



For intermediaries only

# Continuity and succession planning – what you need to know

**Andrew Westlake**

**Protection Development Manager, Aegon**



# Why do your clients need your help?

## Family

## Business



Cash needed for employee's family when they die.

**Tax-efficient life protection**



Cash needed for employee if they're unable to work due to an accident or illness.

**Executive income protection**



Cash needed for:

- Loan repayments
- Loss of profits
- Recruitment
- Loan accounts

**Continuity planning**



Cash needed to buy the deceased or ill owner's share of the business.

**Succession planning**

# Opportunity

**Business  
owners**



**Workplace**



**Professional  
connections**



**Commercial  
insurance  
brokers**





# Continuity planning



# Continuity planning - learning outcomes

**By the end of this section you'll:**



- understand how sales tools can help you highlight the importance of continuity planning to your customers;
- be able to clearly articulate the risks business owners face, and
- have a better understanding of the tax position for key person cover.

# It won't happen to me

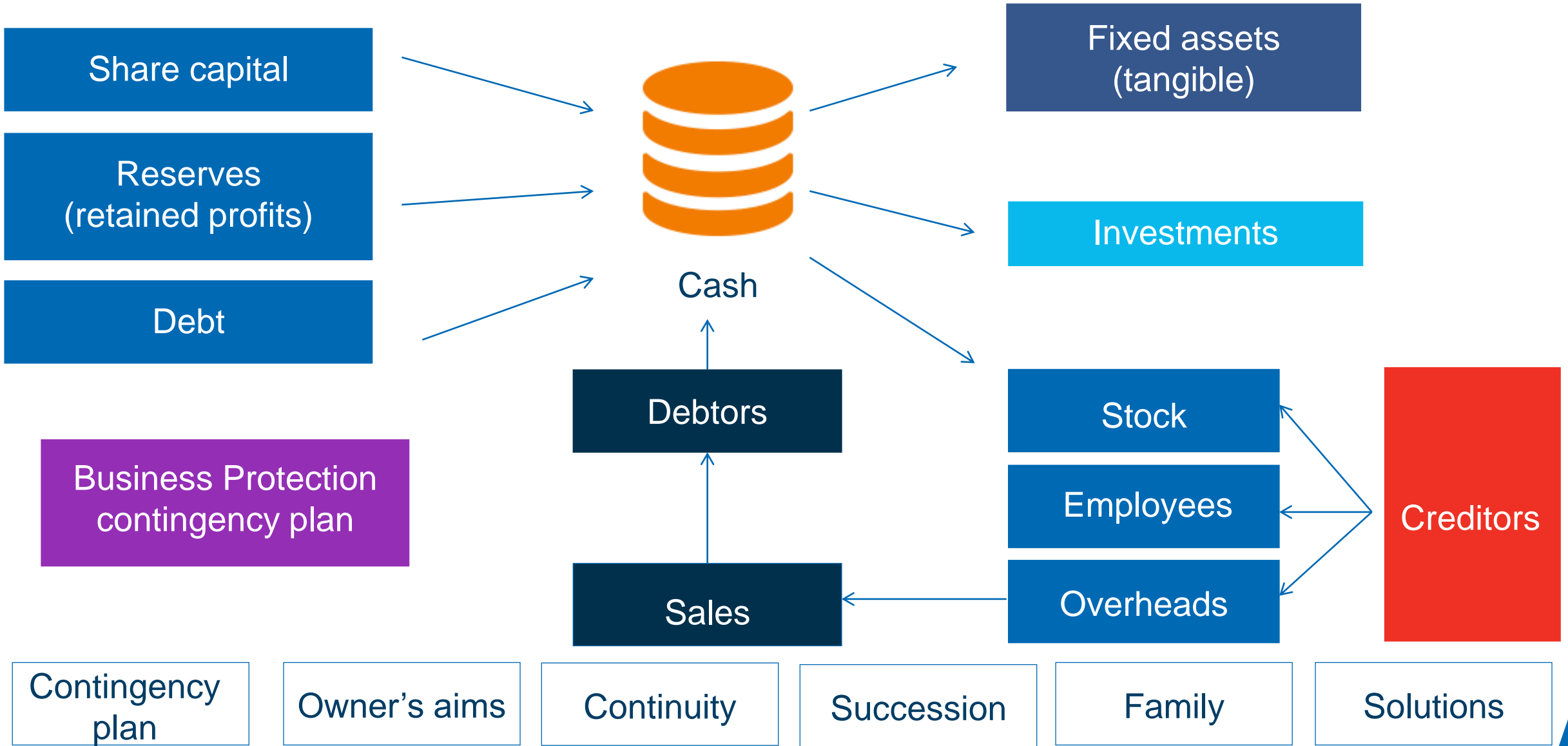
## Cardiovascular disease (CVD)

Life changing events are taking place every three minutes in the UK.

Every **3** minutes  
someone in the UK  
dies from CVD.

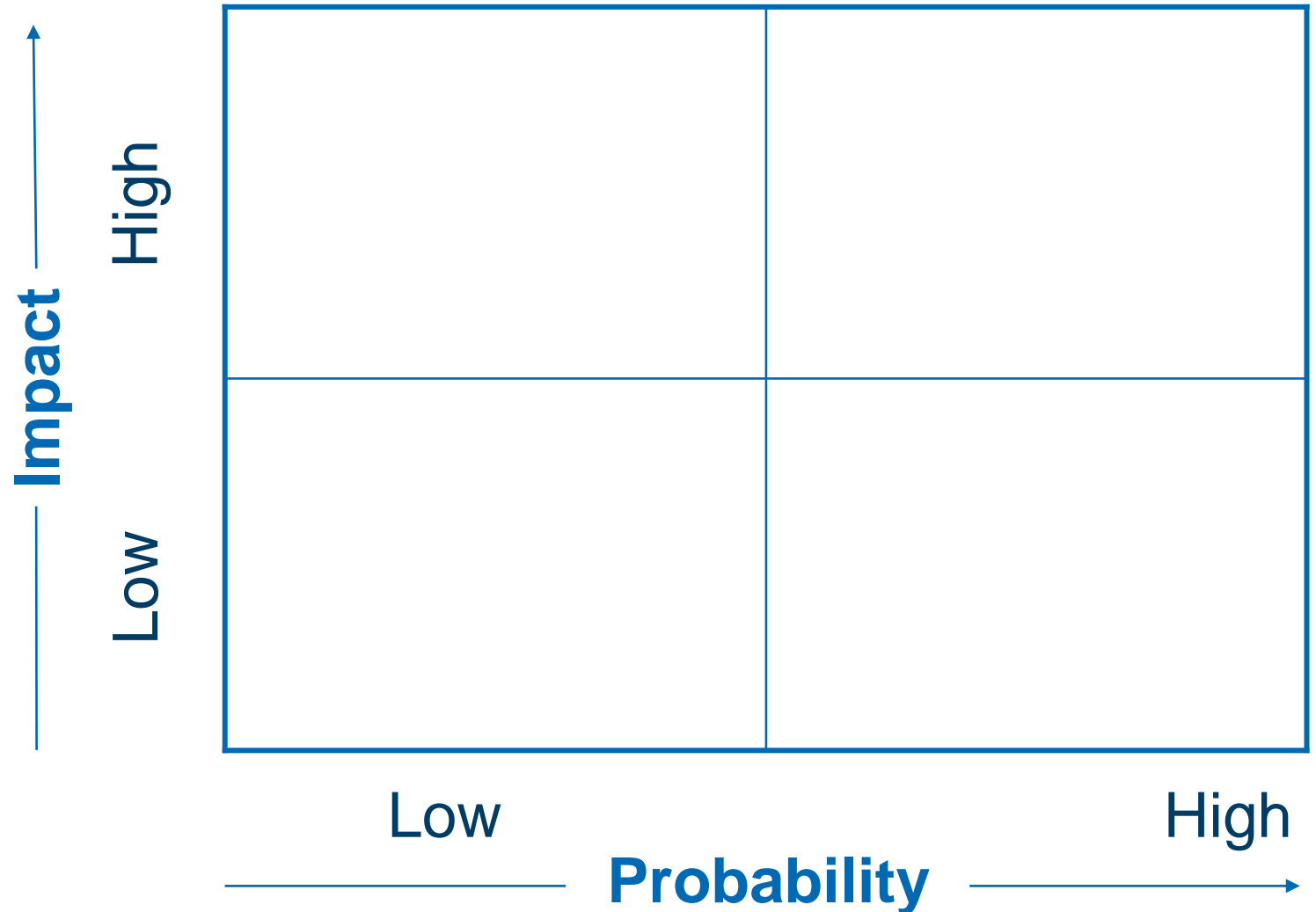
CVD causes  
**27%** of all  
deaths in the UK.

**170,000** (approx)  
deaths each year caused  
by CVD - an average of  
460 people each day.



# Risk assessment – potential impact?

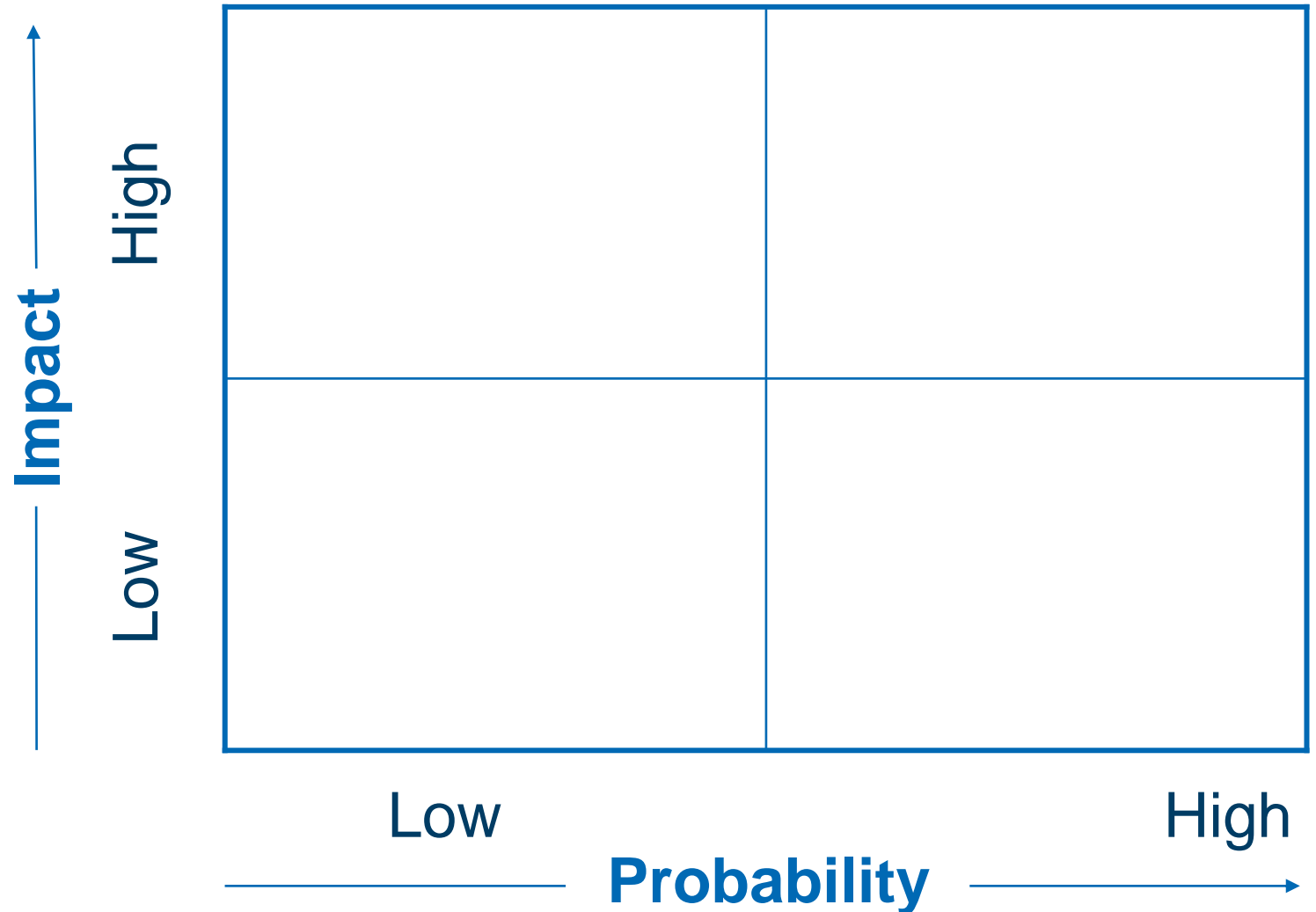
- Flood
- Health and safety issue
- Bad advice
- Computer crash
- Fire
- Public liability
- Employer's liability
- Compliance disaster





# Risk assessment – potential impact?

- Flood
- Health and safety issue
- Bad advice
- Computer crash
- Fire
- Public liability
- Employer's liability
- Compliance disaster
- Key employee leaves
- Key employee dies
- Key employee illness
- Director/Owner dies
- Director/Owner illness



# Continuity and succession risk assessment

## Probability of at least one partner or director dying before age 65.

Age	Number of partners or directors				
	2	3	4	5	10
35					
40					
45					
55					

Source: [actuaries.org.uk/learn-and-develop/continuous-mortality-investigation/cmi-mortality-and-morbidity-tables](https://actuaries.org.uk/learn-and-develop/continuous-mortality-investigation/cmi-mortality-and-morbidity-tables)

Based on mortality data of 55% of TMN00 mortality table (1999-2002 experience, published in CMI Working Papers 21, 2006. Temporary assurances, male non-smokers at 5+ years' duration).

# Continuity and succession risk assessment

## Probability of at least one partner or director dying before age 65.

Age	Number of partners or directors				
	2	3	4	5	10
35	10%	14%	19%	23%	40%
40	9%	14%	18%	22%	39%
45	9%	13%	17%	21%	37%
55	7%	10%	13%	16%	29%

Source: [actuaries.org.uk/learn-and-develop/continuous-mortality-investigation/cmi-mortality-and-morbidity-tables](https://actuaries.org.uk/learn-and-develop/continuous-mortality-investigation/cmi-mortality-and-morbidity-tables)

Based on mortality data of 100% of TMNL08 mortality table (2007-2010 data collected by the CMI and published in Working Paper 94 (2017). Temporary assurances, male non-smokers at 5+ years duration).

# Continuity and succession risk assessment

**Probability of at least one partner or director getting a critical illness before age 65.**

Age	Number of partners or directors				
	2	3	4	5	10
35					
40					
45					
55					

Source: [actuaries.org.uk/learn-and-develop/continuous-mortality-investigation/cmi-mortality-and-morbidity-tables](https://actuaries.org.uk/learn-and-develop/continuous-mortality-investigation/cmi-mortality-and-morbidity-tables)  
Based on morbidity data of 102% (CMI working paper 75, calendar years 2007-2010) of SC04 morbidity table, male non-smokers at 5+ years' duration.

# Continuity and succession risk assessment

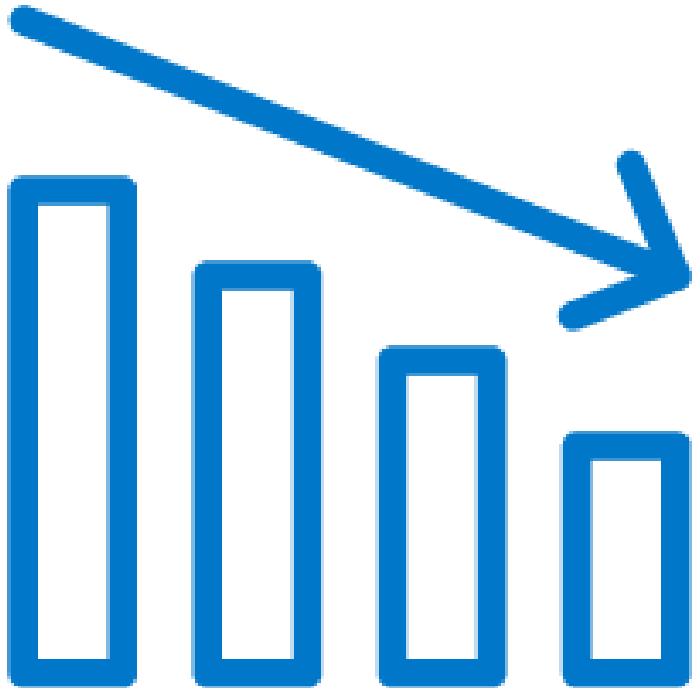
## Probability of at least one partner or director getting a critical illness before age 65.

Age	Number of partners or directors				
	2	3	4	5	10
35	24%	33%	42%	49%	74%
40	23%	32%	41%	48%	73%
45	22%	31%	39%	46%	71%
55	17%	24%	31%	37%	60%

Source: [actuaries.org.uk/learn-and-develop/continuous-mortality-investigation/cmi-mortality-and-morbidity-tables](https://actuaries.org.uk/learn-and-develop/continuous-mortality-investigation/cmi-mortality-and-morbidity-tables)  
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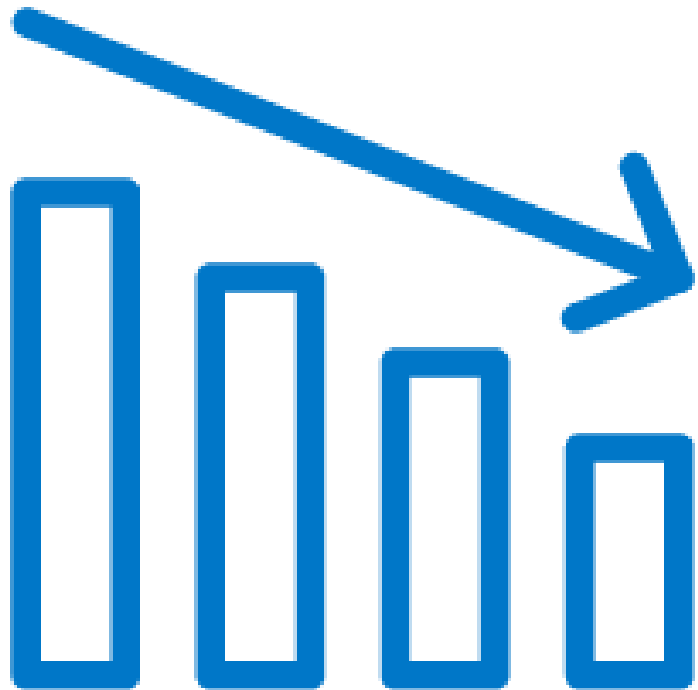
# Risk to profits – the issues

How long would a business survive if it lost a key person?



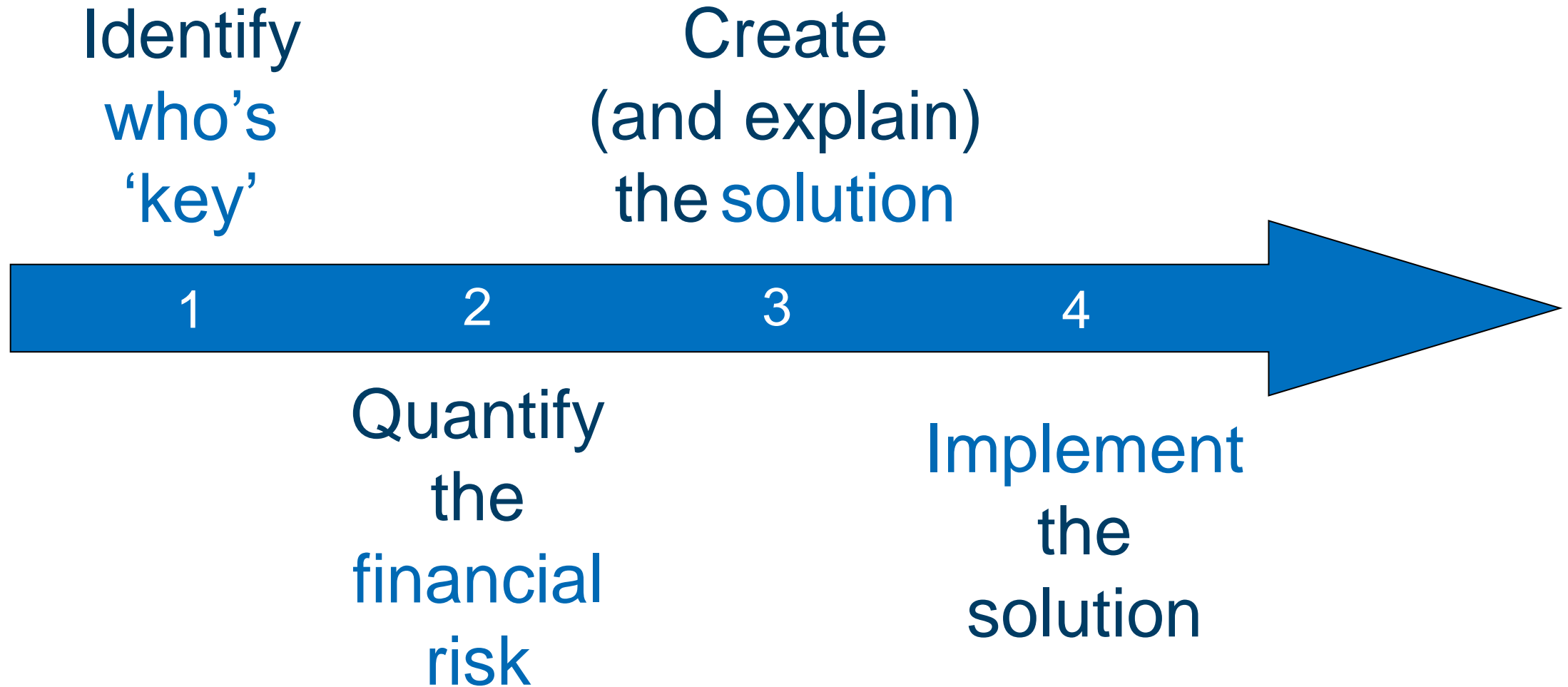
# Risk to profits – the issues

How long would a business survive if it lost a key person?



**52%** of  
businesses  
would stop  
trading in  
under a year.

# Four steps to business continuity





# Identifying key employees

## Does the employee...

- Have a direct effect on turnover or profit?
- Have business contacts vital to the company?
- Carry out a vital sales function?
- Play a pivotal role in a major project?
- Have a bearing on the credit rating of the business with you or other investors?



# Identifying key people

## Have the owners:

- Made personal guarantees?
- Made any loans to the business?
- Any impact on the ability of the business to repay any third-party lending?



# Consequences



- Fall in market share
- Unable to pay loans/credit status
- Brand damage
- Litigation
- Fall in share price
- Liquidation
- **Business failure**

# How much cover?

## Payroll-based approach

(Key person's salary ÷ total payroll for business)  
x gross profit x expected years to recover from  
the loss of the key person

## Lump sum benefits

Multiple of salary (5 to 10 times)  
or  
Up to 3 x gross profit attributable to the key person  
or  
5 x net profit attributable to the key person

# Liability audit referral

Liabilities to third parties	£
+	
Liabilities to owners	£
+	
Loss of profit x term to recovery	£
+	
One-off expenses	£
=	
Total	£

# Policy structure



Corporately-owned policy



Life of another basis



Company pays the premiums



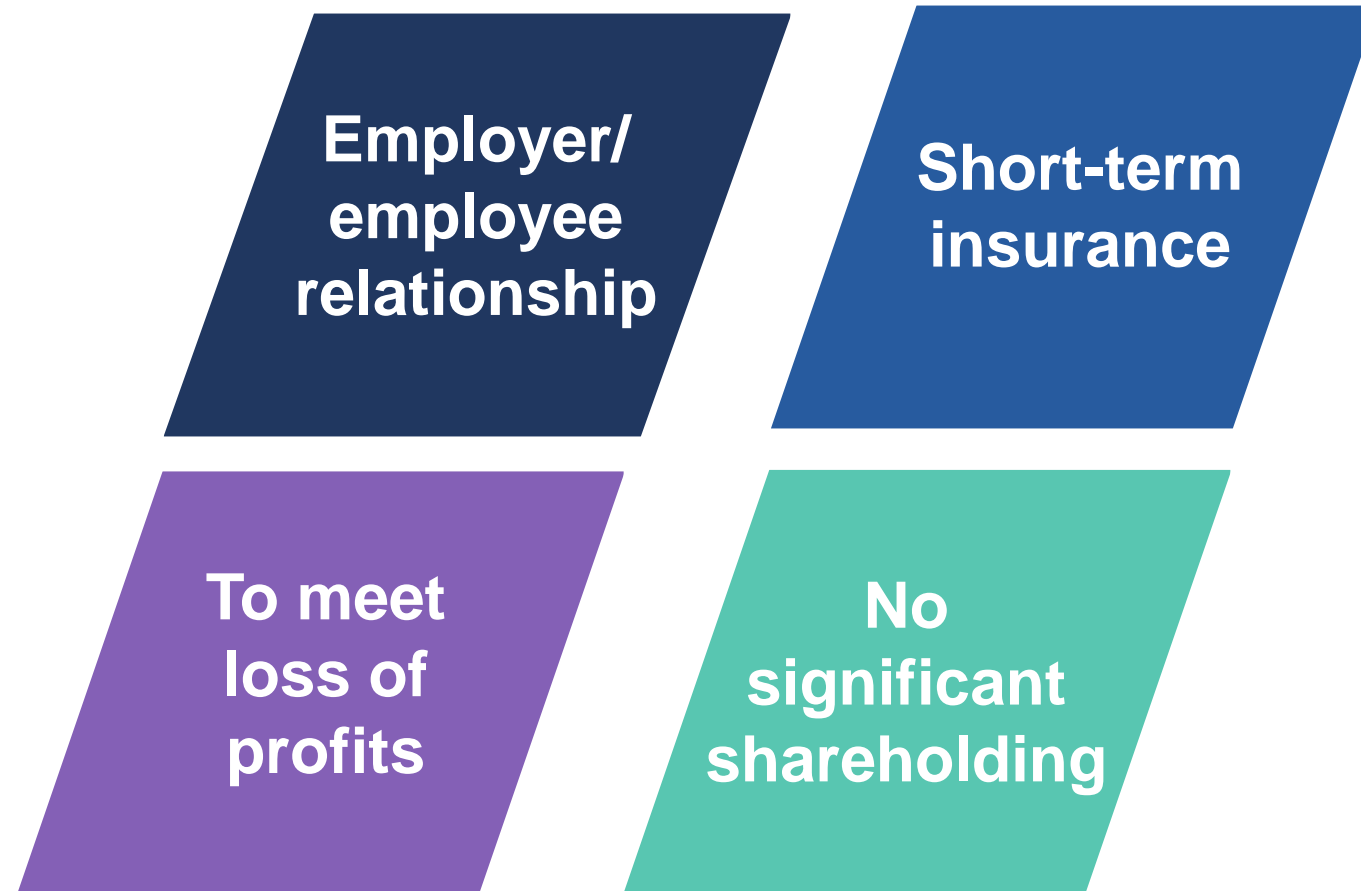
No trust needed



Policy proceeds paid directly to the company

# Tax position

**Conditions to be met for premiums to attract tax relief and proceeds to be treated as trading receipts.**



This information is based on our understanding of current taxation law and HMRC practice, which may change. The tax treatment and value of any tax relief depends on the individual circumstances of each client and may be subject to change in future.



# Succession planning





# Succession planning - learning outcomes

**By the end of this section you'll:**



- understand how customer-facing tools can help you highlight the importance of succession planning to your customers;
- be able to clearly articulate the risks business owners face without formal agreements in place, and
- have an understanding of how to set up a succession solution using the various agreements and options available.

# Succession planning

**Protects  
the  
business**

**Protects the  
other  
business  
owners**

**Protects the  
business  
owners' families/  
critically ill  
business  
owner**

# Succession planning – key elements

Shareholder  
motivation  
to act



Business  
valuation



Option  
agreements



Business  
protection  
trust



Inheritance  
tax



Equalise the  
premiums



# Motivation to act

What's your exit strategy for the business?



# Motivation to act

What's your exit strategy for the business?



What if you don't get there?

What's your early exit strategy?

# Motivation to act

**Have you made  
a business  
will?**

# Motivation to act

**Have you made  
a business  
will?**

**Not sure I  
have -  
what is it?**

# Motivation to act – business intestacy audit

## Aspiration versus reality

For customers 🖨️ ↻

### Business intestacy audit

If you're a business owner, have you thought about a business will? If not, use this business intestacy audit with your financial adviser to help match your business's aspirations with reality.

**What's a business will?**  
It's a formal agreement or special provision put in place that details what should happen to your share of the business and your liabilities if you die or become critically ill.

**Do I need one?**  
As a business owner, have you thought about what would happen if you or one of your co-owners were to die or become seriously ill?

- Do you have an exit strategy in place for the death of an owner?
- Where would the money come from to buy the deceased's share in the business?
- Do the business owners have an agreement in place to make sure the surviving owners can buy-out the shares of the deceased?

**We can help**  
If you don't have a business will, use this questionnaire to make sure that what you want to happen to your share of your business – should you die or become critically ill – actually happens.

The following information is based on our understanding of current legislation, taxation law and HM Revenue & Customs (HMRC) practice, which may change.

**What's 'business intestacy'?**  
It's what will happen as a result of not having a business will.

**When we talk about a 'business owner',** this could be a partner, member of a limited liability partnership (LLP) or shareholding director.

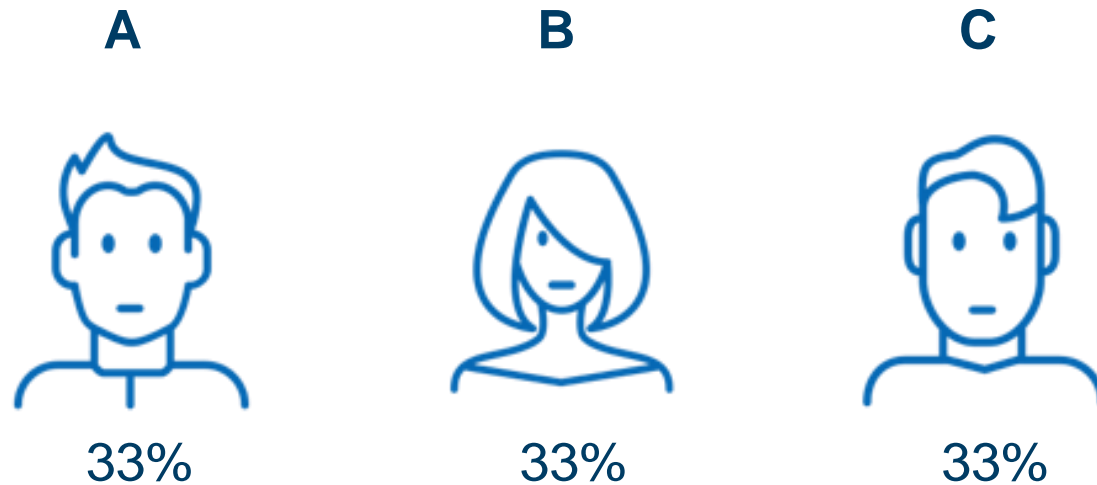




# Motivation to act – business intestacy audit

## Aspiration vs reality

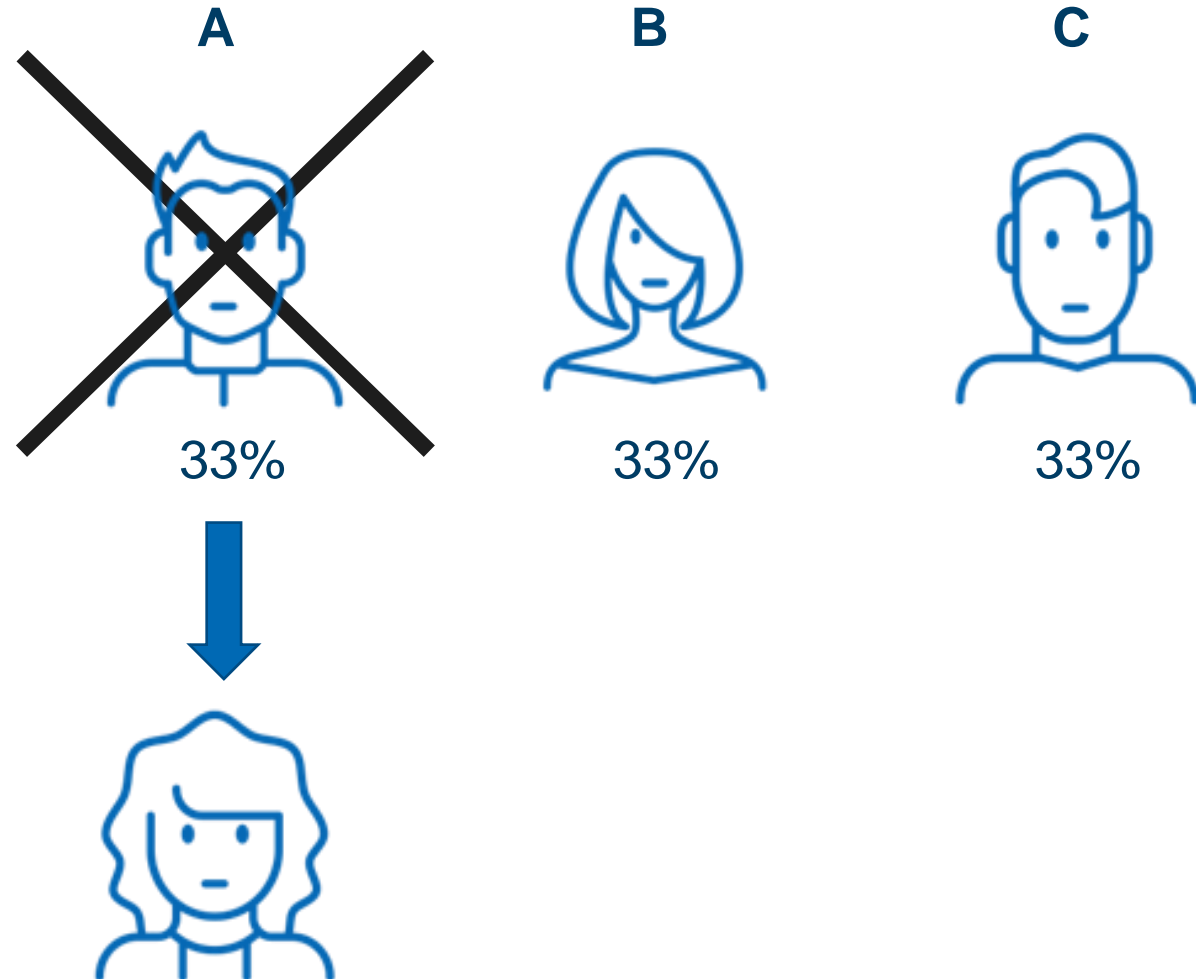
ABC Services Ltd has three directors, each with an equal share of the business.



# Motivation to act – business intestacy audit

## Aspiration vs reality

ABC Services Ltd has three directors, each with an equal share of the business.



# Aspiration versus reality

**Would you like your widow(er), dependants or other beneficiaries under your personal will to have....**

The right to be appointed a director with accompanying rights to directors' fees.

The right, as shareholders, to any dividends declared.

The right to call for the repayment of any outstanding directors' loans owed to you.

The right to sell the inherited shares to the continuing shareholders and force them to buy.

The right to sell the inherited shares to any willing buyer on the open market.

This information is based on our understanding of current taxation law and HMRC practice, which may change.

# Aspiration versus reality

## Would you like your widow(er), dependants or other beneficiaries under your personal will to have....

The right to be appointed a director with accompanying rights to directors' fees.

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The right to sell the inherited shares to any willing buyer on the open market.

**Minority or 50/50 shareholder: No.** Directors are appointed by majority of shareholders 51%

**Majority shareholder: Yes.**

**Yes.** But dividends are recommended by a majority vote of the board and agreed by a majority vote of the shareholders. So a minority or 50/50 shareholder will have no power to force dividend declaration. And if profits are reduced then a dividend may not be financially feasible anyway.

**Yes.** These loans would normally be repayable on demand, subject to any special terms in the agreement or any provision in the deceased's will telling the personal representatives not to call in the loan.

**No.** Model articles, or 'Table A' articles from the Companies Act wouldn't provide this but there might be a right of first refusal – see next question.

**Yes.** There might be a provision in the articles though, giving the continuing shareholders the right of 'first refusal' for a limited time. There might also be a provision enabling the continuing shareholders/directors to refuse to register a transfer of shares. But this shouldn't be unreasonably prevented.

# Business intestacy

## Deceased minority shareholder

### Shareholder's family/dependants



- No right to be a director.
- No right to dividends.
- Can sell to surviving shareholders, but they may be reluctant or unable to buy.
- Can sell to a third party, but likely to be difficult.

### Surviving Shareholders



- Don't need to appoint family members as directors.
- Don't need to pay dividends.
- Don't need to buy the deceased's shares.

# Business intestacy

## Deceased majority shareholder

### Shareholder's family/dependants



- Right to be a director.
- Right to dividends.
- Can sell to surviving shareholders, but they may be reluctant or unable to buy.
- Could be attractive to a third party.

### Surviving Shareholders



- Don't have the automatic right to become a director.
- No right to dividends.
- No right to the deceased's shares.

# Company valuation



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**Net profit multiple for an existing trading business (averaged over last three years)**

5-10 times

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**Net profit multiple for a new business**

5 times

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**Net asset value**

Value of assets stated in the accounts less any liabilities

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# Business agreements



**Get an agreement in place at the start.**



# Option agreements

## **Cross-option agreement**

Co-shareholders have the option to buy, and the personal representatives have the option to sell.

## **Single-option agreement**

Critically ill shareholder has the option to sell.

## **Buy and sell agreement**

Personal representatives must sell, and co-shareholders must buy.

## **Company share purchase option**

The company has the option to buy and the personal representatives the option to sell.  
The company cancels the shares that it buys.

# Share purchase agreements – protection solution

**Own life in trust for the benefit of the other shareholders**

**Policy remains under the control of the trustees, including the insured person.**

**The business protection trust allows changes to be easily made.**

**Puts the money in the right place at the right time.**

This information is based on our understanding of current taxation law and HMRC practice, which may change. Trusts establish legal rights and entitlements and might have material financial and tax implications for the settlor, trustees and beneficiaries. Aegon UK isn't authorised to provide legal advice, so you should take your own legal advice before setting up a trust, to make sure that it meets your clients' requirements. Our trusts have been drafted for use by UK domiciled individuals.

# Share purchase agreements – protection solution

## Company share purchase

Written agreement between the company and its shareholders.

Company's solicitors and auditors must be involved.

Company buys the shares.

The shares purchased must be cancelled so that they become unissued share capital.

The number of shares held by the surviving shareholders increases proportionately.

**Remember, tax legislation is complex.  
We recommend you take specialist advice.**

This information is based on our understanding of current taxation law and HMRC practice, which may change.

# Succession planning – IHT efficiency

## Next steps?

- Agreement
- Valuation
- Application form
- Business trust
- Business property relief
- **Premium equalisation**

# Premium equalisation

- The succession plan must be fair to all shareholders, partners and members so equalisation needs to take place.
- Why? To maintain commercial nature and to maintain IHT efficiency.
- Must be highlighted as an important part of share purchase, partnership and LLP protection arrangements.



# Premium equalisation

Home > Advisers > Protection > Business Protection > Premium equalisation calculator

## Premium equalisation calculator

For intermediaries only

Use our premium equalisation calculator to help maintain the commerciality of any succession planning arrangements using a business trust.

This tool works on the assumption that all partners/shareholders are participating in the arrangement and equalising their premiums. Their combined shares must equal 100%.

Date:

Business name

Value of business

Select the number of partners/shareholders/members:

Partner/Shareholder/ Member's name	Share of business	Actual cost
<input type="text" value="John"/>	<input type="text" value="40%"/>	<input type="text" value="£1,200"/>
<input type="text" value="Peter"/>	<input type="text" value="35%"/>	<input type="text" value="£1,000"/>
<input type="text" value="Alice"/>	<input type="text" value="25%"/>	<input type="text" value="£800"/>

+ Add another partner

Reset All

Re-calculate

### Advisers

ARC

One Retirement

Retiree in the Workplace

### Protection

Protection matters

Personal Protection

Whole of Life

Business Protection

Premium equalisation calculator

Relevant Life tax calculator

Business protection toolkit

Relevant Life

Protection service

Succession arrangements

Protection document library

Policy Plus

Consolidation toolkit

Pensions Technical Zone

Paraplanner zone

Business changes

## Results

Name	Actual cost	Equalised cost	Difference
1. John	£ 1,200.00	£ 1,042.05	£ 157.95
2. Peter	£ 1,000.00	£ 1,073.33	£ -73.33
3. Alice	£ 800.00	£ 884.62	£ -84.62
Total	£ 3,000.00	£ 3,000.00	£ -0.00

Print

## Apply now

Get your clients' business protection in place now.

Apply now >

This is a fictional example. It doesn't represent a real customer.

# Thank you

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