Income Gap at Owner's Death

Scenario #1: The Million-Dollar Man:

1. Assume value of business is $1,000,000. Owner receives $250,000 of annual compensation and spends it. EBITDA of $300,000 is retained by company for growth.

2. Owner dies and business is liquidated.
   a. How much capital is needed to replace $250,000 income for benefit of family?
   b. How much capital, including life insurance, is available?
   c. How does owner close any income gap created at death?

Scenario #2: The lucky (?) owner who completed her estate plan the week before death.

1. Assume value of business is $5,000,000. 50% Co-Owner receives $250,000 of annual compensation and spends it. EBITDA of $1,250,000 is retained by company for growth purposes.

2. Owner dies and her interest is purchased via fully funded buy-sell agreement for $2,500,000.
   a. How much capital is needed to replace $250,000 income for benefit of family?
   b. How much capital, including life insurance, is available?
   c. How does owner close any income gap created at death?

Scenario #3: The lucky (?) owner who completed her estate plan the week before death.

Use same info as #2 but assume co-owner receives $500,000 of compensation and spends it, with EBITDA of $750,000 retained by company.

What investment income assumptions should be used?
What can be done to compensate family for the lost ownership opportunity?