

THE “ONE PAGE, ONE POLICY” STRATEGY

Because your needs change over time, the insurance and legal arrangements for your Succession Plan should also facilitate change.

A Complete Succession Plan achieves this by adopting a “One Page, One Policy Strategy”.

The “One Page Strategy”

The “One Page Strategy” uses a copyrighted Risk Analysis Worksheet that allows you and your Adviser to:

- Design a comprehensive one page Business Succession Plan that addresses Asset, Liability and Personal needs at the same time (during meeting);
- Scope the amount of insurable risk involved in a worst case scenario (during meeting);
- Determine the premium cost of insurance required to address the worst case scenario (after meeting);
- Prioritise what risks should be addressed within a premium cost affordable and acceptable to you (after meeting); and
- Arrange the preparation of a Business Succession Agreement (after meeting).

The Traditional “Multiple Policy Approach”

Traditionally, Advisers have written one Policy for each separate need, often resulting in four or five different Policies for each person, usually in the name of different owners.

These arrangements were often difficult to understand and required Policy changes and medical tests each time one of the person’s needs changed.

The “One Policy Strategy”

The “One Policy Strategy” uses a simple Business Insurance Trust structure that has been approved by the ATO to aggregate Asset, Liability and Personal needs onto one Insurance Policy with respect to each Life Insured or Proprietor.

While originally designed for Multiple Proprietor Businesses, the Strategy also allows individual Lives Insured and Sole Traders to aggregate Personal Cover (some of which might be beneficially owned by the Life Insured and the rest by a Self-Managed Superannuation Fund) onto the one Policy.

One or more existing Self-Owned Policies can be transferred or “parked” under the roof of the Trust, if there are health issues with respect to any of the Lives Insured. (The Life Insured continues to be the “original beneficial owner” of the Policy for CGT purposes.)

If the Lives Insured wish to place some of the cover in a Public Offer Super Fund in order to obtain a tax deduction, it is possible to design a “One Page, Two Policy Strategy” using a Hybrid or Multiple Policy-Owner Insurance Trust Agreement.

Security and Tax-Effectiveness

The One Policy Strategy ensures that each component of the insurance proceeds is paid to the intended Recipient securely and tax-effectively by the Policy Owner as Trustee.

Traditional Self-Ownership Buy/Sell Agreements fail to deal with the taxation implications of any element of the Succession Plan other than the Purchase Price. They therefore:

- increase the risk that related insurance and payments might not be structured securely or tax-effectively.
- expose business people and Advisers to disputes and legal claims that can be easily avoided by a “One Page, One Policy” Succession Plan driven by a Business Insurance Trust Agreement.

Fixed Purchase Price and Distributions of Total Sum Insured

Unlike most other Business Succession Agreements, the standard IGS Agreements allow the parties to “lock in” a specific Purchase Price (and any other distributions out of the total Sum Insured), until the Agreement is subsequently varied.

At the time of a claim, the initial Agreement and subsequent Variation Agreements therefore avoid expensive valuations, legal and accounting advice, and disputes with respect to the Purchase Price.

If the total Sum Insured has increased as a result of a CPI adjustment, the default Recipient of the Surplus is the Life Insured. Similarly, if the amount of any Debt reduces before a Variation, the default Recipient of any Excess is the Business. If this is the intention of the parties, there is no need for a Variation Agreement at the time.

Flexibility (Changing Your Succession Plan and Agreement)

The One Policy Strategy makes it easier to deal with your needs as they change over time.

The Risk Analysis Worksheet on page 6 illustrates how needs can change in a five-year period.

Typically, Bank Debt and Personal Needs decrease over time, but the net value of the Business increases.

“Multiple Policy Approach”

If the cover was written on separate Policies:

- as the Debt reduces, the Debt Reduction Cover should be reduced, to avoid any risk that it might be treated as Key Person Revenue Cover (and taxed upon the payment of a claim);
- as the Purchase Price increases, the Buy/Sell Cover should be increased; and
- as Personal Needs reduce, the Personal Cover should be reduced.

These steps involve the administrative burden of dealings with the Insurance Company. In addition, the increase might require new underwriting and medical tests, which can take up valuable management time. If the Life Insured cannot satisfy the Insurer’s requirements, an increase might not even be possible.

“One Policy Strategy”

In contrast, the One Policy Strategy is designed to place all of the cover under the one roof. Once it is under the roof, you might find that you have the right total Sum Insured for the indefinite future. All that needs to be changed is the mix or allocation of the cover.

It is not necessary to deal with the Insurance Company or do medical tests in the future, unless additional cover is required over and above the original total Sum Insured. Thus, changes become a management issue, not an Insurance Company issue.

Rather than changing your Policies, the One Page, One Policy Strategy simply requires a change of the Schedules to your Business Insurance Trust Agreement.

Cost Savings

In most cases, the One Policy Strategy and the Business Insurance Trust structure will result in:

- reduced Policy Application Fees every year (usually between \$50 and \$100 per Policy per annum); and
- significant Volume Discounts with respect to the annual Premium for higher sums insured (see the Table “Insurance Trust Premium Savings”).

While a Multiple Policy-Owner Agreement might result in a tax deduction for some of the Premium, it can also reduce the other cost savings and compromise some of the other benefits of a Single Policy Strategy.

Cost Savings Fund the Cost of Changing Your Agreement

Regardless of the type of Agreement that documents your Succession Plan or Buy/Sell arrangements, there would be costs associated with any future variation of the Agreement.

However, the cost of variations of the Business Insurance Trust Agreement is designed to be funded as far as practicable within the scope of the savings in Policy Fees and Premiums.

In summary, the Business Insurance Trust structure is designed to save money, some of which is then used to fund the cost of keeping your Succession Plan up-to-date.

INSURANCE TRUST PREMIUM SAVINGS

(Comminsure 2002)

PURPOSE OF COVER	SUM INSURED	SEPARATE POLICIES			ONE POLICY		
		Sum Insured	Death Premium	Death/TPD Premium	Sum Insured	Death Premium	Death/TPD Premium
Purchase Price	\$400,000	\$500,000	\$751	\$1,186	N/A	N/A	N/A
CGT	\$100,000						
Personal / Self-Managed Super Fund	\$701,000	\$701,000	\$903	\$1,512	N/A	N/A	N/A
Debt Reduction	\$200,000	\$382,000	\$611	\$1,005	N/A	N/A	N/A
Key Person Capital	\$150,000						
Stamp Duty, etc	\$32,000						
Loan Account	\$100,000	\$100,000	\$250	\$297	N/A	N/A	N/A
Key Person Income	\$100,000	\$100,000	\$250	\$260	N/A	N/A	N/A
TOTAL	\$1,783,000	\$1,783,000	\$2,765	\$4,297	\$1,783,000	\$1,982	\$3,533
\$ SAVING	N/A	N/A	N/A	N/A	N/A	\$783	\$764
% SAVING	N/A	N/A	N/A	N/A	N/A	28.31%	17.77%