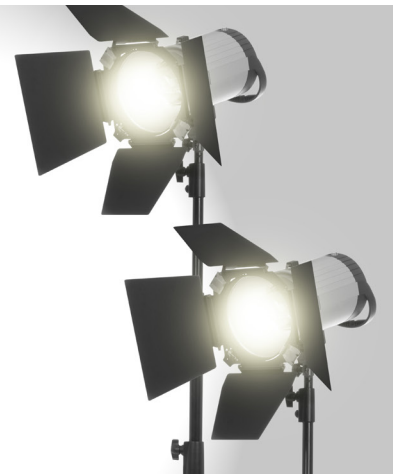




BRC FR Spotlight — building success together

How key person insurance can be key to
your success



In a recent discussion with Onofrio Cirianni, we learned how key person insurance can open the door to a wide range of planning opportunities.

Q: Will you tell us a bit about your practice?

A: I'm happy to say that this is my 30th anniversary in the industry. This is the only job I have held in my career. I started as a college intern and was fortunate, early on, to be exposed to working with CPAs. As a result, I started doing work for closely held businesses. My practice is housed in a national accounting firm. When I'm not with a CPA or a business owner, I spend a lot of time with trust and estate attorneys. I support other financial professionals, working as part of a team, doing personal planning, business succession planning, and estate planning.

Q: What role does key person coverage play in helping your business owner clients?

A: I see a lot of similar philosophies when working in The Living Balance Sheet® with the balance sheet of a family as I do when working on the client's business. When I look at the balance sheet of families we do work for, typically, their largest asset is the closely held business. We want to make sure that we're protecting the balance sheet and the value of the business, particularly in the early stages, because these closely held businesses are often illiquid and, in many cases, there is no intention of selling the business. It may be that they need a succession plan or an estate plan where they're transferring the asset to the second or third generation.

In many cases, it's the human capital within these businesses that represents the greatest asset. For those cases, the importance of protecting the value of the business is directly correlated to protecting the human capital. So key person insurance is always part of the discussion.

There's also a direct correlation with the revenue of the business with the human capital. If something were to happen to the founder, the patriarch, or key people who run the organization — for example, if they die or become disabled — it could affect the value of the business. It could affect the cash flow of the business, and it's going to impact the personal planning for the



**Onofrio Cirianni,
Managing Member,
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With 30 years of experience in financial services, Onofrio concentrates on advising individuals, families, and closely held business owners; providing them with retirement, business succession, and estate planning services. He collaborates with other key professionals, such as CPAs and attorneys, to create comprehensive plans. He also assists CEOs, CFOs, and HR Directors with creative methods for balancing budgetary pressures, enabling them to maintain or improve benefits designed to help them attract, retain, and reward top-performing employees. Onofrio is one of the co-founders of the Advocacy Process™, a holistic planning process that addresses key aspects of a family and business, helping them achieve their goals, while maximizing and protecting their assets.

owners and the employees of that company. So, I'm always looking to measure that impact and address it with potential solutions and planning, including the appropriate insurance products.

Q: Can you tell me about a time when you've helped a client implement a key person strategy?

A: We've been working with this client for almost 30 years. There were two business owners in what started out as a small architectural firm. Like a lot of small businesses starting out, they had many small clients, then a few big clients came on board, and the firm continued to grow throughout the years. They grew in top-line revenue, profitability, number of employees, number of additional partners that started out as non-equity, then became equity partners — and now they have multiple locations in the Northeast.

They had a buy-sell agreement already in place that they put together early on. I was part of that process and worked with their accountant and attorney. I was introduced to them by their CPA.

Around 20 years ago, this client adopted a tradition where they invite all the professionals they work with to an annual meeting. One challenge with a lot of small businesses is that most of their planning is siloed and there is no coordination whatsoever. So, once a year, the six partners meet with their CPA, their corporate attorney, various business consultants that they've hired, and me. With all these professionals in the room, there's an open dialogue and we challenge one another. We touch on certain subject matters and one person might take the lead and maybe speak more on the specific subject, but the other meeting participants can interject. Because, for instance, what might make sense from a tax standpoint may not make the most sense from a legal standpoint. And then when we're talking about protecting the business in the event of premature death or disability, we look at how it may relate to the funding of their buy-sell agreement, which may have a different impact as well. And hopefully, the client recognizes that the financial professionals are there to serve the best interests of the client.

The senior partner, one of the two original founders, had in their last agreement a forced retirement and a buyout that would begin in 2020 or 2021. But then the other founding partner decided unexpectedly to walk away from the business due to personal reasons. And as a result, there was some transition going on. So, the senior partner who was going to take the forced retirement decided he needed more time because he is also the rain maker. As a result, we took out the buy-sell

agreement and talked about the taxes and revenues. From a structural standpoint, it remained a redemption agreement. Based on some recent valuations, the life insurance coverage was increased on some of the more senior partners.

I think the takeaway here is that if you're working with CPAs and attorneys, you have to collaborate. It's built on trust. They have to have confidence in me... and experience and knowledge about the client so that we can all bring solutions to the table collectively. In this case, ultimately, the clients needed changes to the documents, new coverage written on the life insurance side, and the CPA gave his input in terms of some timing issues and tax implications going forward.

Q: Did you face any objections from the client on this case, and if so, how do you overcome them?

A: Whether you're in the business for three months or 30 years, we're always going to have objections. But I think objections really are opportunities. In the earlier years, when I didn't know as much off the top of my head, objections were people not wanting to even talk about the subject matter, never mind looking at the recommendation that was made. But I think it's okay if you don't have all the knowledge at your fingertips, because we can't be the experts on everything. Fortunately, we have resources like the Business Resource Center (BRC), which we can rely on and go back to for the necessary support. Another thing that was really helpful to me, and I still do this today, is joint work with people who are more senior. So, it's not unusual for me to call in my general agent, who is extremely knowledgeable in the business and estate planning marketplace. I also continue my education.

The long answer to your short question is, there's always going to be an objection, but if they didn't agree to 100 percent of what you recommended, then anything that they object to gives you an opportunity to address that issue head on. It has to be analyzed in terms of what is really at the heart of that objection, which puts you in a position where you can go back with several potential solutions. One thing I've learned, especially working with CPAs every day, is if you go back with just one answer, they're going to look at you as a salesperson. If you go back and tell them that there are three different ways you can approach things, you're no different than a physician who tells the patient they can take an aspirin for chest pain or have open heart surgery, and there are probably 50 options in between. I think if you go back with recommendations, whether products or strategies, and you give the pros and cons of each, and if you have good financial professionals sitting at the table who are

open minded and forward thinking, you will get them to a place to make a decision collectively, which they're all comfortable with. And more often than not, I find that 80 or 85 percent of the time or more, they'll take action.

Q: Does this type of business planning sale act as a gateway for additional business or personal sales/ conversations, and if so, how?

A: If I get an introduction from another trusted financial professional, like a CPA or an attorney, it's typically something that they uncovered that they feel needs to be addressed. I'm fortunate to get these calls because they know I can help the client based on my past experience with them. This did not happen overnight. It takes time and energy to gain the trust and confidence of the CPA, attorneys and other professionals. Every day as a part of my normal routine I spend time developing and maintaining relationships. This business is built on relationships and providing results. The client may initiate contact due to a concern or an issue they have, or when they are not be happy with a professional they are already working with, regardless of whether it comes from the business side.

I always like to take a step back at that first meeting. I want to listen to the client and be respectful of what got me that first phone call or meeting — to hear where they're coming from. I also explain to the client what my role is, and what I do, every day, for families and businesses.

A client might say, "I want you to come in and review our corporate life insurance," when they may really need buy-sell funding or key person life insurance. I believe that you really can't give the best advice in terms of succession, retirement, and estate planning unless you really know what's important to that family or business owner — and get to know their personal financial situation and personal balance sheet and lifestyle as well. I think they are all directly correlated.

Q: Does this segue into a conversation about retention tools for the key employees?

A: You're 100 percent correct. I like to call it "glue in the seat" type planning. I'll ask, "What are some other programs or benefits that you'd like to design for these key people so that you can attract, retain, and also reward them?" And usually it is best to do that planning to correspond with the timeline of the business owner.

I like to use this example all the time. If you're a national sales manager who is responsible for bringing in the revenue for your business, and you have a 10-year time horizon before you want to grow the company to sell it, the last thing you'd want to have happen is that

that person leaves. We need to retain and reward that person based on a plan. But what if that person died prematurely? How are we going to "replace" that person? And it may take not just one person; it might take two or three people to replace that person. And what if they become disabled? A lot of agreements just don't address the disability issue. So, we need to look at key person disability insurance to help protect the business. Or perhaps we need to look at disability buyout insurance. If it is an owner, it could be business overhead expense insurance that should be considered.

I think it's a matter of looking at all the different triggering events that could occur to potentially hurt the value and cash flow of that business. Again, going back to human capital — and it might not be just premature death — I think it's all about designing programs that are appropriate, whether it be deferred compensation or some bonus plan, for example. And it is also important to address disability, not just to protect the income replacement for the family, but also as a way to address how that disability is going to impact the business.

Q: Is there any particular product that you think works well? Is it based on the particular need?

A: Historically, I look at replacement value. I think businesses are vulnerable, particularly if that key person died prematurely. I've delivered dozens of death claims and I've never had a beneficiary ask me what kind of policy it was; they want to know the amount of the check. We want to make sure we have the right amount of insurance, and that it is replacing the value of that individual. That's where I start. And then I go through the various products that are available through Guardian, from term to permanent. I historically have been a WL99 person. It still continues to be the best-performing product, IRR. I would say more recently, Executive Strategies Whole Life. I'm looking at other efficiencies, such as larger premium payments, looking at the timeline (from age to possible exit events). I'm looking at fast-pay/paid-up products, if the clients have the cash flow to support those premiums. There are a lot of ancillary benefits to the business, and the tax efficiencies of the cash value have become a valuable asset.

Q: How has partnering with the BRC helped you?

A: I'm on the phone with BRC every week. Sometimes it's for case planning and preparation; sometimes it's for supporting documentation regarding the tax treatment of something specific about the business. I look at the BRC as a part of my team and an extension of my practice. The BRC has been phenomenal. They've been critical to my success and have enabled me to help

countless clients.

Q: What would you tell other FRs hoping to break into the advanced planning market?

A: I find that introductions come from CPAs, attorneys and other business owners are the best and most influential referral sources. In terms of making larger financial decisions that are affecting the business balance sheet (the P&L), when a business has banking arrangements, or when there are loan covenants to a bank or third party, it typically requires an audit. And the CPA is in the middle of all those discussions. That's why I

think developing relationships with CPAs is key. You can start with just a few accounting firms, but I think it has to be a two-way street in terms of a working relationship. I think, also, you have to increase your knowledge base because you might be able to get in front of those individuals, but you may not know everything yet and that's fine. I think the best experience is doing joint work because you can see and learn firsthand. You're seeing not just the technical aspects, but how to work through the process where there are a lot of personalities and dynamics and sometimes, big personalities that are difficult to manage. It's like on-the-job training when you do joint work.

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Pub10468 (03/20) 2020-95800 (03/22)

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