “Unfortunately,” says Tom Panaggio, “lose your willingness to risk and you also lose your edge. Risk is NOT a ‘one leap and you’re done’ proposition.”

Imagine you stand at the edge of an enormous cliff, a parachute strapped to your back. To your right is a winding staircase with a sturdy handrail. There are only two ways off the cliff—jump or take the stairs. If you jump, once you reach the bottom, you’ll be awarded the exact amount of money you and your family need to live a happy and comfortable life. If you take the stairs, you’ll reach the bottom and walk away—nothing gained, nothing lost. Will you take the risk knowing there’s a slight chance the parachute won’t open? Or will you take the safe way out, knowing a life of mediocrity awaits?

This, says Tom Panaggio, is the dilemma entrepreneurs face every day. “Risk is eternally linked to opportunity,” says Panaggio, author of the new book The Risk Advantage: Embracing the Entrepreneur’s Unexpected Edge. “There is nothing wrong with taking the safe way out—millions make that choice—but successful entrepreneurs are a different breed. They are professional risk takers and they need to be willing to strap on that parachute every day.”

Though we typically associate risk with the initial leap-of-faith decision to start a business, to achieve real success, one must consistently embrace risk every day, and not just on the business’s first day,” he clarifies.

Panaggio knows all about the rewards of risk. Along with several partners, he has built two thriving companies: Direct Mail Express (which now employs over 400 people and is a leading direct marketing company) and Response Mail Express (which was eventually sold to an equity fund, Huron Capital Partners). He wrote The Risk Advantage to help entrepreneurs face the many situations, predicaments, and crises they’ll encounter during their lives and to help formulate their leadership style and business strategy.

“A willingness to take risks separates leaders from the rank and file,” says Panaggio. “If you lose the spirit of risk, the business begins to decay. From startup through the last sale, the spirit of risk is the unexpected edge for every business.”

Panaggio outlines the risks you must accept if you want to build and run a sustainable, profitable business.

2. Finance the dream yourself
Giving up your hard-earned money is the ultimate risk. To pour life savings into an entrepreneurial pursuit is like walking the tightrope without the benefit of a safety net. It takes courage. Even though the commitment is substantial, it’s necessary to motivate you to keep pushing forward. Money buys resources, technology, and manpower—all critical elements in helping a new business succeed.

“If all capital investment is from your...
coffers, and not from outside sources, then you are truly committed,” notes Panaggio. “Of course, you might have to find a source for additional financial support, which means either giving up a piece of your dream in the form of a partnership, or taking on debt responsibility.

“Building a successful business when money is tight is a true accomplishment,” he adds. “The committed entrepreneur doesn’t allow a tight money situation to stop her. True entrepreneurial spirit promotes self-reliance and the willingness to find the money.”

4. Don’t be a non-decider
In business, you need to decide over and over again. The first decision you make is to jump in and pursue an entrepreneurial dream, but decisions don’t end there. And every time you make a decision, there’s a risk: These are the risks of failure, not being accepted, and making wrong choices. Don’t let that stop you, urges Panaggio.

“By making decisions, whether right or wrong, you are progressing and moving from where you were to something different,” he says. “When making no decisions, nothing happens. You’re in stagnation, and your business will suffer. Despite this, there are people who refuse to make decisions. You can’t be an entrepreneur and avoid decision making. You make your move and then embrace the risks that come with that move.”

5. Change or die
Businesses are like sharks: They have to keep moving, or they will die. The rule is simple: Businesses must progress, and progress requires change. In the business world, fear of change probably is the single biggest obstacle businesses need to overcome to meet the evolving marketplace challenges. What makes embracing change even more difficult is that a business must be willing to simultaneously change internally and externally to keep progressing and remain competitive.

“Internal change happens within the business walls and is not necessarily customer facing,” explains Panaggio. “Internal change can be organizational; there are changes in personnel, management, department, and staff reorganizations. It also refers to processes or systems, changes in attitude, and the business personality. While these three characteristics can and do change independently, they also can be linked, thus resulting in dramatic transformation.”

“External change is always customer facing; it’s most noticeable to your customers and competition,” he adds. “Innovation, an external change, brings a new competitive edge to your business by introducing products or services that increase the value of a customer’s experience with your organization and is announced in the marketplace through branding and marketing.”

6. Forget the “If I had…” excuse
Some entrepreneurs are like a little boy standing with his nose pressed to the candy store window, hoping and thinking, “If I had a couple of pennies, then I could buy some candy and everything would be great.” Sub in new technology, a bigger store, a larger advertising budget, and on and on, for those two pennies and you get excuses made by struggling entrepreneurs.
everywhere. For example, “If I had the latest CRM software, then everything would be great. Then, I could really grow my business.”

“Entrepreneurs must be self-reliant,” notes Panaggio. “You must get comfortable looking to yourself as the solution, not other people or objects. I have heard all the ‘If I had’ excuses over the years. Unfortunately, this way of thinking is based on false reality, because the road to success is through action, not tools or accessories.”

7. Expect to fail
Starting and building a business is like being a child learning to ride a bike. To master the skill of riding a bike as well as learning to be a successful business leader, you must first embrace the risk of failure and expect to fail. It is rare that someone can expect to accomplish either of these skills without a fall or two, and just as a child gets back up from a fall when learning to ride a bike, you have to be resilient to the pain and embarrassment of failing and keep pushing ahead. What both child and entrepreneur must realize is that failure is not defeat but a signal that a change is necessary.

“By expecting to fail, we accomplish two very important objectives,” explains Panaggio. “First, we are willing to embrace risking failure by doing something to keep our dream moving forward rather than avoiding risk and doing nothing. You can’t hit a baseball unless you swing the bat. Second, we set the proper expectation mentally that we are planning for the best but preparing for the worst. This is not a defeatist attitude, but it gives the opportunity to prepare for recovery and make another attempt.”

8. Spend money on marketing
Marketing is key to building a successful business. But it is also something that many entrepreneurs are loath to spend their money on. Instead, they offer these handy excuses: “I tried it once and didn’t get any response, and so I stopped.” Or, “There’s just no money for marketing this quarter. Maybe I’ll try something next quarter.” It’s no doubt that it is hard to know what consumers think and what their day-to-day needs are, but a business void of a long-term and consistent marketing effort is doomed.

“At RME, our motto was very simple: He who markets most wins,” says Panaggio. “In fact, we used marketing risk as a competitive edge against our competitors. Anyone wanting to become a potential competitor had to be willing to match our investment and commitment, and just doing a little marketing wouldn’t have been enough to catch us.”

Competitors were forced to divert resources and money from other areas of their business to keep up with RME’s aggressive marketing strategy, he explains. This limited their ability to expand and innovate. The irony is, competitors weren’t willing to embrace the same risk of marketing that they were trying to convince their prospects to do, and they also weren’t willing to embrace it to stay competitive with RME.

“Accepting marketing risk also means recognizing that some degree of failure is both inherent and necessary to find your right path,” says Panaggio. “We knew that our marketing message was going to be received by some who were not ready to buy. Therefore we committed to a consistent, ongoing strategy to ensure that our message got in front of prospects when they were ready to buy. You can’t accomplish this by sending a single message and hoping prospects individually remember you and then respond months later.”

9. Get up close and personal with customers
Shortsighted business leaders assume that customers have unreasonable expectations or their demands will increase once you open the door of a relationship. After all, what if you start talking to them and they start wanting better pricing, extended credit, or other special considerations.

“The truth is customers require consistent care and investment,” says Panaggio.

“You must risk investing in the necessary resources to draw your customers closer. You start by understanding the customers’ experience, and then continue maintaining a consistent line of communication throughout your relationship.”

Sure, as a small business, money is tight, but the simplest solutions are just as effective as grand gestures. A short thank-you note after a customer places an order, whether it is done via email or by sending a handwritten thank-you card by regular mail, is an easy way to start building personal relationships with your customers. Send birthday cards or holiday cards. Call them with information or updates on products they’ve purchased or have asked about in the past.

“To a small business owner who has a small number of customers, losing just one customer has a significant impact on organizational health,” Panaggio adds. “If you lose a customer due to price or other circumstances beyond your control, then fine. However, losing a customer because they felt unappreciated or underserved is inexcusable; it indicates serious flaws in your internal business processes that lead to additional losses. The easiest way to avoid customer churn is by continuously reaching out and communicating; the sales process never ceases.”

“The road to entrepreneurial success is not an easy one,” says Panaggio. “You can’t simply take the stairs to a successful business. To be a successful entrepreneur, you have to recognize that taking advantage of opportunities—big and small—means embracing the risks that come with them. And then you have to be willing to embrace those risks day in and day out. Keep that parachute handy.”

Tom Panaggio is cofounder of Direct Mail Express (DME) in Daytona Beach, FL. As CEO of spin-off RME in Tampa, Florida, he headed a company that created the most effective lead-generation program in the financial services industry. RME revolutionized financial services marketing with its Seminar Success program. For more information, visit www.TheRiskAdvantage.com.
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Family-owned businesses represent a major portion of the world’s economy. Globally, 70-90% of global Gross Domestic Product (50% in the United States) comes from family-owned businesses (Family Firm Institute www.ffi.org). According to the U.S. Census Bureau, in 2007, 28.2% of businesses were family-owned and they generated 42.7% of all firms’ receipts (2007 Survey of Business Owners). A new survey is currently in progress. Families control approximately one third of the S&P 500 companies (www.mckinsey.com). Family-owned businesses are our neighbors, our customers and our friends. It is therefore essential that family businesses transition successfully to future generations.

Family-owned businesses range from the mom and pop grocery store to multinational conglomerates. Wal-Mart, Inc., a United States-based, family-owned business currently run by the son of the founder, is the world’s largest private employer with more than 2 million employees. In 2012, Wal-Mart generated $443.9 billion in net sales and employed 1.4 million people domestically.

In the United States, there are more than 5 million family-owned businesses. Of these, approximately 1,100 were founded more than a century ago and are still in the hands of their original families. Chances are 1 in 3 that a family-owned business will survive to the second generation, and 500-1 that they will reach the sixth generation (usatoday.com). The oldest family-owned business founded in the United States is Shirley Plantation, which recently turned 400 years old. Zildjian Cymbal Co. is the oldest family-owned business operating in the United States. It was founded in Constantinople in 1623, and moved to the United States in 1929. The family has passed the business down for fifteen generations (Zildjian.com 2011).

Perpetuating family-owned businesses poses a number of challenges. Merging family and business life is frequently a source of tension and drama. This is one of the biggest reasons to have a business perpetuation plan in place, often backed by various business-owned life insurance policies. For family businesses of any size, privacy and maintaining control by the family are often of paramount concern. External factors are seen to pose the greatest threat to family-owned businesses. For example, a recent survey...
showed that, although most respondents anticipated increased sales in 2013, they did not plan to hire additional employees. Reasons cited included the deficit and uncertainty over government regulations, such as the future of estate taxes (familyenterpriseusa.org).

**Points to Consider**

Family-owned businesses have relationships on three levels: the family, the business operation and its management. A well drafted business plan will clearly define the roles and expectations of each family member, company policies, goals and succession. Employment policies must be established, with eligibility clearly defined as to what constitutes a “family member.” What happens if someone is no longer a “family member” -- for example, if there is a divorce? What if there are multiple family members interested in taking over? Some family members may want their “share” but are not interested in participating in running the business? The bottom line goal of any business perpetuation plan is to protect the family wealth, provide for the outgoing family member, and ensure the future success of the business.

Determination of retirement parameters is essential in successful perpetuation of the family-owned business. What will the timing be? What is the future role of retirees in the business, if any? Often this process can be a real balancing act -- allowing younger family members leadership roles while still turning to senior members of the family for their expertise and advice. Increased life expectancy is another challenge to family-owned businesses. These days, family members may work longer than in previous years, leaving no place for younger members to grow and flourish.

In the not too distant future, many baby boomers may be retiring. Will they pass the business to their children? If so, how will they do so? Many family-owned businesses do not have a chosen successor. A 2007 survey showed that almost one-third of business owners had no plans to retire, and those that did (an additional 29.2%) had no plans to retire within ten years (American Family Business Survey). If these plans continue, then a significant number of family-owned businesses will not be transferred to the next generation until 2017 or later. Such uncertainty may prompt younger family members to seek their fortune elsewhere.

**Communication is Key**

Failure to communicate can be an obstacle to success in family-owned businesses. If family members do not tell others what is expected or wanted, or do not address issues of concern, this can lead to even bigger problems down the road. When there are problems or concerns, these should be communicated directly between the involved parties, and not through other family members. It is important to maintain a separation between business and family relationships. Children should be involved in the planning process, and have input in the decisions that are made. If they do not have a vested interest and “ownership” of the plans, the plans may be doomed to failure. Family dynamics also change over the generations as the pool of family members and potential owners expands from fathers and sons/daughters to grandchildren and cousins of all degrees.

The core values of the business should be communicated clearly. For example, surveys show that most family-owned business owners believe their ethics are stronger than the ethics of their competitors’ companies, and 37% have written codes of ethics (Perman). Larger family-owned businesses are known for their charitable, community and philanthropic activities, such as the Bill and Melinda Gates Foundation.

Communication of future plans is also important when dealing with employees who are not family members. There may be tension or friction among non-family staff when family members are brought into the business. Family members should be treated no differently than non-family employees. Coddling the heir apparent does not do the business any favors.

Following through with a business plan is equally as important as developing one. Drawing up contracts and succession plans is useless if they are not implement-

**Build Your Team**

A team of outside impartial advisors is a good resource to tap into. Advisors from different disciplines, such as accountants, family therapists, lawyers and insurance professionals, each bring their unique knowledge base, skills and perspectives to shine a different light on issues and problems. The advisors should communicate with each other to provide the best advice possible to the family-owned business, by helping to define the real issues and bringing to light the true feelings and expectations of the family members. Communication between the advisors can facilitate the proper assessment of problems and help to determine the best way to move forward.

Insurance professionals should be key members of the team of advisors. Protection of the family’s assets through insurance is an important component of a good business plan. For example, there could be significant tax implications if the employer-owned key man insurance or insurance-funded buy-sell agreement is not set up properly. Proper notice and consent forms must be completed prior to the policy’s issuance, to avoid the proceeds being taxable rather than tax-exempt. A 50% tax bill can be devastating to someone who is expecting a $5 million payout to fund their purchase of the business (www.forbes.com).

A recent report found that 28% of responding family-owned businesses did not have a Board of Directors, and nearly half only review perpetuation plans when required by a management change. 41% had no contingency plans. Of those who
do have boards, 80% do not have age or term limits for the board members, and one third do not evaluate the performance of their board members (www.deloitte.com). Successful family businesses, especially the larger ones, tend to have strong boards (www.mckinsey.com).

There are additional tax implications of succession planning, which may be considered to be a wealth transfer device. Family businesses are not treated the same as other businesses by the IRS. For example, there are penalties for loans that are lower than market value. The buy-sell agreement and business valuation should be done by a competent expert. In cases where there is stock involved, and the selling partner remains involved in the business -- perhaps on the board or as an employee -- taxes on the selling price of the stock may be higher. A father might invest in a business to run with his child. When the business passes to the child’s control, the IRS may consider the investment a gift for tax purposes.

Family-owned businesses represent a significant portion of written premium for the insurance industry, so keeping them viable is a good idea for the insurance professional. One type of coverage that should not be overlooked is Directors’ and Officers’ (D&O), covering the insureds for claims made by third parties who feel they have been harmed by the decisions of the insureds. For example, if the family is split between those who work hard to make the business successful and those who merely reap the benefits, problems can arise if the ones who merely benefit come into control, and perhaps decide to sell the business for the short-term income. The hard working family members who were planning on the business for long-term employment may not agree with these decisions.

Women have an increasing role in family-owned businesses, and must not be ignored. Historically, the business was passed down to the first born son, and women and younger siblings were often left out. This is no longer the case, as more and more daughters and granddaughters are taking over family businesses. In 1994, only 2% of family

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**One Agency’s Story**

Prior to starting his own agency in 1981, Joe* worked for another family-owned agency for ten years, and was being groomed to take over the business. However, the owner’s son was brought into the business, and Joe decided that he would have better opportunities on his own, and started his own agency. Ironically, the son left after only about six months. Joe and his wife operated the new agency until their son, Pete*, joined the agency after a career in landscaping and marketing. Joining the family business was a big learning curve for Pete. It meant a significant pay cut, as Pete was now making a salary plus commission on sales. As was the case with Joe’s prior agency, there was some friction from other employees when Pete joined his father’s agency.

Some of the challenges of working in the family business are what can be expected from any family dynamic. Joe is easy-going, whereas Pete is more energetic. Joe is old school and Army-educated, while Pete is new school with a college marketing degree. There were a few knock-down, drag-out fights, but the drama was minimized by the fact that Pete no longer lived with his parents, so he and Joe did not have to face each other at home as well as at the office.

In June of 2012, Joe started talking about retiring. Pete had gradually stepped into the role of taking over Joe’s responsibilities, while Joe continued to handle the bookkeeping. There was no formal succession plan, other than a will giving Pete right of first refusal in buying the business, should anything happen to Joe. The business would not automatically pass to his mother directly. Joe had a value in mind for the agency and wanted to protect Pete’s interests.

When Joe decided to retire and sell the agency to Pete, Pete was unable to get a small business loan due to the economy. Funding for the purchase of the agency was done via both a home equity loan and a 20-year personal loan, with Joe holding the note. If Pete had it to do over again, he would have started putting money aside over the years for the purchase instead of taking out a loan. Pete paid market value for the agency, and is paying standard interest rates. It is important that such transactions be at “arm’s length” to avoid IRS implications. This means that the parties are on equal and independent footing, even though they may be related or have a shared interest, such as employer/employee. Fortunately, the loan arrangement has worked out for Joe, as it reduces his tax liability. Even with the disruption of business caused by SuperStorm Sandy, Pete was able to take over the agency in January, 2013. He has one other brother who had no interest in being involved in the business. Joe is no longer involved in the property and casualty side of the business, although he does continue to do some life and investment work.

Most of the staff stayed with Pete after the transition. He needed to hire a bookkeeper to handle the duties Joe had done. Pete also changed the company from a sole proprietorship to an LLC, and renamed the agency, since Joe was a sole proprietor and the agency bore his name. Pete currently employs four CSRs and a producer, none of whom are family members.

As for the future, Pete does not plan to pressure his young children to come into the family business, but he would love for them to take over. If they decide to do so, they will be treated like any other employee, just as Pete was, but there will be a more formal succession plan in place.

*Names changed for anonymity.*
business leaders were women. By 2007, that number had increased to 24.5%, with approximately one-third of companies indicating their next leader would be a woman (www.massmutual.com/mmfig/pdf/afbs.pdf). It is interesting to note that women-owned family businesses carry less debt, focus more on succession planning, and are more fiscally responsible than their male-owned counterparts (www.nawbo.org).

Family-owned businesses are an essential component of the global economy. Proper planning helps to ensure that they will survive and thrive for future generations. After all, the primary focus of the family-owned business is to be successful and pass the business down from generation to generation. All the succession planning in the world is useless if the business fails.

A Partnership’s Transition

UPFRO Associates was created as a partnership in 1950 between Dick Haupt and Tony Passarelli. UPFRO provided field reports for property and casualty insurance underwriting and was a successful business for the partners. When Tony passed away in 1979, there was no succession plan in place. In order for the business to continue, the business was valued and an arrangement was paid to Tony’s widow. With this arrangement concluded, the ownership could transfer to the surviving partner, Dick.

There is an old adage that “failure to plan is planning to fail.” UPFRO decided that it was time to start working on a succession plan to avoid problems going forward. But a business succession plan does not stand alone without the means to implement the plan. Tax planning, estate planning, retirement planning for current owners/employees, and solid business planning must all be interwoven. This is why a team of advisors in various disciplines is essential to successful business perpetuation plans. The first step was to incorporate the family business. Later, in 1984, they changed from a C-Corp to an S-Corp for tax purposes.

The next step was to write ‘Buy-Sell’ documents with the intent that the business stays intact with the persons who are still actively involved. Death, disability, or retirement would result in a cash settlement with the stockholder’s estate. And the next logical step was to assure that there would be funds available when ‘the time comes.’ A series of insurance policies were entered into: Split Dollar; Key Man; etc.

As the business continued to grow and prosper, they established a pension plan. According to another adage “Friends are friends. Family is family. But business is business.” Family relations need to stay outside of the business. The company’s goal was to be able to provide for Dick in retirement as well as have a business tool to help recruit and compensate talented employees from outside the family. This was accomplished via a defined benefit plan.

The business is currently run by the second generation – Dick’s three sons -- Pete, Bill and Rick. It is not always easy to work with your siblings. Fortunately, they are able to take advantage of their divergent personalities and skill sets by serving in various capacities. For example, Pete, who is very gregarious, serves as Vice President of Marketing. Bill, who is more detail-oriented, is President and manages the overall business activity, including the finances. Rick, Vice President of Operations, manages the inspection process from start to finish. Their father, Dick, is still in charge of office birthday parties.

According to Bill, “It is important not to become emotional about the business -- just because ‘we have always done it that way’ does not mean things must stay the same. It is easier for succeeding generations to be more objective about changes in the business.”

Now as the second generation is coming to ‘that age,’ the business and succession plans must be revised. Currently there are no active third generation ‘heirs’ in the business. As the situation now stands, the youngest surviving active family member would eventually end up with full ownership. For the business to continue past this generation, it will be essential to develop a process to transfer management and ownership.

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When Does a Family Need a CFO?

By John Przybylski, JD, LLM, CFP®

We’re all familiar with the role of a Chief Financial Officer (“CFO”) in business, but when does a family need one? In a corporate context, the CFO is responsible for financial analysis; accounting and budgets; and overseeing insurance, banking, investments, and certain legal issues. By focusing on the numbers, the CFO provides one of the crucial inputs to the CEO when managing to the business goals.

Families with significant wealth often have many traits of an operating business, with similar demands and financial resources at stake. For families just coming into wealth, the challenge is to manage the wealth with the same adroitness it took to create the wealth in the first place. Unfortunately for most, the job of managing a family’s wealth usually requires a different set of skills. For the family, managing their wealth can be a distraction from more profitable and/or enjoyable activities.

Families of great wealth traditionally have met this challenge by creating a family office headed by a full-time, dedicated CFO. Others, like many of our clients, need some of the expertise of a CFO, but don’t want the expense of a full-fledged family office. Federal Street Advisors often serves as the Family CFO, as described below, in those scenarios.

Building and maintaining a strong advisory team

If an advisor is going to play this important CFO role, coordinating efforts with the family’s other advisors is one of the most important jobs. Taking active responsibility in these vital relationships means building and maintaining connections with the family’s CPA, bookkeeper, attorneys, insurance brokers, outside philanthropic contacts, money managers, and lenders. The objective is to make sure these advisors have up-to-date financial and investment information, and that all involved communicate and strategize as a team to take advantage of opportunities as they present themselves.

Bringing order, expertise and perspective to every aspect of a family’s financial life

The two main benefits of hiring a capable family CFO are creating emotional distance from the family’s wealth and bringing to bear experience from someone (or a team) who has dealt with similar circumstances. The responsibilities of the family CFO generally include addressing most (or all) of the following areas:

• Keeping current, detailed balance sheets. A detailed and complete balance sheet is a necessary starting point for almost all of the other analyses for which the CFO is responsible.

• Income and estate tax planning. The importance of understanding and optimizing tax outcomes cannot be overstated. Income taxes can take up to 50% of earnings, and estate taxes can take another 50% at death. The CFO must have a strong background and understanding of the intricacies of tax law, and must be committed to staying abreast of changes in the law. This minimizes the chances of a mis-step that could cost additional taxes. It also allows the CFO to better partner with the family’s CPA and/or estate attorney, creating a powerful team that can consider all angles of the family’s complex matters.

• Investment management. Overseeing investments is a primary responsibility of the family CFO. This often entails working with outside money managers, with the CFO managing overall asset allocation, manager selection and ongoing monitoring. Doing this well is important; investment performance is the family’s financial lifeblood. By partnering with the other advisors, the investment portfolio can be built to maximize return at an appropriate risk level by acknowledging the different tax consequences and time horizons of the various structures (like retirement vehicles or certain trusts).

• Life insurance. In addition to the obvious personal trauma that can be caused by the death of the primary wealth earner, that person’s death can also mean the end of his or her earnings cash flow and can affect a potential estate tax bill. Life insurance can be a means to address those issues. It can also serve another purpose. When viewing the family’s portfolio as a whole (including wealth transfer to future generations), life insurance can act as a portfolio diversifier as its return pattern can be very different than other assets in the rest of the investment portfolio. It is the job of the CFO to review the appropriateness of the structure and amount of any existing coverage and work with the insurance advisors to determine if the policies are performing as they should be, and if not, whether they can be fixed or should be replaced with new policies.

• Property and Casualty Insurance. The job of managing wealth includes the responsibility to protect it as much as possible against the risk of loss. If the family’s house burns down, will the insurance proceeds be adequate? Is...
there adequate insurance coverage in place in the event that a family member injures someone in an accident and is sued? The family CFO can work with outside appraisers and insurance providers to help ensure that there is adequate homeowner’s, auto, umbrella, malpractice, and directors and officers insurance.

- **Long-term care insurance.** While many wealthy families can technically afford to self-insure for long-term care, they may prefer to take out some long-term care insurance to protect the portfolio against the costs of long-term care. The CFO can work with outside insurance providers to review options.

- **Loans.** The CFO tracks family loans on the balance sheet and alerts the family when any of the loans should be refinanced. The CFO also works with lenders - shopping and negotiating for the best terms.

- **Budgeting.** How much does the second house cost to maintain on an annual basis? The boat? Even families with substantial wealth often need help with budgets. The CFO can work with the family’s bookkeeper to help the family track and understand their ongoing expenses and to budget for extraordinary expenses.

- **Financial projections.** Is the family’s draw rate sustainable? Will it allow the portfolio to support retirement and philanthropic goals, and leave enough for the next generation? While no one can predict the future, financial projections can be a valuable tool to chart the trajectory of a family’s wealth under a variety of scenarios.

- **Financial education of the next generation.** The CFO is particularly well-suited to assist with the financial education of the next generation. For example, Federal Street’s popular “Investments 101” curriculum has been very helpful for a range of clients as it can be tailored to focus on a variety of investment and budgeting issues. Beyond that, organizing and moderating a meeting or a series of educational meetings with other advisors, or meetings in which the senior generation “opens the book” and reveals details of the family’s wealth and estate plan to the next generation, is also a helpful exercise for the CFO to perform.

### What boats and families have in common

Small fishing boats and expensive yachts have something in common: they both transport people across water. But there are vast differences as well, and it takes significantly more skill to build the latter. Both must be seaworthy, but expensive yachts have full living quarters and many more moving parts to manage.

In the same way, people of both moderate and great wealth have analogous issues with money. Both must manage their investments, budgets, insurance and so forth to be sure they’re “seaworthy.” But those with significant wealth inescapably have additional complexity and moving parts. A family CFO can take on that complexity, pay attention to the details, maintain a well-oiled advisory team and keep an eye on the big financial picture - allowing the family to focus their energies on more productive and enjoyable pursuits.

John Przybylski has been Chairman and Founder of Federal Street Advisors since 2009. As an attorney, he has a thorough understanding of complex tax implications and has substantial experience representing clients before the Internal Revenue Service and state taxing authorities. John previously served as the Director of Financial Planning at LongVue Advisors, and was a supervising attorney in the financial planning department of a leading accounting firm in Boston. John earned his J.D. and LL.M degrees at the Boston University School of Law and a bachelor’s degree in economics at the University of Michigan.
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By Chelle Carey, IAIP Member and President of the Insurance Associates of Greater Indianapolis; Donald B. Kite, Sr., J.D.; and Miriam A. Rich, J.D., CIIP, and IAIP Member

As if work were not challenging enough, with you being responsible for several hundred claims while keeping your well-intentioned supervisor informed of your various comings and goings, or handling renewals and requests for certificates of insurance or loss payable documentation, you receive your afternoon mail and it includes a mailing from a law firm. The mailing may consist solely of a document which looks very much like a legal pleading (with a caption that identifies the parties to a dispute), is directed to you or your employer, and it is entitled “notice of deposition” (with or without an accompanying subpoena). What do you do?

As your daily work may include retaining and working with counsel, you are likely somewhat familiar with what a deposition is -- although you have not actually had your deposition taken before. You know that an oral deposition provides the opportunity for an attorney to question an individual witness, under oath, in order to discover or “find” the facts which are known to the witness. An oral deposition, you know from the experience of working with lawyers and handling your own claims (or from watching television), results in the attorney’s questions and the witness’s answers being transcribed, in question and answer format, by the court reporter who attended the deposition.

Treating a Notice of Deposition Seriously

Although few individuals admit to enjoying the experience of receiving correspondence from attorneys, you experience less anxiety than most when receiving correspondence from an attorney because communicating with attorneys is, after all, a part of your job. While you are not paralyzed by fear because you are familiar with what a deposition is, you are right to take immediate and meaningful steps to address the notice and/or subpoena which you just received rather than simply placing the document(s) in the stack of documents that you or your assistant file away or shred when time permits.

Our intent is to explore some of the issues which are presented and some of the concerns which emerge when one receives a notice that an attorney wishes to take her deposition, including the process of a witness or deponent becoming prepared for the deposition. As applicable rules and local practices differ depending on the jurisdiction, this article is intended to provide a general analysis of this topic. The reader is of course advised to consult with an experienced lawyer in their jurisdiction regarding the matters which are addressed here.

Knowing to Whom a Notice of Deposition is Directed, and Retaining Counsel

The first step, of course, is determining to whom the notice of deposition and subpoena are directed, what type of deposition is being taken (fewer deposition notices specify that the deposition will be videotaped although this is permissible under most if not all trial rules), and the pertinent time frame. While the fact that your name is on the deposition notice does not necessarily mean that the sending attorney desires to take your deposition, it is wise to initially consult with your employer’s legal department to determine whether the sending attorney is indicating that they wish to take your deposition as a representative of your employer, seeking to bind your employer with your answers to the sending lawyer’s questions (lawyers refer to this type of deposition as a 30(b)(6) or a “corporate representative” deposition), and whether the lawyer serving the notice may be satisfied if you or someone else produces specified documents.

If the lawyer serving the notice of deposition wishes to take your deposition as a representative of the company, your employer will retain counsel to prepare you and to represent your and your clients’ interests at the deposition. If the sending attorney seeks to take your deposition as a witness to a matter involving your employer, although not as your employer’s designated representative, your employer typically will retain counsel to represent you.

If, on the other hand, the notice of deposition relates to a purely personal matter, you will need to consult with an appropriate attorney, at a minimum, regarding both what is at stake, the type of questions you should expect, and the deposition process. Appropriate counsel...
means an attorney with sufficient experience in the relevant area or areas of law and not your nephew, the budding real estate lawyer who promises not to charge you for his “help.” While you may desire to represent yourself – thereby avoiding unnecessary legal fees, and while you may well be as smart or smarter than the attorney who ultimately takes your deposition, hiring counsel, as opposed to representing yourself, allows a deponent to rest assured that there will be someone with them in the room where their deposition is taken (typically an ordinary office conference room) who is familiar with the questions that may appropriately be asked by the opposing attorney and who is objective in the sense that he (your attorney) does not have a personal stake in the outcome.

Knowing When and Where Your Deposition Will Occur

Having a clear understanding of the pertinent time frame when your deposition is to occur is obviously critical. While you or your employer (depending on the context) may be sanctioned (meaning that you may have to pay a sum of money, essentially a fine) if you fail to appear for your deposition at the date, time and place which is specified in the notice or subpoena, lawyers will occasionally insert a date, time and location into a notice or subpoena without noting that they view this information as a proposal that they are willing to modify once they know they have your or your attorney’s attention.

The safest practice is to always assume that the date, time and location which are specified in the deposition notice or subpoena are set in stone unless and until you learn and confirm (if at all possible in writing), this is not the case.

Preparing for Your Deposition

Once you or your employer has retained counsel to represent you and/or to protect your client’s interests at your deposition, you should begin the process of carefully preparing, with your attorney’s assistance, for your deposition. In this regard, while your conversations with your counsel are protected by the attorney client privilege, which means that the attorney taking the deposition is prohibited from literally asking you what you said to your attorney or what she said to you, you should know that the attorney who takes your deposition may of course ask many if not all of the same questions.

Because the recipient of a notice of deposition and subpoena in a civil case does not have the same right to remain silent (unless criminal issues may arise) as a defendant in a criminal case, it is likely that you are going to be asked many questions which you will be required to answer. In order to prepare you for your deposition your counsel will ask to meet with you at least once, and will spend a good portion of your time together letting you know the do’s and don’ts of the deposition process, preparing you for the types of questions which opposing counsel is likely to ask, and going over
specific questions and critical documents. If you have questions, and there really is no such thing as a “stupid question,” ask your counsel. Your attorney will appreciate having the opportunity to address your specific concerns and the issues you believe may arise before rather than during or following your deposition.

While certain problems or issues may be avoided at a deposition by well recognized file management practices such as documenting a claims file in such a way that no ‘land mines’ exist that you need to be concerned about during your deposition, discussing problem areas with your counsel prior to your deposition will allow you to react rationally and with the benefit of your counsel’s advice rather than being put on the spot and being forced to ‘wing it.’

Depending upon the potential land mine at hand, your counsel may advise you that the best approach is to concede a particular point and move on or to offer an explanation that might not have occurred to you had you proceeded without discussing the issue prior to your deposition. And, if your attorney does not volunteer the information, ask what your role is in the overall litigation – why is your deposition worth the expense the party is incurring? The reason may surprise you, and may open your eyes to other ways you can benefit the litigation.

The Setting

In preparing you for your deposition, your attorney, as someone who regularly takes and defends depositions and is primarily involved in litigation, should describe the setting for you so you are as comfortable as possible when your deposition is taken. Unless your deposition is being videotaped it is typically unnecessary to dress formally. Although most counsel defending a deposition simply want their client or deponent to be comfortable, you should confirm with your counsel if business casual attire is appropriate.

You should know whether your deposition will occur at the other attorney’s office, your attorney’s office, or a court reporter’s office, depending on the attorneys’ preferences, and that the only persons who are entitled to attend are the parties to the dispute, the attorneys and the court reporter. While exceptions are sometimes made when a witness is elderly, very young, or for some other compelling reason, if someone other than a witness, the attorneys and the court reporter is permitted to attend they are expected not to participate in any way. However, neither attorney is required to admit others to the room where your deposition is taken. While you and your attorney will sit across the table from the attorney who is taking the deposition, whose client may or may not attend, the court reporter will generally sit near a power source.

A deposition is not supposed to be an endurance test and you will generally be permitted to have water with you and to take breaks without indicating a specific reason (such as the fact that you need to use the restroom), although most attorneys will insist that their pending question be answered before a break is taken. If you have a particular medical condition
or some other reason exists which makes it difficult or impossible for you to sit for a lengthy period, you should advise your counsel so they can facilitate a solution such as advising the other attorney that you will need to alternate between sitting and standing, be close to the door, or take more frequent breaks than is typical.

Instructions and Suggestions Regarding the Deposition Process

Given what is generally at stake in disputes where the costs associated with taking depositions are justified, your attorney will provide clear instructions and advice in order to minimize the risks associated with your being questioned by another attorney and he or she should provide you plenty of opportunity to answer questions. The most important advice which we regularly give our clients is to listen carefully to each and every question that you are asked and to testify in accordance with the oath or affirmation that you take at the beginning of your deposition. In other words, answer only the question which is asked and always, always, tell the truth. There are no exceptions to this simple rule. Years of experience taking and defending depositions confirms the fact that witnesses who seek to protect their employers’ interests by ‘spin[ning] the truth’ in their employers’ favor at the expense of the truth nearly always make matters worse for their employers or themselves, unnecessarily lengthening and otherwise complicating their depositions and putting their own credibility at risk.

Deponents are well advised to listen carefully to each and every question which is asked, to ask the questioning attorney to repeat or rephrase the question if the deponent did not understand it, to pause for a moment before answering (chiefly because every word one speaks during a deposition is important and generally permanent, notwithstanding the fact that deponents are given the opportunity to make corrections to their deposition transcripts, and because talking at the same time as the attorney who is asking questions causes a variety of problems), and to stop talking after they have answered the question which you were asked. Many deponents start out well enough with respect to answering only the question which they were asked only to become convinced, as they grow more comfortable or tired, that they are involved in a friendly chat and to volunteer information that the question did not seek. Remember the adage: silence is golden. Do not fall into the trap set by cagey lawyers of casually reviewing notes to see if the witness will offer some gem of information to fill a period of silence. Depositions, even when conducted by lawyers who appear friendly and interested in what you the deponent have to say, are not the equivalent of coffee with a friend. Nothing could be farther from the truth.

While you should not do anything to prepare for your deposition that your attorney has not indicated you should do (such as reviewing other files or doing research), it is important that you know, to the extent indicated by your counsel, your subject, area or file. One of the reasons that you should not engage in your own research, reviewing files, speaking with other potential witnesses including your supervisor(s), and conducting your own fact-finding, is that nearly every attorney who takes a witnesses’ deposition begins the deposition by asking what you did to prepare for your deposition including with whom you spoke, whether you visited the scene of the alleged occurrence, what you read, etc. We generally like our deponents’ answer to be that they spoke with their counsel and reviewed the plaintiff’s complaint or other specified documents, period.

Unless your attorney has previously advised you that she has no problem with your doing so, do not guess or provide estimates (and if you do estimate, make clear on the record that you are estimating), and avoid the temptation to try to help the attorney who is taking your deposition, even if he is struggling. By the same token, avoid jokes or sarcasm during your deposition as the same have no place in this setting and can lead to problems with the attorney who is taking your deposition. A quick example makes the point. While it would be difficult to pinpoint one (1) specific problem which led to the many terse and difficult exchanges between Microsoft’s Bill Gates and the government lawyer who was charged with taking his deposition prior to the 1999 Microsoft antitrust trial, Gates’ sarcastic response to a question regarding whether he would be more comfortable characterizing an email in a different way, that he (Gates) had “never been comfortable with lawyers mischaracterizing the truth,” certainly contributed to an already tense deposition. (September 29, 2013 Seattle Times.)

Also, be mindful that exaggeration is never appropriate when testifying. What may seem harmless in your mind could suggest something vastly different when read to a jury during your cross examination at trial. For example, when describing your familiarity with an insured’s practices you say, “I’ve handled tons of claims for XYZ Manufacturing.” You may mean there was (1) workers’ compensation, (2) auto liability, and another GL claim in the course of an annual policy. An adept attorney can make it sound like the insured is quite careless and not safety-conscious, and spin your statement into an inference that XYZ Mfg. would rather pay a higher insurance premium than protect the public and its employees.

Know that the Lawyer Who Defends Your Deposition, While She is Not a ‘Potted Plant,’ has a Limited Role at the Deposition Itself

It is best to view the attorney who is assisting you as your advocate and as someone who has an important role to play in the process. While lawyers’ individual styles vary, listen to your attorney and stop talking if they object to a particular question. They will advise you if they are objecting “for the record,” or if they are objecting and instructing you not to answer. Similarly, if your
counsel advises you, as President Clinton was advised by his counsel when he was deposed, to review a document before answering questions about portions of the document or to “just answer [the other attorney’s] questions” when you continue to testify after you have answered the question which was asked, you should listen carefully and follow your attorney’s instruction. (See WashingtonPost.Com, Jones v. Clinton Special Report.)

If problems do occur during your deposition, your counsel will know the law in their jurisdiction as it relates to the best way to deal with an attorney who is not civil with a deponent, a witness or with other counsel. Be mindful that your attorney allowing gruff questioning to continue may indicate confidence in your ability to remain calm and professional, and to show opposing counsel that you will not be easily ruffled at trial. Although every jurisdiction is different, the courts have generally grown tired of dealing with attorneys who abuse the discovery process, other attorneys, litigants and witnesses.

You should not be concerned if the attorney who prepares you for and defends your interests at your deposition asks no questions when the other attorney indicates that he or she is finished. In most depositions, the attorney who defends a witness’s deposition asks no questions. This is so for one simple reason: Your deposition provides an opportunity for the inquiring attorney to learn more about his case, your file, or your position. Your opportunity to make your position clear, to ‘tell your story,’ or to defend yourself or your employer will come later. Accordingly, when an inquiring attorney has indicated that he has no further questions for you, your counsel generally will not risk asking you additional questions unless a problem arose during your deposition which must be immediately ‘nipped in the bud.’

Finally, in the deposition, remember the advice your counsel gave you before it started. Do not be intimidated by the people or the process. You – the deponent – are the most important person there, because you have the information someone wants badly enough to expend significant resources to obtain. Being nervous is anticipated, and is fine. Just think through your nerves, retain your calm demeanor and your composure, answer directly and even without the right to remain silent, what you say may well be used against you in a court of law.

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Together we’ll go far
A report released earlier this year from the Chicago-based Spectrem Group estimated there were 8.99 million households in the United States with a net worth of at least $1 million at the end of 2012.

A contrasting report issued late last year from the American Payroll Association showed 68 percent of Americans live paycheck to paycheck. More than two-thirds of the 30,600 people surveyed said it would be somewhat difficult or very difficult if their paychecks were delayed for a week.

Is it possible for that average American to become a millionaire?

American millionaires are not all greedy corporate executives. Dr. Thomas Stanley has studied the habits of wealthy people for the past 30 years. His groundbreaking research has uncovered the truth about the lifestyles of the wealthiest Americans.

• Four out of five millionaires are self-made.

• Many millionaires own their own business and consider themselves to be entrepreneurs.

• Their companies are rarely glamorous and are more likely to be very ordinary jobs, like paving contractors and pest control businesses.

Becoming a millionaire most likely doesn’t just happen to you. Rather, it takes planning and perseverance. Here are some steps you can take to grow your net worth:

1. Live below your means

This step is so obvious we shouldn’t need to be reminded. Unfortunately, most people never learn to spend less than they make. Unless you discipline yourself to save something from every paycheck, you will never be able to accumulate money that can work for you. The secret to living below your means is to have a budget and work your budget every month.

2. Save a minimum of 10 percent

George Clason’s classic book “The Richest Man in Babylon” tells the story of a man who wanted to become wealthy. He started by saving 10 percent of his income and eventually became wealthy by having his money work for him. Research has shown many of today’s millionaires accumulated their wealth by saving and disciplining themselves to increase their savings every year.

3. Invest your savings in businesses

Your savings should be put into growth-oriented investments. Not everyone has the ability or desire to start and run their own business. However, we all have the opportunity to own businesses by buying stock. Stock prices can be volatile but you can minimize the volatility by owning stocks through diversified mutual funds. Investing on a regular basis allows you to take advantage of the stock market downturns through dollar cost averaging.

4. Don’t follow the herd

The Great Panic of 2008 turned out to be one of the greatest buying opportunities. Stock prices fell by more than 50 percent during this downturn and have recovered to move on to new highs. Unfortunately, many investors sold their stocks during this period instead of buying, as evidenced by the net redemptions of stock mutual funds which totaled in the billions. This prompted legendary investor Warren Buffett to write in an op-ed article for the Wall Street Journal entitled “A simple rule dictates my buying: Be fearful when others are greedy, and be greedy when others are fearful.”
5. Hire a financial adviser

It’s not easy to stay the course. You often need an independent third party to remind you of your goals and help you make the right financial moves -- especially during times of great uncertainty. A good financial adviser will try to help you develop a good investment strategy and keep you focused when you need it most. Investors often make their biggest mistakes by allowing emotions to interfere with good judgment. A financial adviser can help you keep your emotions in check.

Becoming a millionaire is not easy or there would be more of them! It takes discipline to live below your means and to save and invest. One of the millionaires interviewed by Dr. Stanley never made more than $60,000 per year.

“I have accumulated most of my net worth by living below my means,” she told him. “I have everything I want, but I have learned not to want too much.”

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How Do You See Risk?
Risk Management Is All About Your Perception

By Alice Underwood and Dave Ingram

Have you noticed that it is almost impossible to get everyone to agree about how (or even whether) to practice risk management at your company? Both organizations and people have risk attitudes that lead them to different conclusions about the best way to manage risk. Within each company, research shows that there are likely to be four different, and often incompatible, risk attitudes.

Perspectives on Risk
The four basic risk perspectives were first identified through research in the 1980s. Clear patterns emerged in the data, and they have proven quite resilient over time. Within businesses, most people tend to identify with one of four perspectives.

1. Maximizers - This perspective does not consider risk to be as important as profits. Businesses managed according to the Maximizer perspective will accept large risks, so long as they are well compensated. Managers who hold this perspective believe that risk reverts to the mean—gains will always follow losses—and the best companies will have larger gains and smaller losses over time.

2. Conservators - According to this perspective, increasing profit is not as important as avoiding loss. Holders of this view often feel that the world is filled with many, many dangerous risks that they must be very careful to avoid.

3. Managers - Carefully balancing risks and rewards is the heart of this perspective. Firms that hold this view employ experts to help them find the risks that offer the best rewards, while managing these risks to keep the firm safe. They believe that they can balance the concerns of the first two groups, plotting a very careful course between them.

4. Pragmatists - This perspective is not based on a specific theory of risk. Pragmatists do not believe that the future is very predictable, so they avoid commitments and keep their options open to the greatest extent possible. They do not think that strategic planning is especially valuable, but rather seek freedom to react to changing conditions.

Each of these four different perspectives prefers a different strategy for dealing with risk. Firms led by Maximizers seek out risk, believing that no risk is inherently unacceptable. Every risk presents an opportunity; the trick is to negotiate appropriate compensation for the downside potential. Conservator-led organizations shun risk of all sorts, while Manager-led firms carefully manage and calibrate both the amount and type of risk. Firms led by Pragmatists seek diversification but otherwise have no overarching strategy. They operate tactically, reacting to each new development.

Risk Management Strategies
People aren’t the only things that fall into categories. Careful examination of risk management practices in a large number of firms reveals that there are also four different strategies that fall under the general heading of risk management.

1. Loss Controlling - This is the most traditional form of risk management. It seeks to identify and mitigate the firm’s most significant risks, including safety programs that seek solely to reduce losses. One characteristic of these processes is that they often seek to get everyone involved, it is favored by Conservator-led firms, and is particularly appropriate for managing risks that are acute and severe.

2. Risk Accepting - Many financial firms favor an approach to risk that focuses mainly on getting the price of risk correct. For banks, this can lead to complicated models of risk and reward. A Risk Accepting strategy is most often applied on a transaction-by-transaction or project-by-project basis. Non-financial companies will choose projects that will be highly profitable if they succeed. This type of risk strategy is favored by Maximizer-led firms. It works well for risks that are relatively benign.

3. Risk Steering - Under this approach, the major strategic decisions of the firm go through a rigorous planning process coupled with intense analysis. Risk decisions are based upon careful cost/benefit and risk/reward analyses, which is perhaps why many think that risk steering is real enterprise risk management (ERM). Risk Steering ERM is highly favored by academics and consultants; manager-led firms find it appealing, but companies that hold any of the other three risk attitudes do not. This strategy is particularly appropriate for a highly complex portfolio of risks.

4. Diversifying - Spreading exposures among various classes of risks and avoiding large concentrations of exposure is another traditional form of risk management. Formal Diversifying programs will have targets to spread risk with maximums and minimums for various classes of risks. The newer ERM discipline adds the idea of interdependencies across classes, providing better quantification of the benefits of risk spreading. Pragmatists tend to favor Diversifying because it maximizes their tactical flexibility, but they avoid reliance on any particular risk mitigation process and often mistrust quantitative measurement of risk. Firms whose risks are highly uncertain often choose this strategy.

Changing Risk Environments
The existence of the four different risk
perspectives can be explained. All four are correct, but not all at the same time, because over time, the risk environment changes. Most people think of things as either “normal” or else “broken.” But few agree about what normal is. An observer viewing the world through the lens of the Conservator might say that extreme hazard and danger are the normal state of affairs, while a Maximizer, finding this view timid and overly pessimistic, might argue that profitability is normal and hazardous conditions prevail only when the market is broken.

Expanding our view beyond the binary outlooks of normal/broken allows for the possibility that both the Conservator view and the Maximizer view can make sense. Consider a model of the risk environment with four risk regimes: Boom Times (risk is low, profits are rising), Recession (risk is high, profits are falling), Uncertain (risk is unpredictable, profits might rise or fall) and Moderate (risk and profit both fall within a predictable range).

Such a model seems to be a reasonable description of the phases of business and economic cycles. As the cycle moves through these four different states, external conditions match the world view of each of the four different risk perspectives. Each perspective has been right part of the time—and will be correct again at some point in the future. But none of the risk perspectives is perfectly adapted to external conditions all of the time.

Purists with the Manager point of view may object that their view takes into account the full range of the cycle. But economic cycles are not simple, sine curves; the period and amplitude are irregular and unexpected. “Black swan” events do occur, and there are always “unknown unknowns.” Model risk can never be eliminated, and restricting risk strategy to a Manager-only view obscures this important fact.

A Risk Steering ERM program works especially well in a Moderate environment when risks are fairly predictable. But in Boom Times, firms following this path will unduly restrict their business—not as much as Conservator firms, but certainly more than Maximizer firms. More aggressive competitors will be much more successful. In a Recession environment, a Risk Steering ERM program again advocates a middle path; but this may mean that the firm sustains too much damage to fully take advantage of the market when it turns. And when times are Uncertain, Risk Steering firms will be frustrated by frequent surprises and a world that does not quite fit the model. Competitors not tied to a particular view of risk will fare better.

**Aligning Strategy with Environment**

Why do corporations adhere to a particular risk perspective? Often, the firm was formed when the environment aligned with its perspective. Alternatively, the company may have suffered traumatic damage during a period of dissonance between an old perspective and the risk environment, and then made a shift—perhaps under the direction of new leadership. Another possibility: The firm may have been wildly successful at some point and now stubbornly clings to the strategy that worked for it in the past. Corporate culture tends to be self-perpetuating. Individuals are drawn to employers with a perspective that makes sense to them, and those in a position to hire staff whose views mesh with their own. Yet there are always companies that follow strategies that are poorly aligned with the environment. Some of these firms muddle along with indifferent results and survive until their preferred operating environment returns. Others sustain enough damage that they do not survive. Some change their risk perspective and risk strategy to take advantage of the new environment. Meanwhile, new competitors may enter the market with risk perspectives and strategies that are suited for the current environment.

Since many of the poorly aligned firms shrink, die out or change perspective—and since new firms tend to be well-aligned with the current risk regime—the market as a whole adjusts to greater alignment with the risk environment via a process similar to natural selection. Ultimately, in an open market for goods and services, the firms best able to adapt to the market’s changing demands will enjoy the greatest success. No firm can be all things to all customers all of the time; but a firm that too severely limits its offerings—focusing on too narrow a market segment—may wind up making itself irrelevant. Philosophies of risk management face much the same situation.

To gain traction across the full spectrum of human risk perspectives, the firm’s risk management approach must include aspects that fit all four perspectives: Maximizer, Conservator, Manager and Pragmatist. To remain relevant and flourish in all risk environments, a company’s strategy must evolve and adapt, drawing different aspects from the entire palette of strategies to suit the changing environment.

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Technology Trends

Tweeting, Tech and the Future of Business

By Jeff Teschke

Small businesses are the backbone of our global economy. According to U.S. Census Bureau data, firms with fewer than 20 workers made up 89.7 percent of these businesses, and firms with fewer than 500 workers accounted for 99.7 percent of them. Those are some HUGE numbers. And, many of those businesses are family owned, operated and eventually passed to the next generation. But, in today’s fast-moving, always-on, connected world, the younger generation often has unique and conflicting views of how to leverage technology to sustain and grow the business for generations to come. So, what’s the best way to streamline the transition from generation to generation?

Let’s get geeky
Without a doubt, there have been some amazing advancements in the world of technology the last few decades. The Internet is ubiquitous, smartphones and tablets are more popular than PCs, and social media is here to stay. We’re more connected now than we ever were before.

But, for older generations, this break-neck pace of innovation is challenging to understand and keep up with. And, if it’s not understood, why would they want to invest the time, energy and money to leverage it? They wouldn’t.

That’s why education is critically important. Our parents may not care enough to send a tweet, but that doesn’t mean that they shouldn’t understand the power of Twitter. It’s up to us, the next generation, to show why and how the business world is changing.

But, it’s a two-way street. Having an open mind and brainstorming what the company might look like in the next 10, 20 and 30 years is a great place to start. The older generation has decades of experience and wisdom they earned the hard way – by doing. That’s invaluable and absolutely needs to be preserved long after the baton has been passed to the next generation.

Technology is merely a tool
It’s easy to lose sight of the big picture when it comes to technology. There’s something new and shiny vying for our attention daily. The world moves fast, and with the help of technology, it moves even faster. But technology is merely a tool. It’s not going to fix a broken business, nor will it break a great business.

Although, when used correctly, technology can provide an almost unfair advantage to those who leverage it to help build the business. But, even then, your business is still your business.

And that’s the biggest takeaway. The outgoing generation knows the business better than anyone else and the incoming generation knows technology better than most. The goal, therefore, is to combine a little of each to position the business for the years ahead.

Business is all about relationships
In the old days, our parents made relationships by shaking hands and making phone calls. Today, we have Facebook, Twitter, LinkedIn and other social media to do the same. So, while this does change the way we engage with people, it likely does not fundamentally change our businesses. And that’s important to realize.

For the younger generation, the key is to understand the technology and the business enough to apply the tools that are most beneficial.

Tools of the trade
Every business is unique, but here are a few examples of where technology is changing the business landscape:

• Your Website – In the past, people grabbed the Yellow Pages or asked for a brochure. That’s no longer the case.
Most head straight to your website. Make sure yours is impressive, up-to-date and accurately represents your business. If it doesn’t, it’s time for an upgrade. And, while you’re at it, make sure it’s “responsive” – meaning that it should work beautifully on today’s smartphones and tablets.

• **The Books** – In the past, businesses used paper and pencil to keep track of income and expenses. Then, in the recent past, QuickBooks became the go-to tool. Now, QuickBooks Online is the preferred choice. There’s no software to install or backup. Everything is “in the cloud” – meaning that you, your team and your accountant can access it from anywhere and anytime. Another popular option is Xero.

• **Email** – It’s hard to remember a world in which smartphones and tablets didn’t exist, but that was just a few years ago. We’re more connected and mobile than ever before, and this means that our email should be, too. Microsoft recently got into the game with their Office 365 offering. Check it out for an inexpensive email solution that stays up-to-date across all of your devices automatically. You’ll wonder how you lived without it.

• **Social Media** – Business is useless without customers and clients. Where and how we find them is quickly changing. Handshakes and referrals will always be a big part of successful businesses, but social media networks like LinkedIn, Twitter and Facebook provide a direct channel to get in front of our target audience. LinkedIn is especially powerful for B2B businesses. Facebook and Twitter are well suited for B2C. Regardless of the chosen options, remember that it takes time to build relationships and trust. Keep at it to see results.

• **Utilities** – There are thousands of low cost web tools available, from sales pipeline management, business analytics, time tracking, invoicing, customer support, project management and more. The best place to start is to identify areas within your company that seem slow and inefficient. Chances are there’s an app for that.

**Business as usual**

It’s easy to get distracted by the tools. They are complex, confusing and always changing. But don’t let that distract from what makes your business tick.

Today, we have some amazing options to streamline operations and reach people like never before. Our grandparents could only dream of such options. Combine today’s tools with the experience and wisdom from the older generation, and we have the ability to do something amazing. We just need to make it happen.

Jeff Teschke is Founder and President of Forge3, Ltd., an award-winning technology firm offering specialized education, products and services for the insurance industry. Learn more and be inspired at forge3.com.

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Chris Kelly-Storbeck
Owner of Omega
Financial and Insurance Services

The Rewards of Owning a Family Business

Interview with IAIP Member and Former President

By Sharon Smith, Editor

Q: What is the name of your business? What type of business is it and how long has it been in existence?
A: Omega Financial and Insurance Services. We offer personal lines and business insurance as well as life, disability and investment advisory services. We incorporated in 1982.

Q: How many employees did you start with and how many do you have now?
A: John Storbeck, my husband, started the company and hired his first employee about 18 months later. There are 6 of us now. Allison works with John and recently obtained her investment advisory license. She is also licensed in property and casualty. Our son, JC, sells commercial lines and Danelle and Eric handle the personal lines. I manage the P&C business and work with JC on the commercial insurance. I am also licensed in life and I’m the office manager.

Q: Why did you decide to start your own business? Had you been working in insurance for another company previously?
A: John and I both started our careers with Safeco Insurance Company. He and I met there when he was a Commercial Property Underwriting Manager. He left in 1977 to work in an agency. Later, he left the insurance industry to work in sales for the Seattle Mariners. He loves baseball. The team was purchased in 1982 and the front office people, including John, were let go by the new owner. He worked in a series of side jobs until he decided to start an insurance agency. He purchased a shell corporation from a business that was ending and sold only life insurance in the beginning because it did not require any administration. Eventually, the marketing manager who worked for John at Safeco asked him to sell P&C. He agreed as long as they did not require quotas.

I stayed with Safeco until 1992 when the company reorganized. I was a manager and my department was merged elsewhere in the company. The job I was offered involved working in downtown Seattle and it was not a good choice for me at the time. The agency is located in Kirkland on the eastside of Lake Washington, which could be a 40-45 minute commute from Seattle. Our children were young and my husband was handling all of the doctor’s appointments and parent-teacher sessions at school. He urged me to leave and join him in the business. I gave in but did not like it for the first year or so. It was like losing part of your family because I had been at Safeco so long.

Q: Do you think owning your company is more rewarding or fulfilling than working for another employer?
A: Being your own boss has a lot of rewards. You are accountable to yourself. You have an opportunity to build a business and watch it mature. Flexibility is an added bonus. It was great not to worry about the time for appointments with my children’s doctor or school. I worked at home when they were ill.

My husband was also free to structure his business in a way that allowed him to do what he wanted. He started in life, health and disability (gave up the health
insurance, thank goodness) and evolved into investments. He still does life and disability, but his investment advisory services have flourished.

**Q:** Is owning your own business more challenging than working for another employer?

**A:** When I left Safeco to work in our small agency, it was quite a shock. At Safeco, I had worked in a world of computers and had other technology at my finger tips. As a manager, I delegated on a daily basis to employees. However, at our agency, we had one computer and if I needed something to be done, I only had to look in the mirror.

Technology is not the only challenge -- you need marketing, an IT specialist, trained producers, front desk personnel, accounting and finance, etc. You have to be very creative in hiring individuals who are knowledgeable and capable of multi-tasking. For example, I am a licensed agent, a CSR, office manager, P&C manager and I handle the accounting and finance. We also own the office building and manage the associated tasks. Our front desk is automated and we outsource IT. We are blessed with an excellent staff.

Vacation time presents its own kind of challenges. We are often tied to a laptop and a cell phone. However, we have taken a few trips when we could not be reached – Alaska cruise, Great Barrier Reef and Africa. It was heaven. Our employees are very talented and can problem solve well, but stuff happens.

I think John would say that he sometimes feels like he doesn’t know the details of what is going on especially in my corner of the business. We have a marketing meeting with everyone once a week which is a perfect time to catch up. By the way, the marketing meeting is one of the best things we have ever done. There is a lot of problem solving and innovation that goes on. It takes a lot of commitment and juggling to make it happen, but our sales went up as a result.

**Q:** What type of marketing strategies do you use for the agency?

**A:** We have media savvy employees who know how to promote our business through our website, Facebook, Twitter and LinkedIn. Our personal lines producer has a personal Facebook page linked to our company Facebook page. She posts daily and works with a company who also provides insurance content. We are careful to keep our posts interesting or humorous rather than all insurance, which can be rather dry.

Our employees belong to networking groups focused on the generation of leads. Both John and I belong to trade organizations which generate investment opportunities as well as leads for insurance. We participate in community events such as food drives and promote the Make-a-Wish Foundation. We also are a vendor at several trade shows each year where we feel there is an opportunity to write the business we focus on. Our personal lines producer is there as well. We also participate in roundtable discussions with other agents and learn from them.

Our referral program had to be shelved because of the Washington state law regarding the use of incentives. One referral and you can reach the maximum allowed. We are looking at giving to their personal charity.

**Q:** Do you plan to pass down your company to your children and/or grandchildren? If so, what types of financial planning or business succession guidelines are you following?

**A:** We have discussed this at length. The investment side of our business is very successful and the business would take a big hit without my husband. We have purchased key-man insurance to soften the blow and allow the business to adjust.

Our staff is young, which includes our son, and we have talked at length about how they could continue the business. However, there are a lot of steps to be taken and our plan is still being developed. Being small creates problems as well, since the loss of a key employee can create havoc in the best laid plans.
**Q:** There’s a survey that states that most family-owned businesses do not survive by the time the third generation is ready to take over because of poor financial management. What would you do to ensure that your agency does not fall into this trap?

**A:** We have 3 sons. Our son is a great salesman, but his strength is not in running an agency yet. Two are not interested in joining the agency. We have 3 grandchildren, ages 14, 12 and 1 -- who knows what their interests will be.

We are in a good place financially, but it will be interesting to watch how things evolve in the next few years. My husband will probably work until he is 90 so he will be at the helm for awhile yet.

**Q:** What challenges have you seen in owning an agency during our recent economic recession?

**A:** We are experienced in dealing with economic recessions. We cut back on our expenditures and worked hard to retain business. It was a revolving door for awhile as customers purchased our policies only to leave when they had to shop around because of their own economic situation. Our investment business declined in a down-market, but the customer base remained loyal. Communication was the critical factor.

We also established a line of credit to be available when we needed to use it. This kept our revenue stream on an even keel during down times.

In the past year, we made some hard decisions regarding the responsibilities of our personnel. Regardless of size, businesses should give individuals responsibilities that fit their skills. We also hired a new producer who is having a very positive impact on our P&C business.

**Q:** What type of communication do you do with your customers to retain them?

**A:** We participate in marketing seminars with Safeco Insurance Company. They are helping us: 1) personalize our social media and website; 2) increase client communication through newsletters (enews and hardcopy), cards, welcome kit and other touches on the telephone through clients reviews (face-to-face if possible). The seminars are focused on personal lines, but are easily adaptable to commercial.

Our most important client retention communication is to “listen” to them. Most agents want to explain, but your explanations are much better received when they match the clients’ needs.

Educate your employees to enhance their skills not only in insurance, but career skills not only in insurance, but career skills that will make them better now and in the future. And, don’t forget to give rewards and other incentives based on goal achievements.

Become a team. Create understanding of your mission and values. They change over time. Give employees an opportunity to create your future.

Chris Kelly-Storbeck has been co-principal and vice president of Omega Financial Services located in Kirkland, WA since 1992. She specializes in commercial lines and manages personal lines. Before joining Omega, she worked in a variety of positions at Safeco Insurance Company, with 10 years on their management team at the Seattle, WA home office. Chris is married to John and they have 3 children and 3 grandchildren. She joined IAIP in 1982 and is currently a member of the Greater Seattle Insurance Professionals. She was the 2004-2005 IAIP International President. She belongs to IAIP International because belonging is good business.

Contact her at chrisks@omega-financial.com
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Welcome New Members

New Members from September 21, 2013 through November 15, 2013

**REGION I**
- James Brooks
- Tricia Bush
- Norma Dinsdale
- Leigh Dudley
- Donna Eckert
- Mary Jauss
- Jean Karacsonyi
- Lisa Laiacona
- Casey Lawrey
- Martha Morales
- Julia Oliva
- Sue Patterson
- Kiley Pawson
- Marlene Soraseun
- Elizabeth Valverde

**REGION II**
- Vera Britt
- Nicole Clinton
- Angela Henderson
- Eddie Hill
- Sharyn Kubinak-Everett
- Kathy Polley
- Steven Schallau

**REGION III**
- Sean Chappell
- Tas Cimmino
- Gabnela Diaz Fortuno
- Doris Hernandez Gracia
- Lissa Klein
- Maribel Lugo
- Debbi Mansolilli
- Vilma Medina Santiago
- Rachel Morton
- Lillian Plaza Hernandez
- Wildette Rodriguez Ruiz
- Ricardo Rosado Colon
- Dyanne Santiago Diaz
- William Smith
- Gloria Torres-Sanchez

**REGION IV**
- Fayre Bradshaw
- Mary Constantine
- Alyssa Emch
- Kenna Johnson
- Dawn Kibbe
- Ronald Massengale
- Mary McChesney
- Jessica Pannuk
- Jami Sims
- Amanda Terrell

**REGION V**
- Gregory Austin
- Denise Bast
- Courtney Billington
- Lori Boen
- Coyne Borree
- Jia Crist
- Christopher Gaddis
- Diane Henrich
- Beth Joas
- Justin Julka
- Carolyn Peterson
- Jennifer Richey
- Kyle Roberts
- Christie Talbott
- Rhonda Williams

**REGION VI**
- Sherrie Bell
- Lindsay Couvillion
- Joy Dillard
- Lindsey Dooley
- Daphney Elliott
- Jessica Funk
- Myra Latiolais
- Amy Nunez
- Jennifer Osborne
- Jourdana Passaro
- Tianna Rogers
- Callie Sawvel

**REGION VII**
- Elissa Biggerstaff
- Kandi Henry
- Regina Jackson
- Sarah Leisher
- Shelly Petty

**REGION VIII**
- Lydia Coldren
- Kristen Costa
- David Folmer
- Lili Gonzales
- Maria Humphrey
- Brian Lawrence
- Michelle Lopez
- Stacy Manning
- Carol McDonald
- Aziz Nazi
- Danielle Parker
- Barbara Peay
- Maria Perez

**REGION IX**
- Renee Allen
- Esther Allenbaugh
- Jennifer Brault
- Patricia Brown
- Shanna Campbell
- Natetisha Dollison
- Melissa Walker

International Association of Insurance Professionals is a professional association open to individuals in the insurance and risk management industries, and provides insurance education, skills enhancement and leadership development. Membership provides you the opportunity to increase your business productivity and profitability by participating in educational offerings and making business connections with other industry professionals. More than 70% of our members have advanced their careers through belonging to IAIP.

To join, contact John McColloch, Director of Membership, at 800-766-6249 extension 26, or email membership@iaip-ins.org.
Advance Your Career

IAIP offers the following prestigious industry designations:
Certified Insurance Industry Professional (CIIP)
Members may choose to earn the Certified Professional Insurance Woman (CPIW) or
Certified Professional Insurance Man (CPIM)
Diversified Advanced Education (DAE)
Certified Leadership Professional (CLP)

Congratulations to New CLPs

REGION I
Jennifer Brennen
Kimberly Fitzgerald

REGION III
Leslie McClure

REGION IV
Jacqueline Kushen
Angelia Poyner

REGION VIII
Kimberly Chapman

Congratulations to New CIIPs and CPIWs

REGION V
Mary Wittmann, CPIW

REGION VI
Rebecca Nauman, CPIW

REGION VIII
Connie Faria Eder, CIIP
Mariah G. Williams, CIIP

REGION IX
Malinda (Lindy) Gardner, CIIP

To learn more about these designations, including how to qualify, visit
www.internationalinsuranceprofessionals.org and click on Designations under the Education tab.
Contact Brandi Capps, Director of Education, at 800-766-6249 extension 18 for more information.

Save the Date

Join us at the
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More details on the Convention will be available in January at www.insuranceprofessionals.org.
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The Legacy Foundation was formed in 2006 as the philanthropic arm of the International Association of Insurance Professionals, best known for providing insurance education, skills enhancement and leadership development to its members.

The association members represent every facet of the insurance and risk management industries. Members of the association are located throughout the United States, Canada and Puerto Rico.

The purpose of the Legacy Foundation is to promote the continuation of the insurance and risk management industries by educating both insurance and risk management professionals through:

- Development of new education programs related to both the insurance and risk management industries.
- Presenting education seminars, workshops or keynote speakers to further educate professionals employed in both the insurance and risk management industries.

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