



SPECTRUM

CONTINUITY PLANNING^{LT}

Checklist for Continuity Planning for an Unexpected Death or Disability

In the event of disability of a shareholder, ensure you have a process/plan for:

- How long the disabled shareholder receives salary
- Paying dividends if one shareholder is disabled
- The point at which the disabled shareholder sells to the working shareholder
- A clear definition of “disability,” in order to determine if a transfer of shares should occur
- Clear guidelines to determine disability involving “mental capacity”
- Providing a replacement to do the job of a disabled shareholder

In the event of the death of a shareholder, ensure you have a process/plan for:

- Who replaces the job and talent of the deceased shareholder
- Any lenders asking for loan repayment
- Customer and key business contacts
- Any shares/profit owned/shared by the family of the deceased
- The family of the deceased selling to surviving shareholder(s)
- Setting the value set (e.g., specific formula related to earnings/assets, periodically-reviewed price, business valuator appointed by seller and another by buyer, set by firm accountant)

If life insurance is to be used to fund the purchase of shares at death, ensure you have a process/plan for:

- Knowing whether shareholders will pass an insurance medical
- Who owns and is the beneficiary of the insurance
- Whether the life insurance can be assigned as collateral or borrowed against
- Explaining the tax benefits for the seller and buyer
- Handling excess or deficiency of life insurance
- Using the capital dividend account, as stated in the shareholder agreement
- Authorizing payment of a capital dividend (or any dividend), as stated in the shareholder agreement or bank loan agreement
- What happens to life insurance policies if no longer needed for the original purpose
- What happens if ownership of life insurance is transferred
- Ensuring the life insurance is set up correctly in the shareholder agreement
- What happens if the life insurance does not pay
- How the life insurance and shareholder agreement is set up (e.g., Cross Purchase Method, Share Redemption Pre Stop-Loss Rules, Roll and Redeem Method, 50% Solution, 100% Solution, Hybrid Method)