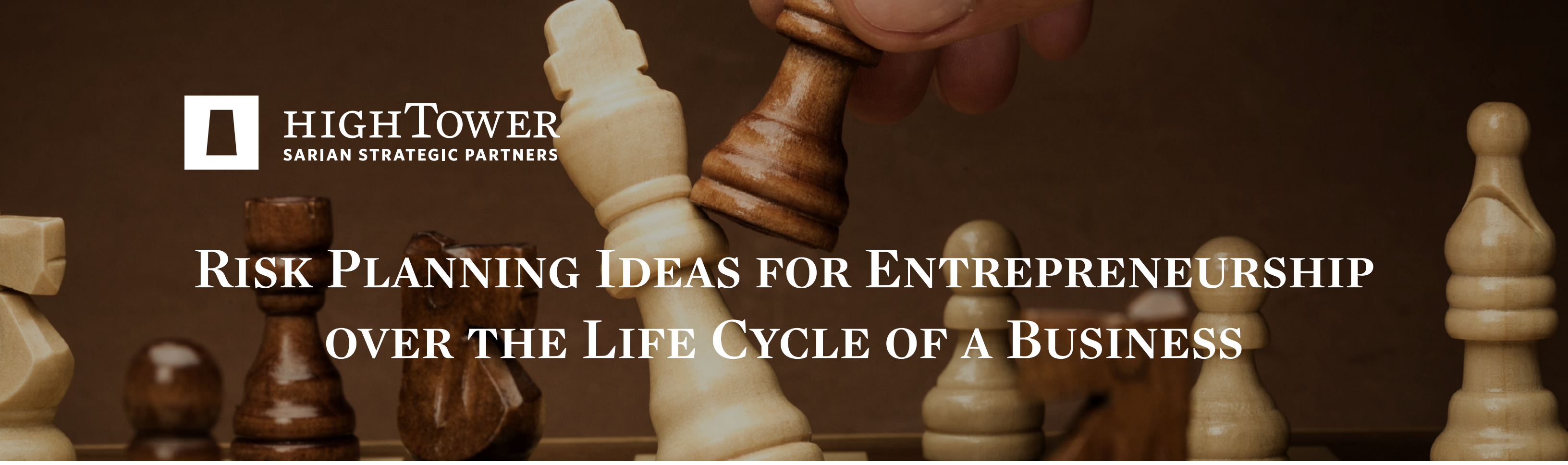

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# Risk Planning Ideas for Entrepreneurship over the Life Cycle of a Business

## One of the biggest mistakes we see entrepreneurs make is failing to monitor and reassess the levels and types of insurance in place as their companies change.

The evolution of growing a company from an idea to a marketable concept, raising capital, forming a business and management team, growing market share, and ultimately moving the company towards an exit is an exhausting, time-consuming process. Most company leaders are so focused on the next hurdle, new business opportunity or staffing needs that they often overlook key personal planning issues. As a company matures and possibly becomes a candidate for a sale, merger, or public offering, the risk management and resulting planning considerations change immensely. Taking a small amount of time to evaluate what the growth of your company means to your personal risk and liability management profile can help secure the best possible outcome for your family and business from the ultimate monetization of your equity component.

Broadly defined, your risk management program is how you are managing your life and long-term disability insurance programs. At Sarian Strategic Partners, we view insurance not as a wealth creation tool, but a risk management tool. For example, you can utilize a Premium Payment to transfer the risk of passing away or not being able to work to an insurance company that would replace your income system. Just as a business has a life cycle and requires change with growth, your insurance program should evolve as well.

For many leaders of early-stage companies or capital-intensive businesses, the majority of their net worth and wealth is tied to the company. While that company is growing and increasing revenues, the entrepreneur/executive running the company should have a more substantial amount of inexpensive term life insurance to help their family pay off mortgage debt, create capital pool to generate income, secure educational funding and promote cash reserves if he or she prematurely passes. One of the biggest mistakes we see entrepreneurs make is failing to monitor and reassess the levels and types of insurance in place as their companies change. Specifically, as the company's revenues and profitability increase, the EBITA should increase proportionally as well.

In terms of personal wealth, increased EBITDA allows the entrepreneur to pay down mortgage debt, increase liquid savings and save for future educational goals at increased cash reserves. Ultimately, the need for life insurance declines. Through cash flow modeling, one can accurately determine when an individual becomes self-insured. This means you have built up enough liquid wealth to maintain your standard of living throughout your normal life expectancy. At that point, the need for life insurance from a risk mitigation perspective is gone.

If the entrepreneur/executive is fortunate enough to have an exit, more prudent risk management planning can prove beneficial. An exit is typically defined as an event, sale or merger where your equity component is monetized and becomes liquid. This, too, would cause a major change in how you perceive your life insurance program. If the inflow of liquidity is meaningful enough, there is a valid reason to consider lowering the amount of life insurance. However, when considering a shift in your life insurance program, it's important to be mindful of potential tax implications associated with wealth transfer. Depending on the size of the worth of the wealth creator, there may be unavoidable federal, state or local inheritance taxes owed by the heirs upon receiving those assets. If it is important for your heirs to inherit a certain amount, life insurance can be a powerful tool in making sure there is liquidity to pay these taxes. This would involve changing a conversion feature in your existing insurance plan from a temporary product to a permanent product. While costly, it provides certainty that funds will be available at your defense.

A larger personal planning oversight is insufficient or non-existent personally-owned long-term disability income protection. While difficult to exactly quantify, the dollar value of what the individuals of a leadership team can do over the course of a company's life cycle is significant. This is the simple goal of a well-defined disability income protection plan: to provide an income stream for the executive if they are unable to perform their specific roles that drive enterprise value for a company. When seeking a long-term disability policy, a critical component is the verbiage defining terms of disability. You want to ensure that the policy is specifically tailored to cover your roles and functions as a business owner/executive, rather than following a broad definition of duties that will not pay at all if you can still work in some fashion. Entrepreneurs may be better served avoiding group plans where premium costs can rise, as well as captive insurance vendors with limited product lives. In each of these buying decisions, you want to lock a premium rate as soon as possible and make sure the policies are portable with whatever companies you may start in the future.

Finally, when a company is at a mature, revenue-generating phase or nearing a transaction, the key risk to navigate is litigious risk. When the entrepreneur/owner's assets are largely tied up in their equity state, this is less of a concern, as the corporate structure of the business, C - Corp, S- Corp, or LLC provides a shield of protection between the entity and the entrepreneur. As the business grows in enterprise value, generates liquidity or is working towards a transaction, the need for a personal umbrella policy becomes evident. A personal umbrella policy or liability policy sits on top of your home owners' insurance, and is a vehicle that provides a layer of litigation protection of your personal assets in the event you are sued. Situations as seemingly minor as your neighbor slipping on black ice in your driveway or a home contractor falsely claiming to be insured present opportunities for your success and assets to be targeted. The umbrella should cover your liquid assets base and be reviewed as your situation changes.

As a business evolves, so do the leaders' planning needs. Your risk management plan should be updated at least annually to consider how the company has changed. Working with an advisor that upholds the fiduciary standard can help you vet a number of different product choices while ensuring that your interests are the primary focus of the recommendations.



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