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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.

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

*Sharon Smith*
Managing Editor
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, according to the Boston College Center for Retirement Research — nine of 10 family fortunes will be gone.


There are a number of reasons that happens, and most of them are preventable, says Hartog; CPA Jim Kohles, chairman of RINA accountancy corporation, (www.rina.com); and wealth management expert Haitham “Hutch” Ashoo, CEO of Pillar Wealth Management (www.pillarwm.com).

How can the current generation of patriarchs and their beneficiaries beat the odds? All three financial experts say the solutions involve honest conversations — the ones families often avoid because they can be painful — along with passing along family values and teaching children from a young age how to manage money.

By John Hartog, Jim Kohles and Haitham Ashoo

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

**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. Child B will get his inheritance in a restricted-access trust. “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.”

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

Dr. Donald Baer Trust and Estate Law. He is a certified specialist in estate planning, trust and probate law, and taxation law. 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.
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.”

It’s not only 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. The time to evaluate a business is when the business owner(s) to act, although this is infectious, forming the backbone of the world’s most powerful economy. The primary objective is to motivate the business owner(s) to act, although this 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 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, and 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 the service of 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 is the 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?
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 us.”

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 are essentially betting their life on a bomb squad. By inaction, they have placed themselves, their families and many times a personal one that may involve other family members 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 incite 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 can 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 because 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 deductible) 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 profits of the business. A professional practice generates close to zero 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 benefits 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 buy-sell agreement should address two important concepts:

1. How long a total disability must last before a buy-out is triggered.
2. How much compensation (if any) is to be defined or determined. I would advise having the drafting attorney refer the policy number – i.e. totally disabled as defined by policy #12345 and issued by company XYZ. It’s very important to have the buy-sell definition match the policy definition.

Insulate From Within

For most closely-held businesses, the most valuable asset 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 a succeeds in doing that 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 with various titles. They are business management executives such as presidents 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 mid-size and current 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 shared sharing of assets between employer and employees, their trustees or any other policy ownership, employer control, funding obligations, and cost recovery. Choosing the appropriate financial tools on the degree of control and policy ownership required by the sponsoring employer. The only real constraints on plan design are competitive forces applied to the employer and the designer’s imagination. For example, a design I’m partial to is referred to as “triple dollar units.” 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. Enhance the overall stability 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.

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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 and the associated tax consequences relating to the transfer of ownership in the business to the new owners. More specifically, this article is written to identify 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 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 in 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 children. 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.
shares to the children actively involved in the business, the business owner may consider making a sale, gift or transfer alternative for the business interests to all children, but 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 “restatement 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, or vice versa, without gain or loss.

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 gift. 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 disposed of. 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.

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 after-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 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 may 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 ten year 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 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.

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 protects 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.

Jeffrey C. Rambach is a partner in the Trusts and Estates group at the law firm of Ungaretti & Harris. His practice primarily encompasses transactional tax work for corporations, partnerships and limited liability companies, personal wealth transfer planning, business succession planning, estate and trust administration, estate, gift and generation-skipping tax planning; fiduciary income tax issues and charitable planning. He can be reached at jrambach@ahlaw.com

End Notes
References to “family-owned businesses” include closely-held businesses whether at testate or owned by two or more related persons.
Lisa Swisher, The Oakland Group, 2010 Presentation at 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.
IRC §368(a)(1)(c).

710 (1942); Commissioner v Neustadt’s Trust, 131 F2d 528 (2nd Cir 1942), and reh’g denied, 315 US 829 (1942), and reh’g denied, 316 US 710 (1942); Commissioner v. Neustadt’s Trust, 131 P2d 528 (2nd Cir 1942).
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 do we 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.

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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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The Parachute or... the Stairs?

9 Risks You Must Take (and Keep on Taking) to Build a Sustainable Business

By Tom Panaggio

When your new venture—one resource that cannot be reimbursed, borrowed, or saved in an account for later use—is time. Time is the most perishable resource of all. Time is finite; it’s more precious than money and more costly to waste.

2. Finance the dream yourself

Giving up your hard-earned money is the ultimate risk. To live your 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.

3. Sacrifice your most precious possession: time

When you pursue a new enterprise, one resource that cannot be reimbursed, borrowed, or saved in an account for later use is time. True entrepreneurial spirit promotes self-reliance and the willingness to live a happy and comfortable life. If you can’t 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 Unpredictable 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.”

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 move, 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. Whatever 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.
“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 of failing and keep pushing ahead. 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.”

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.

“Spend money on marketing with its Seminar Success program. For more information, visit www.TheRiskAdvantage.com.”

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 inconceivable; 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 co-founder 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.

To see the rest of this chapter, go to www.theinsuranceprofessional.com.
The Challenges of Perpetuating Family-Owned Businesses

By Sue Quimby, IAIP Member

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 30% of firms’ receipts (2007 Survey of Business Owners).  Of the 5 million family-owned businesses currently run by the son of the founder, 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. Challenges are 1 in 3 that a family-owned business will survive to the second generation, and 500-1 that they will reach the third 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 succession 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 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 demand in 2011, 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 succession plan is to protect the family wealth, provide for the outgoing family member, and ensure the future success of the business.

Determining succession parameters is essential in successful perpetuation of the family-owned business. What will the timing be? What is the future role of retirement 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 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 that 1 in 4 (an additional 29.2%) had no plans to retire within ten years (American Family Business Survey). If the 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 “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 grand-children 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-employees when family members are brought into the business. Family members should be treated no differently than non-family employees. Codifying the business’ ethics does not do the business any favors.

Following through with a business plan is equally as important as developing it. Drawing up contracts and succession plans is useless if they are not implement-
ed. Proper succession planning involves communicating financial resources to the process. This may include a key man or key person insurance policy that can be used in the event of the death of the owner, or setting up a buy-sell plan to ensure the continued financial success of the ongoing owner as well as the business. Planning for emergencies is essential. More than 70% of family-owned business failures are due to the unexpected death of the founder or owner (University of Connecticut Family Business Program, 2009).

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 notices and consent forms must be completed prior to the policy’s issuance, to avoid the proceeds being taxable rather than tax-exempt. If the insurance is not set up properly, the proceeds may not be available in the event of the death of the owner as required by a management change. 41% had no contingency plans. Of those who
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 and the agency began to thrive. Joe and his wife operated the new agency until their son, Pete, joined and Pete began to make a profit for the 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-trained, while Pete is new school and has a college 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 a significant portion of written premium for the insurance industry, so keeping them viable is a good idea for the insurance professional. 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 business, and is paying standard interest rates. It worked out for Joe, as it reduces his tax liability. Even with the disruption of business caused by Superstorm Sandy, Pete continued to handle the business. Joe did not have any interest in being involved in the business, and he does not continue to do some life and investment work.

Most of the staff stayed with Pete after the transition. He needed a bookkeeper to handle the duties Joe had done. Pete also changed the company name to Full Point, and a producer, none of whom are family members.

As the situation now stands, they are no active third generation ‘heirs’ in the business. As the situation now stands, the surviving youngest 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.

The next step was to write ‘Buy-Sell’ documents with the intent that the business entity would stay intact with the person who is still actively involved. Death, disabili-
ty, or retirement would result in a cash settlement with the stockholder’s estate.

There is an old adage that ‘failure to plan is planning to fail.’ UFFRO decided that it was time to start working on a succession plan to avoid problems going forward. But a business succes-
sion plan does not stand alone without the help of a pension plan. "The plan is not a stand-alone, corporate, retirement plan. It is a plan for the employees from outside the family. This was accomplished via a defined benefit plan. The business is currently run by the current owner, Dick, who is still in charge of all aspects of the business.

A Partnership’s Transition

UFPFRO Associates was created as a partnership in 1950 between Dick Haupt and Tony Passarelli. UFPFRO provided field reports for property and casualty insurance underwriting and was a succes-
sful 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 arrange-
ment concluded, the ownership could transfer to the surviving partner, Dick. There is an old adage that ‘failure to plan is planning to fail.’ UFPFRO decided that it was time to start working on a succession plan to avoid problems going forward. But a business succes-
sion plan does not stand alone without the help of a pension plan. The company’s goal was to be able to provide for Dick in retirement as well as have a business tool to help retain key employees, plan for estate 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 essen-
tial 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 busi-
ness entity would stay intact with the person who is still actively involved. Death, disabili-
ty, or retirement would result in a cash settlement with the stockholder’s estate. Dick has been a member of NAI/WAIP since 1988, and has served in various capacities on the local, state and regional level. Sue lives in Hillsborough, NJ. Contact her at (201)447-6900 or squimby@msonet.com, or visit the web-

MSO is the currently operating advisory property/casualty service bureau, providing policy form, rate, rule, and statistical services to the insurance industry since 1944. MSO has long been an industry leader, offering commercial and personal lines programs that are comprehensive, yet easy to use. MSO will work with companies to customize the programs to develop niche market prod-
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Today’s INSURANCE PROFESSIONALS
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 corporate 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-rolled advisory team and keep an eye on the big financial picture - allowing the family to focus their energies on more productive and enjoyable pursuits.

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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 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 their 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 has adequately drafted it and the pertinent time frame. While the sending attorney desires to take your deposition, hiring counsel, as opposed to representing you, 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 believe may be introduced as evidence, as they grow, some may insist that their pending questions 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 of time, should you 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 avoid problems 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 you were asked. Many deponents start out comfortably 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.

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

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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 Washington Post, 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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Chelle Carey is employed by the independent adjusting firm Optimal Claim Services, INC in Carmel, Indiana. Currently she works as their Customer Service and Adjuster Recruitment Manager, a position held since 2008. Chelle serves as President of the Insurance Associates of Greater Indianapolis (IAGI), and Membership Director for the Indiana Council of IAIP. She is working on completing her ACI and recently was certified to be a CLP instructor for the new CLP designation.

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A report released earlier this year from the Chicago-based Spectrum 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 by the American Payroll Association found only one of 5,000 people surveyed said he or she had a net worth of at least $1 million at the end of 2012.

Is it possible for that average American to become a millionaire? Many millionaires own their own business and consider themselves to be corporate executives. Dr. Thomas Stanley's research indicates that only 2 percent of the 30,600 people surveyed said they had accumulated their wealth to the tune of at least $1 million at the end of 2012.

Dr. Stanley's research demonstrates that the majority of millionaires interviewed by Dr. Stanley never had a net worth of more than $60,000 per year. 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. 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 can 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.

A achieving millionaire status is not easy or there would be more of them! 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 every-one 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 can 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.”

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 reverses to the mean — gains will always outweigh the 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 making sure they take these risks to keep the firm stable. 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 inherent — it is always acceptable. 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 as well, 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 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 basis. Non-financial companies will choose projects that will be highly profitable if they succeed. This type of risk strategy is favored by Maximizer firms. It works 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 strategies involve targeting risks to spread with mums and minimums for various classes of risks. The newer ERM discipline adds a new dimension to the process, providing better quantification of the benefits of risk spreading. Pragmatists drive diversifying because it maximizes their tactical flexibility, but they avoid reliance on any particular risk mitigation process and often mistrust quantitative measurements 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 risks we face change. 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 normality and hazardous conditions prevail only when the market is broken.

Expanding our view beyond the binary outlooks of normal/break allows for the possibility that other perspectives view the world. By identifying through research in the 1980s,” the four 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.

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.

Risk and Strategy to Environment

Why do corporations adhere to a particular risk perspective? Often, the firm was formed when the environment was explained with its perspective. Alternatively, the company may have suffered traumatic damage during a period of dissonance between old and new strategies that is inherent — it is always acceptable. 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 as well, but otherwise have no overarching strategy. They operate tactically, reacting to each new development.

By Alice Underwood and Dave Ingram

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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 even dominate the numbers. And, many of those businesses are family owned, operated and even family dominated. However, the last few decades have seen a rise in the number of small businesses with fewer than 50 workers. Those are some HUGE numbers. And, many of those businesses are family owned, operated and even family owned.

**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.

That’s why education is critically important. Our parents may not care enough to send a tweet, but that doesn’t mean that they should’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 can teach the younger generation how to leverage technology.

That’s the biggest takeaway. The ongoing 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 the case 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.
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, (gave up the 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 was 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.

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

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.

Q: What are the rewards of owning a family business?

A: The rewards of owning a family business are that you can create havoc in the best laid plans. 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.

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.

We are looking at giving to their personal charity.

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.

A: 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.

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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: What advice would you give to others contemplating starting their own insurance agency?
A: Belong to a group like IAIP. You have access to a wealth of knowledge and businesses where you can build a partnership. We added carriers, premium finance, brokers, managing general agents and other entities because of networking in IAIP. When we purchased our agency management system, we had five reviews of systems that members used.

When I left Safeco to join our agency, I was a CPCU and had worked with virtually every line of business, but I had no direct customer or agency contact. It was very important to have individuals who could help me steer my way through policies and the sales process.

Our agency evolved without a business or marketing plan. Create one. You need to know where you are going and how to get there. I feel we would have been successful sooner if we had stopped to put a plan in place.

Relationships are key no matter what kind of business you are building. Decide how you are going to touch your clients, reminding them that they are important to you. Partner with your customers in creating a sphere of protection around their assets. Participate in your community and encourage employees to belong to networking groups.

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 (e-news 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 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 christs@omega-financial.com
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 Sarasun
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
Gabriela Diaz Fortuno
Doris Hernandez Gracia
Lissa Klein
Maribel Lugo
Debbi Mansolilli
Vilma Medina Santiago
Dyanne Santiago Diaz
William Smith
Gloria Torres-Sanchez

REGION IV
Fayre Bradshaw
Mary Constantine
Alyssa Emech
Kenna Johnson
Dawn Kibbe
Ronald Massengale
Mary McChesney
Jessica Pannkuk
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 Covusill
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 Nari
Barbara Parker
Marcus Peay
Maria Perez

REGION IX
Jennifer Brennen
Kimberly Fitzgerald
Leslie McClure
Robert McLean
Karen Meridian
Evan Mitchell
Terri Montalbano
Tara Nicole
Jason Nuss
Julie Oberholtzer
Tariqua Parker
Lynda Satterfield

REGION X
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

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Maria Humphrey
Brian Lawrence
Michelle Lopez
Stacy Manning
Carol McDonald
Aziz Nari
Barbara Parker
Marcus Peay
Maria Perez

Association News

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 CIIPs and CPIWs
REGION I
Jennifer Brennen
Kimberly Fitzgerald
REGION III
Leslie McClure
REGION IV
Jacqueline Kushner
Angelia Poyner
REGION V
Mary Wittmann, CPIW
REGION VI
Rebecca Nauman, CPIW
REGION VII
Carrie Allen
Brooke Allen
Julie Allen
REGION VIII
Connie Faria Eder, CIIP
Mariah G. Williams, CIIP
REGION IX
Malinda (Lindy) Gardner, CIIP

Congratulations to New CLPs
REGION I
Jennifer Brennen
Kimberly Fitzgerald
REGION III
Leslie McClure
REGION IV
Jacqueline Kushner
Angelia Poyner
REGION V
Mary Wittmann, CPIW
REGION VI
Rebecca Nauman, CPIW
REGION VII
Carrie Allen
Brooke Allen
Julie Allen
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 2014 Insurance Professionals’ Annual Convention
San Diego, California
June 5-7, 2014
DoubleTree by Hilton San Diego – Mission Valley

More details on the Convention will be available in January at www.insuranceprofessionals.org.

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.
The biggest thing he’s feeling now is a flood of disappointment. In you.

Gary was sure this would never happen to him. After all, he didn’t live in a high risk area. Too bad. Because that flood insurance policy he turned down would have saved him tens of thousands of dollars right about now. Make sure your clients know that anywhere it rains, it can flood. For an annual policy that starts at just $129, Gary, and your reputation, could have been protected. Find out more at Agents.FloodSmart.gov/speakflood.

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.

Contributions to the Legacy Foundation will be used to fund new programs for the educational development of insurance and risk management professionals.

**L E G A C Y  F O U N D A T I O N**

The Legacy Foundation is an IRS approved 501(c)3 foundation. Contributions to the Legacy Foundation are tax deductible as a charitable contribution.

**BY MAIL:**
Legacy Foundation
8023 East 63rd Place
Suite 540
Tulsa, OK 74133

**ONLINE:**
Download a free QR Code Reader app to your smartphone and scan the code to the right to donate securely online through the website now.

The NAIW (International) Legacy Foundation is an IRS approved 501(c)3 foundation.

Contributions to the NAIW (International) Legacy Foundation are tax deductible as a charitable contribution.
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