

PERPETUATION QUESTIONNAIRE

There are many things to consider when perpetuating your insurance agency. Time is of the essence as there are many moving parts and the planning and execution can take several years. Please use the following guide as both a checklist of things to get in order, and as a guide that will help facilitate discussions with your partners.

Before we discuss the ins and outs of perpetuation planning, it is important that you have a buy-sell agreement in place with the current partners that stipulates what would happen to the agency stock should something unexpected happen to any of the partners. For the protection of all the partners and the business, it is critical to create and execute this agreement.

- **Contingency Buy-Sell Agreement** – Is there currently a buy-sell agreement in place?

CURRENT OWNERSHIP EXPECTATIONS

- What is the current ownership structure?
 - How many owners are there?
 - What are their ages?
 - How much stock does each own?
- Is there an existing perpetuation plan? If so, has any part of the plan been implemented?
- Do all owners share the same desire to perpetuate?
- Can each owner afford to retire?
- Do agency owners understand and appreciate the personal goals of each owner, including their plans for retirement?
- How important is it for your agency to remain independent after your departure?
- How important is it for the business name to survive?
- How important is it for you to see the staff remain after your departure?
- Is it important for you to have the opportunity to transfer some or all your ownership to a member of your family?
- Does your family have any interest in owning a part of the agency?
- How are families involved in the plans? What are their expectations?
- What compensation would be needed by each owner during their transition into retirement?
- Do you have non-compete / non-solicitation agreements for each owner?
- How do my Will and Estate plan affect perpetuation plan?
- Will the agency continue to pay for perks and benefits (such as group health) for departing owners?

TIMING

- What is the desired exit date for each owner?
- Do owner exit dates match the ability of the agency to transition the stock?
- Do you wish to remain active in the business after retiring your equity? If so, for how long and in what capacity are you willing to stay on?
- Are you willing to begin the transition of your stock while still active in the business?

AGENCY TRANSFER TECHNIQUES

- Internal sale to key employees, including family members.
- Sale of the agency to an outside firm
- Merging with another agency with plans to eventually sell to the new partners.
- Passing the ownership to family or friends through inheritance
- Will you consider a discount off market value for internal perpetuation?
- Does the agency have the ability to finance the transitions?
- Does the agency have a strong balance sheet that could be used to help in the transition?

STOCK TRANSFER MECHANISM

- Are you willing to hold a note from a new owner, or do you need a lump sum?
 - What percent down do you want?
 - How long would you hold the note?
 - What security would you require?
- What is the agency tax structure?
- What are the tax implications of that structure?
- Is there time to transition to a more favorable tax structure?
- Which method of stock transfer makes the most sense with this structure?
 - Stock Purchase – funded with agency cashflow paid out as distributions.
 - Gifting – can be utilized to reduce the tax burden.
 - Agency Redemption – the agency buys back and retires the stock.

CANDIDATES

- Do you have the right candidates in place?
- If not, do you have time to hire, train, and transfer stock before your exit?
- Have you made the necessary investments in human resources to make internal perpetuation likely to succeed?
- Are those candidates willing and able to buy your stock?
- Who will get what stock and when?

TRANSITION PLAN

- How will each owner transition into retirement?
- Stock – which method?
- Who will handle their management responsibilities?
- Who will handle their production responsibilities?
- How much of each book of business will realistically need to be handled by:
A Producer An Account Executive The House
- How long (years/months) will it take each to transition their responsibilities (management & production)?
- Book of Business – what business will be assigned to each new owner? How will this be determined?
- Leadership – who will lead the agency after each departure?
- Customer Relationships – how will they be transferred?
- Carrier Relationships – how will they be transferred?
- Communication Plan – how will the transition be explained to current customers?

PERPETUATION PLAN

- What events will trigger a sale of an owner's shares?
- What will be the purchase price for each share?
- How will the purchase price be determined?
- How will the remaining owners pay for the selling owners shares?
- Should the remaining shareholders have a right of first refusal if an owner wants to sell to a family member or other outside party?
- What restrictions should be placed on an owner's shares?
- Do you have key man life insurance to fund the stock purchase on the death of an owner?
- Should all owners have a right to specific performance of the sale?
- In what circumstances should the business succession plan terminate?
- If a dispute arises over the business succession plan, how should the dispute be resolved?

INCOMING SHAREHOLDERS

- What are your professional goals for the next three to five years?
- Given your current responsibilities, will you be able to take on additional responsibilities? If so, in what areas?
- How would you transition your current duties to enable you to accept additional responsibilities?
- Consider your personal goals for the future:
 - Lifestyle needs? Compensation needs to support lifestyle.
 - Other factors (family, education, needs to support an aging parent, etc.)?
- What sacrifices are you willing to make to obtain stock in the agency?
- How much personal debt are you willing and able to accept?
- Are you willing to reduce your compensation to facilitate the transaction?