

COMPLETE SUCCESSION RISK ANALYSIS WORKSHEET

Illustration of Changes of Apportionment of Sum Insured to Reflect Changes of Needs Over Five Years

Insurance Company Pays Total Sum Insured to Trustee (Policy Owner) →					Trustee Pays↓	
	PURPOSE	AMOUNT OF EACH COMPONENT			NOTES	RECIPIENTS
		Year 1	Year 3	Year 5		
ASSETS +	Pre-agreed Sale Price of Equity	\$400,000	\$500,000	\$700,000	Funds 100% of Pre-agreed Sale Price	Vendors
	CGT on Pre-agreed Sale Price	\$100,000	\$125,000	\$175,000	Funds CGT liability of Vendors	Vendors
	Stamp Duty, Legal & Accounting Fees	\$32,000	\$37,000	\$55,000	Funds transactional costs	Business
LIABILITIES +	Bank Debt, Lease & Other Liabilities	\$200,000	\$100,000	Nil	Facilitates release of Personal Guarantees and Securities	Creditor
	Loan Account	\$100,000	\$100,000	\$100,000	Repays debt owing between Business and Insured Person	Creditor
	Key Person (Income)	\$100,000	\$100,000	\$100,000	Funds costs of replacement or loss of income	Business
	Key Person (Capital)	\$150,000	\$150,000	\$150,000	Compensates Purchasers for loss of capital value	Continuing Proprietors
PERSONAL =	Personal Loans (Home Loan, Equity Loan, Other Liabilities)	\$101,000	\$91,000	\$81,000	Repays personal debts	Insured Person (Debts)
	Living Expenses (See Personal Needs Analysis Worksheet)	\$600,000	\$580,000	\$422,000	Capital required to fund living expenses less Net Sale Price (after CGT) and other investments	Insured Person (Living Expenses)
	Self-Managed Super Fund Needs	Nil	N/A	N/A	Personal Cover in Super Fund	Self-Managed Super Fund
	Future Sale Price Provision	N/A	N/A	N/A	Provision for anticipated growth of Sale Price in short-term (if Personal Cover not sufficient to fund growth)	Insured Person
TOTAL		\$1,783,000	\$1,783,000	\$1,783,000	Total is collected by Trustee and distributed to Recipients.	

COMPLETE SUCCESSION RISK ANALYSIS WORKSHEET

Explanation of Each Component of the Total Sum Insured Held on One Policy

Insurance Company Pays Total Sum Insured to Trustee (Policy Owner) →			Trustee Pays↓
	PURPOSE	NOTES	RECIPIENTS
ASSETS +	Pre-agreed Sale Price of Equity	Price of share of total value of Business held by Life Insured and Related Parties. Equity is Vendor's "Jewel in the Crown". Most Purchasers are "asset rich, cash poor" and can't afford Sale Price of new Equity. Insurance funds 100% of Pre-agreed Price, so no need to negotiate Sale Price or borrow. Price plus Personal meets Personal Needs Capital Requirement.	Vendors
	CGT on Pre-agreed Sale Price	Personal cover earmarked to pay CGT liability on Sale Price of Equity (not CGT on insurance proceeds). Ensures total Sale Price available for Personal Needs. Half Marginal Rate (or Full Company Rate) on Sale Price less Cost Base. Assuming nominal Cost Base and top Marginal Rate of approx 50%, allow 25% of Sale Price (or 30% if Company Vendor).	Vendors
	Stamp Duty, Legal & Accounting Fees	Funds stamp duty payable by Purchasers and transactional costs of both Vendors and Purchasers. For shares, allow 0.6% of Sale Price. For other property, allow 4% up to \$200K, 5% up to \$500K, 5.5% up to \$1M, 6% over \$1M. Units dutiable on gross value, not net value. Vendor's Lawyer and Accountant plus Purchaser's Lawyer and Accountant = 4 x Professional Fees. Allow Total Professional Fees of \$12K up to \$500K and \$20K over \$500K.	Business
LIABILITIES +	Bank Debt, Lease & Other Liabilities	Need to extinguish Life Insured's personal guarantees and securities for Business Debt when exit. Must exit asset and liability side of ledger. Normally proportionate amount of debt. Can be 100% of debt, if bank/creditor regards Life Insured as vital key person. Excess Debt reduction cover can be re-apportioned to Purchase Price, as debt reduces and Sale Price increases.	Creditor
	Loan Account	Need to repay debt owing by Business to Life Insured (or vice versa).	Creditor
	Key Person (Income)	Compensates for temporary, once-off loss of income, say, for three to six months. Alternatively, compensates for increased expenses of replacement staff, say, for 12 months. Premium deductible, but proceeds taxable.	Business
	Key Person (Capital)	Compensates for permanent loss of income stream, profitability, goodwill. Loss of capital value of business or Equity in the business. Will the business be worth less without Life Insured? Premium non-deductible, but proceeds not taxable.	Continuing Proprietors
PERSONAL =	Personal Loans	Funds repayment of Personal Home Loan, Business Equity Loan and Other Liabilities.	Insured Person (Debts)
	Living Expenses	Funds any shortfall in capital required to fund Personal Needs and Living Expenses (after deduction of Sale Price of Equity (after CGT), repayment of any Loan Account and capital value of other assets of estate. Excess Personal Cover can be re-apportioned to Purchase Price, as Sale Price increases and Personal Needs reduce (or Life Insured becomes uninsurable). Premium for cover beneficially owned by Super Fund may be tax-deductible.	Insured Person (Living Expenses)
	Self-Managed Super Fund Needs	Provision for any of the above Personal Needs that are appropriately dealt with in the superannuation environment.	Self-Managed Super Fund
	Future Sale Price Provision	Provision for anticipated growth of Sale Price in short-term (if Personal Cover not sufficient to fund growth)	Insured Person
TOTAL	<p>Distribution on Claim: Trustee distributes Total Insurance Proceeds tax-effectively and securely to intended Recipients in right-hand column in accordance with Business Insurance Trust Agreement.</p> <p>Payment of Premiums:</p> <ul style="list-style-type: none"> • Business pays Total Liability Premium. • Proprietors pay Total Asset Premium proportionately. • Each Life Insured/SMSF pays own Personal Premium. 		