

NEWS YOU CAN USE

Dates to save, trends to watch

Health habits. Just 19% of employees are willing to pay higher premiums in order to keep deductibles and co-pays lower and more predictable – half as many as the 38% percent who were willing to do so in 2007, according to Watson Wyatt's recently released *Employee Perspectives on Health Care*, a survey of 2,487 employees of large U.S. companies conducted in mid-2008. According to the survey, 66% of employees are taking steps to improve personal care, up four percentage points from 2007. In addition, 46% are choosing a lower-cost drug option (also up four percentage points) and 20% saved money in an account used just for medical expenses (up five percentage points).

Tax holiday request. National Federation of Independent Business, a small business advocacy group, is calling on Congress to pass a six-month payroll tax holiday as part of any economic stimulus package that would be considered in the upcoming weeks.

OSHA update. The final rule on Clarification of Employers' Duty to Provide Personal Protective Equipment and Train Each Employee, published in the Dec. 12 Federal Register, clarifies that employers must provide personal protective equipment (PPE) and hazards training for each employee covered by the standards to be in compliance. Each employee not protected may be considered a separate violation and penalties will be assessed accordingly.

Forward-thinking dealers put succession planning on front burner

The automobile industry may need a tourniquet to stop the bleeding and a defibrillator to revive it, but many lifelong dealers have no plans to lay their businesses to rest anytime soon. Their big challenge, instead, is trying to figure out how to pass their dealerships on to their children without being strangled by the death tax.

"You need to do an awful lot of planning – circumstances change, business changes, the marketplace changes, and buyers change too," says Jim Grecco, dealer principal of Joyce Honda in Denville, NJ. "We're going through an era we haven't seen since the Great Depression."

Even in better times, "you've got to really work with it on a day to day basis, with planning and people, and figuring out who will take the reigns if something happens. You have to leave a path so those who take over can work with it," Jim tells *Dealer Business Briefing*.

Once or twice a year, Jim sits down with his CPA and tax attorney for estate planning purposes to see if he's still on target. He also works with Premium Advisors, a fee-based life insurance advisory firm, to make sure he has adequate life insurance coverage and isn't overpaying for premiums (see sidebar on page 4.)

Jim, who's been in the business for over 50 years, since he was just 19, says he's glad he started his estate planning as a young man

so he'll be able to pass on his business to his son-in-law and daughter – and possibly his grandchildren too – despite the death tax.

"Uncle Sam comes in – God bless him, this is the greatest country in the world and it will always be – but to give up 40 to 50 percent is extremely difficult on a family business," he says.

Jim's estate includes three dealership properties. "I have an old saying that I use: 'The annuity policy in life is the brick and mortar you own.' Franchises change but brick and mortar stays forever – that's your lifeline," he says.

Although he gave up his Lincoln Mercury franchise three years ago after being with the line for more than 40 years – "I could see the path we were on; sales were dropping and products weren't up to date" – he held onto that real estate which now houses his used car center and service and parts departments. He also owns the property of his 20,000-square-foot auto body shop.

Jim knows too that "you don't get people to stay for 20 to 40 years,"

continued on page 4

continued from page 3

like most of his staff, without helping them plan for their future. That's why he has retirement, insurance and bonus plans in place for them. "The top management team members are like junior partners in the business and the rest of the team is on incentives," tied to sales, he says.

Jim, who has been working on various cost-cutting measures in the sluggish economy, expects the industry to rebound. "The world is built on wheels. No matter what, people have to get from one place to another."

Tax relief tactics

In Minneapolis, dealer principal Morrie Wagener of Morrie's Automotive Group has also been giving much thought to estate planning and the death tax. "I've been watching the pendulum swing on estate taxes, but with the deficit I think we're certainly stuck with it in my lifetime," he says.

Morrie tells *DBB* that he just spent six months revising his estate plan with a legal firm. Part of that revision was a study of his life insurance coverage. "I didn't find out 'til my mid 60s that I was supposed to plan my estate at 50. I got a real late start," he says. About 10 or 12 years ago, Premium Advisors helped him put together a viable life insurance policy that gives him coverage until his mid 80s.

"Planning an estate is an evolving situation as kids mature and tax liabilities and tax laws change. It's kind of a moving target," says Morrie. "My goals are to keep this business intact and not have to liquidate it when my wife and I die." His life insurance is designed to help give estate tax relief so his four children can continue in the business. "We never invited them – they just showed up one by one," he quips.

Morrie owns the real estate for 14

of his 16 dealership locations. "That's been our business plan since we started operations, it has helped us grow," he says. Now, though, he wishes he had purchased more life insurance when he was younger because his tax liabilities have gone up and many of his properties have appreciated significantly over the last decade or so. "The problem in this business is that we're never very liquid," he says, referring to dealers in general.

Morrie admits he is nervous about the nation's deficit and the troubled economy and industry. "This is about the ninth or tenth downturn

I've been through and it's the worst I've seen," he says. Morrie, who started as an import dealer and didn't carry the domestic lines until the early 1990s, thinks Detroit has a long way to go.

But the difficult circumstances don't seem to be scaring off his children from the dealership world, he says. "This is going to be a grooming period for all of us...It's nice having second-generation thinking in the business. It used to be my way or the highway." For some ideas on what his group is doing to cut costs and position itself for a post-recession recovery, see the page 2 article. ♦

Life savers

In a difficult economy, life insurance may seem like an easy thing to take the axe to. No one likes to think about it anyway. But doing so could mean financial suicide for your dealership and family when the death tax collectors come knocking – or if you live longer than expected.

"Just because business is bad doesn't mean you have to give up your life insurance. There are ways to save that will benefit your family and, when done right, life insurance will always cost less than you think," says Tony Freeman, founder of Premium Advisors, LLC, a fee-based life insurance advisory firm in Chicago.

Tony, who has been in the business since 1969, has worked with auto dealers for the last decade helping them reduce premiums and expand coverage. A few years ago, he helped a 65-year-old dealer who was paying \$165,000 a year for a \$5 million policy because of his health condition slash his premiums by 50%. How? By reducing the policy to age 85 from 100 – an age he was unlikely to reach given his health.

"It's amazing what you can do when you realize you're in the driver's seat," says Tony, who has negotiated with insurers to allow dealers to use cash sitting in their accounts to help offset future premiums, discussed physical exam discrepancies with underwriters, and more.

Be sure to review your coverage often. "A lot of guys have the beginning of a program but they may be underinsured," says Tony – especially given the rise in life expectancies and real estate values in recent years. Current insurer requiring a physical before you can upgrade your policy? Tell them you'll shop the marketplace and see if they'll come back to you with a competitive offer to keep your business.

Term insurance can also help. Tony explained to a dealer whose daughter was recently diagnosed with multiple sclerosis that buying her term insurance, through a trust, would give her option of converting it to a more permanent form of insurance down the road no matter how her disease progresses.

Mr. Freeman can be reached at tony@pa-llc.com or 312-807-3700.