<u>Five Lessons in Financial Planning Learned the Hard Way</u>

By M. Stroud Hellebusch

Every business that has multiple owners needs a buy-sell agreement that is "properly" funded with life insurance. The purpose of the Buy-Sell agreement is to protect both the surviving owners and the family of the deceased partner. They pay the family their fair share of the business, thus amicably and respectfully end the business relationship. They avoid being forced into business with the heirs of deceased, heirs who may not have the skills to be a business owner. Most, but not all businesses have a buy-sell and of those most, but not all, have life insurance to cover the buy-sell agreement. But are they properly funded?

An insurance broker, well-known in his small city, started a second business with a friend that started to become very successful. He and his partner had a buy-sell and they funded it with two 10-year level term insurance policies. Since the insurance broker was licensed to sell insurance he found the "cheapest" they could get. But in doing so he disregarded some of the advice he always gave his clients; make sure when buying term insurance that it is convertible to permanent insurance because you want to guarantee your client's insurability and always get the disability waiver because when someone gets disabled, and money gets tight the first thing they usually stop paying is their life insurance.

A couple of years after buying the term policies for the buy-sell agreement the now former insurance broker was diagnosed with cancer at age 50 and was told to get his affairs in order. His life expectancy suddenly went from 85 years old to 51 years old. He battled the cancer for 10 years following his diagnosis. The term policy expired 2 years before he died. The buy-sell agreement was not able to be executed as planned.

Despite this mistake, in his business planning, he had done a lot of good planning for himself with respect to insurance in his personal life. This planning allowed him to focus on staying as healthy and living as long as possible without worrying about providing for his family. It helped maintain his dignity, he still provided for his family with no change to their lifestyle. His company provided every employee, including the owners, with income replacement insurance in the event of a disability. This provided him with an annual taxable income of $60,000, which became about $45,000 after-tax. The problem, for successful people, for high income people, is that $45,000 just won't pay the bills. What would happen to you and your family if you could not work and your income dropped 50% to 100%? Thankfully, he owned individual disability insurance, which is tax-free income, that filled the gap allowing him to continue to have an after-tax income of about 70-75% of his pre-disability taxable income.

In the fifth year of his war against cancer, his body had deteriorated to such a degree that he needed help getting up out of a chair, dressing, toileting, bathing, and walking. His family jumped in to help but the burden was mostly on his wife. Within a year, she needed help. She got very little sleep, her back ached constantly because of the strain of helping him. They hired people to come into the house and help. These in-home health care angels helped all day every day, from the time he awakened until the time he went to bed.

In the eighth year of war, he moved into an assisted living facility. Even really nice assisted living facilities are often understaffed, so they continued to have personal assistants help him throughout the day. The facility and the personal health care assistants were almost all paid through the Long-Term Care Insurance policy he had bought years before he got sick.

With respect to planning and insurance here is his advice, as both a Financial Professional, a business owner, and as an insured.

1) Never buy a term policy without a disability waiver and it must be convertible to permanent insurance. If he had followed the advice he gave all his clients, when he got sick he would have been able to convert the buy-sell term policy to permanent and the disability waiver would have covered the premiums, and the buy-sell agreement would have been able to be executed.
2) Have enough income replacement disability insurance to cover 70-80% of your Gross earnings. Your ability to earn income is your greatest

asset. It is the Goose that lays the golden eggs. Don't just insure the eggs, insure the goose. A disability is hard enough to deal with, it is even harder if you can't pay your bills or you rifle through all your life savings to pay them. If a person saves 10% of their income while working, one year of disability, without insurance, can wipe out 10 years of savings.

Approximately 30% of all people age 35 - 65 will suffer a disability for at least 90 days, and about 1 in 7 can expect to become disabled for 5 years or more.
-Source: Health Insurance Association of America; The New York Times, February 2000

3) If you are in business with someone, have a buy-sell agreement that is triggered at one owner's death AND/OR disability. Then, make sure the business, or partner, can financially fulfill the agreement. There are basically three ways to fund the buy-sell agreement, A) Use the business', or partner's cash reserves and/or other assets, this cost 100% of the obligation; B) Borrow money to pay it (assuming a lender will do so after an owner has passed), this cost 100% + INTEREST; or C) Purchase Life Insurance and Disability Insurance, this cost a fraction of the obligation. Life Insurance and Disability Insurance is the least expensive way to do this and offers the best guarantee of doing so successfully.

4) Long term care is expensive and without insurance it can quickly drain one's life savings. Think about it, you need to maintain the home where your family lives and you need to pay for the long-term care.

   The median annual cost of care for Home Health Aides is $54,912 and for a semiprivate nursing home room is $93,072 a year.
   -Source: Genworth's 2020 Cost of Care Survey.

5) Most importantly, with respect to planning, seek advice or a second opinion from experienced professionals, even if you know, or think you know, what you are doing. You never are obligated to follow the advice, but they may see something you missed.

About Stroud Hellebusch and Kinetic Financial

Stroud Hellebusch is a financial professional located in the Greater Philadelphia, PA area. Stroud is head of Kinetic Financial's Pennsylvania District Office. Stroud has over 30 years of experience helping people prepare for retirement, insuring people's most valuable asset, and leaving legacies for the loved ones of clients.

At Kinetic Financial, we understand that your portfolio is more than just a number. It represents time and energy invested to secure a financial future for loved ones and family, often including hours sacrificed away from those very people to achieve it. That's why we take our responsibility to our clients personally, treating each and every portfolio as if it were our own. We will do everything in our power to make sure that you feel like you have a "financial concierge" at your fingertips. Through our comprehensive and holistic approach, we can assure you that all financial strategies will be evaluated and nothing will be forgotten or left on the table. While each case is designed independently, they are all treated with the same integrity, respect, and detail-oriented forward thinking that is paramount to the Kinetic experience.

We welcome the opportunity to introduce you to our brand of tailor-made services and individualized attention. This is what we do, and we do it well.