

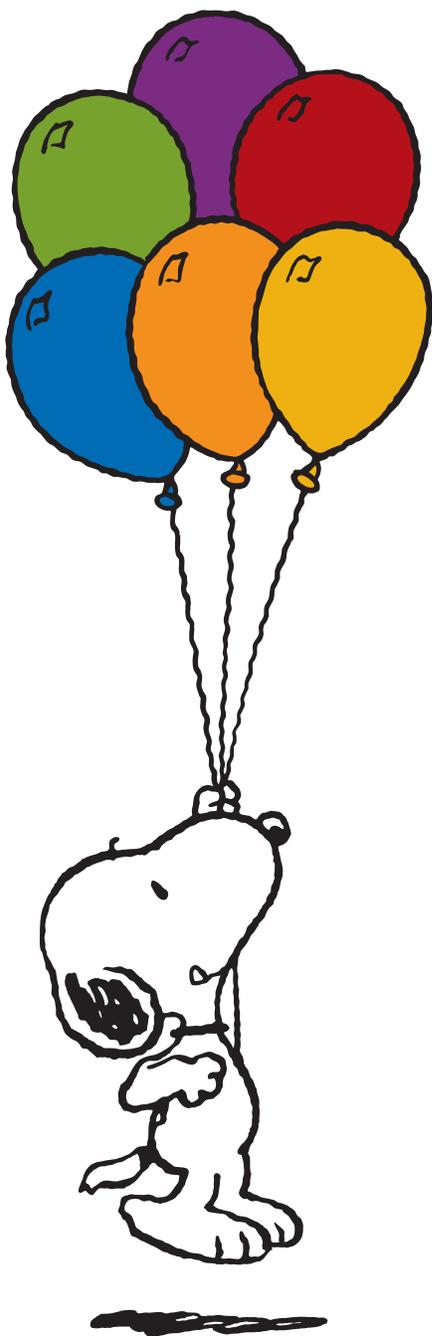
Being an Entrepreneur

MetLife[®]

LIFE ADVICE

Information about starting and running your own business





MetLife Consumer Education Center

Although most people head off to work for someone else every day of their careers, some find tremendous satisfaction and success by owning and operating their own business. Running a small business involves a wide range of activities, including developing a business plan, overseeing sales and marketing, dealing with personnel, and innumerable administrative responsibilities. If you think you're up to the challenge, owning your own business can be tremendously rewarding, both personally and professionally.

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This Life Advice® pamphlet about Being an Entrepreneur was produced by the MetLife Consumer Education Center and reviewed by the Internal Revenue Service.

Are You Ready to Be an Entrepreneur?

Getting a new venture up and running takes particular business skills and personality traits. If you are considering starting your own business, the following questions may help you decide if you're up to the challenge.

Do You Have the Mindset?

	Yes	No
Do you have personal drive and leadership qualities?		
Do you have organizing ability?		
Are you psychologically ready to take some risks?		
Are you prepared to wait several months or more before you make a profit?		
Do you have specific expertise in the business you want to start?		
Do you like to think ahead and plan for your future, then work to make it happen?		

The right mindset is only the beginning. You'll need important business skills as well.

- Do you know how to find your particular niche in the market and how to identify your customers?
- Do you know how to sell enough of what you have, at a price that will return an adequate profit for you?

Although there are no guarantees, if you answered yes to most of these questions, you may have what it takes to be successful in starting your own business. Just remember, every new business faces difficulties.

Getting Started

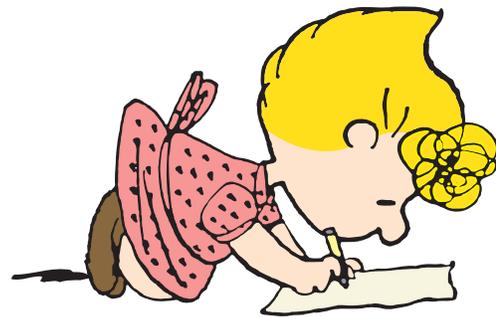
Running a company takes sharp business sense and tenacity. Knowing how to take advantage of market conditions and develop strategies to get through the tough times will help turn your great idea into a successful business.

First, you'll need to develop a business plan, the road map you'll use to establish and guide your business. Consider all aspects of the business, ask every question you can think of, and be sure you come up with satisfactory answers.

- What type of business do you want to own? Will it be retail, service or manufacturing? What service or product does your business provide and what needs does it fill?

- Who are the potential customers for your product or service and why will they purchase it from you?
- What about the competition? Is the community large enough to support another similar business? Head to the local chamber of commerce and the yellow pages for details.
- Where will you locate your business? Is there a similar business nearby? Get information on the community's plans for business growth, such as shopping malls and business park expansion.
- Will you be able to find enough qualified people to employ?
- How will you sell to potential customers or clients?
- Where will you get the financial resources to start your business?

Formulate the most likely picture of your company's future using all available data (financial records, media, government reports, surveys, your own observations and those of your colleagues). These data will be the basis for your business forecast. Try to identify trends that may affect demand for your product or service or point to product improvements or even new areas of business. You will incorporate these anticipated changes into your business plan.



Writing a Business Plan

Start by defining your idea in business terms. It's essential to have written a business plan. As painful as it might be to write, the business plan will serve two critical purposes.

- First, the *process of writing* the plan will help you clarify your thoughts and objectives. It's a giant leap from "I've got a million dollar idea!" to putting a million dollars into your business account. The business plan is your road map.
- The presentation in your business plan is your primary tool for securing financing, whether it be venture capital or a loan from your local bank.

A business plan requires a realistic look at almost every phase of your business and allows you to show that you have thought through all

the problems and possibilities for your new venture. A well-written plan functions as a key tool for communication, management and planning. It can be used to attract investment capital, secure loans and convince workers to sign on. It helps you track, monitor and evaluate your progress. By using your business plan to establish timelines and milestones, you can gauge your progress and compare your projections to actual accomplishments. As a planning tool, the business plan will help you establish alternatives so you will be better able to identify and avoid roadblocks and obstacles. The business plan is a living document that you will modify as you gain knowledge and experience.

As you are writing your plan, you can refer to the **Checklist for a Business Plan** on this page (based on guidelines from the US Small Business Administration (SBA)). Let it serve as a guide that you adapt to your specific business.

As you prepare to write your business plan,

- Talk to your intended suppliers and, if possible, your intended customers.
- Do research at the library, through the media and over the Internet.
- Contact the Small Business Administration, the Equal Employment Opportunity Commission (EEOC) and other government agencies for relevant market research data and business forecasting information. These data will enable you to make solid projections for your business.
- Get involved with trade associations and subscribe to trade publications. These groups can give you access to marketing avenues as well as forecasts of demand levels and industry trends. Participating in these groups is also an excellent way to meet people in your industry, potential customers and other business contacts.

Build your team of professional advisors. This is no time to go it alone. Find and consult qualified professionals — lawyers, accountants, and financial advisors — to help you include the best decisions in your business plan and to assist you when your company is up and running.

- Ask other local business owners or trade associations for referrals. Even if your dream business is small and you have a great deal of experience in that particular line of work, don't expect to know all there is about running a business. Good advice may be the difference between success and failure.

SBA's Checklist for a Business Plan

Introduction

- Give a detailed description of the business and its goals.
- Discuss the ownership of the business and the legal structure.
- List the skills and experience you bring to the business.
- Discuss the competitive advantages you and your business have.

Marketing

- Discuss the products/services offered.
- Identify the customer demand for your product/service.
- Identify your market, its size and locations.
- Explain your advertising and marketing strategy.
- Explain the pricing strategy.

Financial Management

- Explain your source and the amount of initial equity capital.
- Develop a monthly operating budget for the first year.
- Develop an expected return on investment and monthly cash flow for the first year.
- Provide projected income statements and balance sheets for a two-year period.
- Discuss your break-even point.
- Explain your personal balance sheet and method of compensation.
- Discuss who will maintain your accounting records and how they will be kept.
- Provide "what if" statements that address alternative approaches to any problem that may develop.

Operations

- Explain how the business will be managed on a day-to-day basis.
- Discuss hiring and personnel procedures.
- Discuss insurance, lease or rent agreements, and issues pertinent to your business.
- Account for the equipment necessary to produce your products or services.
- Account for production and delivery of products and services.

Concluding Statement

- Summarize your business goals and objectives and express your commitment to the success of your business.

- Retain advisors who are compatible with your management style, and use these professionals wisely. Accountants don't just prepare income tax returns; they help with tax planning, financial reports and provide assistance in securing business loans. Insurance and financial advisors can help you establish retirement and savings plans that capitalize on the benefits of business ownership. Discuss

your plans and objectives, explaining clearly what you expect from any advisor's services. Maintain good financial records, and keep your advisors posted on changes and new directions in your business.

- When interviewing a prospective attorney, be sure to ask what other types of small businesses the attorney represents and how long he or she has been practicing law. Check with the state bar association to make sure he or she is a member, licensed to practice law in the state where your small business is located. Be candid and honest, telling him or her all the facts—good and bad—about your business.
- As your small business grows, you may need to retain a payroll service and an accountant to keep your books in order and to keep current with IRS regulations. See “For More Information” on page 9. You should also consult with an insurance advisor for coverage to protect assets and comply with employer regulations, such as worker's compensation. Again, ask other small business owners for recommendations. If you have an attorney, he or she may have suggestions.

Put It On Paper

When you have formulated your ideas and collected your data, it's time to put it all together in a written business plan.

The Legal Structure of Your Business

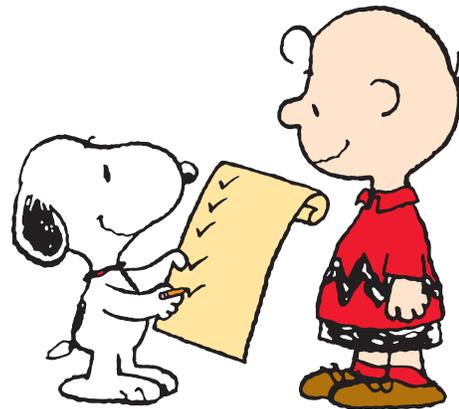
For tax and legal reasons, you'll need to decide on the form (legal structure) your business will take. It will be an important element of your business plan. Here's where professional advisors play a key role. Consult with your attorney and accountant before you decide what form to use for your new business. They can advise you on tax advantages and which form offers you the best protection of personal assets.

Generally, the legal structures for businesses fall into one of five broad categories: sole proprietorship, partnership, corporation, S corporation, and limited liability corporation. Your choice of legal structure will affect your exposure to personal liability, how you draw profits and pay taxes, your ability to raise capital, and how you run the business.

- **Sole Proprietorship:** Generally the quickest, easiest way to start a business. It is an unincorporated business owned by one individual. Profits and losses are included on your individual tax return, and if someone sues your business, your personal assets may be subject to those claims.
- **Partnership:** An association of two or more people working as co-owners of a business with the intent of making a profit. This increases the complexity and amount of paperwork. In addition,

general partners can share unlimited liability and each is usually responsible for the acts of the other.

- **Corporation:** an entity that functions somewhat like an individual, legally and for tax purposes. Setting up a corporation involves numerous filings and meeting specific organizational regulations, such as appointing a board of directors. The corporation, while minimizing personal liability for owners, may not protect you from a lawsuit. Also, with new and small corporations, many lenders require officers' personal guarantees.
- **S Corporation:** provides the advantages of a corporation, but is treated as a flow-through entity for income tax purposes. The owners report income individually on their personal income tax returns and owners may deduct the corporation's losses against other sources of income.
- **Limited Liability Corporation:** distributes income and tax responsibility among partners, but the partners are not personally liable for debts. This is a relatively new legal form of business, so be sure to consult a knowledgeable attorney for the most up to date information.



Details, Details, Details

Even the best business plan can miss a key detail or two. Don't neglect the following, as appropriate for your specific business:

- Get a federal tax identification number.
- Get a state sales tax identification number.
- Establish a banking relationship.
- Secure adequate and appropriate insurance coverage, including business liability.
- Obtain any necessary licenses.

Sales and Marketing: A Critical Piece

Getting your great idea, product or service out into the marketplace is critical to building your business. As part of your business plan, develop a detailed sales and marketing strategy. At a minimum, include discus-

sions supported by data to show:

- Who your customers are.
- Where they are.
- Why they buy.
- What they buy.
- What distinguishes you and your product from your competitors?
- The projected demand for your product.
- What effect the economy will have on your business.
- How you plan to develop new customers and markets.



The Capital Idea

Adequate financing is another key concern when starting a business. You'll need to invest some of your own money — putting your funds into a business venture underscores to potential investors or financial institutions your commitment to the venture. Most people don't have sufficient personal resources to get a business up and running.

Fortunately, there are myriad sources of financing. Commercial banks, the SBA and private individuals are important providers of working capital. Although its funds are limited, the SBA can be particularly helpful for businesses owned by women and minorities. Check with area banks to find out if they offer special programs for local or start-up businesses.

Carefully prepare a thorough, well-thought-out loan proposal that includes the following:

- General information about the business, such as the company name, principal employees, the purpose of the loan and the amount needed.
- Business description including the history and nature of your business, number of employees and current assets.
- Management profile on each principal in your business, detailing education, experience, skills and accomplishments.

- Market information that defines your products as well as your market and competition, and a customer profile explaining how your business satisfies their needs.
- Financial statements such as balance sheets, income statements for the past three years, a personal financial statement and collateral that will be used as security for the loan.

You may consider seeking private investors who wish to have an equity stake in your business. Relatives or friends may be potential investors. Keep in mind, however, that these people may, understandably, expect to have a say in how the business is run. Whatever the agreement, get it in writing. Treat friends and relatives the same as you would other investors.

Once you've completed your business plan, review it with a friend or business associate. Contact the Service Corps of Retired Executives (SCORE); a Small Business Development Center counselor will be available to help you through some of the start-up hurdles.

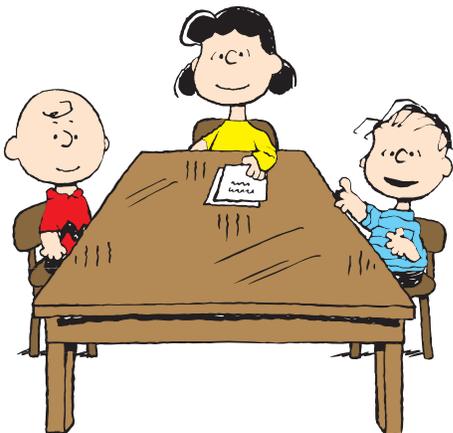
Down to Business

When you're ready to get down to the business of running your business, use the business plan as your road map. Although your business plan will outline the operational concerns and areas most critical for you, following are some of the major concerns most new businesses need to address:

- **Marketing Feedback:** In your business plan, you have identified potential customers — your target market — and what is unique about your product or service. As soon as you deliver your product or service to your market, ask for feedback. How do you like our product or service? How can we improve it? You can *always* improve your marketing; delighted customers are your best promise for a successful venture.
- **Pricing:** The three main components of price are material, labor, and overhead. The amount you charge for a product must cover all costs and return a profit. In your business plan, you did a complete cost analysis and set a price that falls in line with your marketing strategy. As you begin production, you'll learn more about the variables for producing your product more efficiently. Constantly try to find ways to decrease the cost or improve the quality of your product.
- **Location/Property Issues:** If your business plan calls for your business site to be in a location outside your home, be sure to consider zoning regulations, access to adequate power, signage needs, and property maintenance issues. Again, fully explore all terms before committing yourself to a lease or rental agreement.
- **Supplier Management:** Your business plan identified suppliers of the materials you will need to provide your product or service.

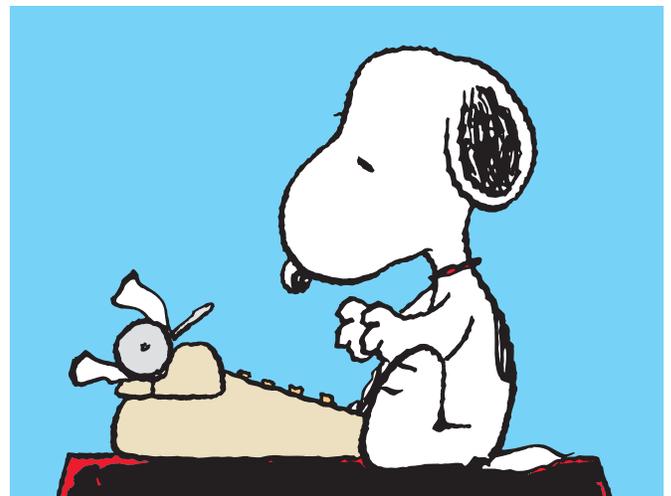
Successful business strategies are often based on building excellent relations with suppliers. If you and your suppliers are a team, working together for your mutual benefit, your costs and quality will be more predictable and your customers will likely receive your product in a more timely and consistent way.

- **Production:** Determine the best, most efficient way to make your product or offer your service. For equipment needs, leasing may be a financially wise choice. Make sure you fully understand lease terms—rates, maintenance, renewals, etc. —before you sign.
- **Distribution:** Figure out the fastest, least expensive way to get your product or service to your customers.
- **Patents, Trademarks, and Copyrights:** If your product or service is unique, protect these special features before you introduce your product or service.
 - Patents grant your company exclusive rights to an invention for a set time period. It's best to speak with a patent attorney before you produce and sell your product.
 - Trademarks identify the source of both goods and services and are among a company's most valuable assets. Proper usage generates recognition and customer loyalty that can result in enormous financial returns. For a link to the US Patent Office, see "For More Information" on page 9.
 - Copyright protection exists in original works of authorship fixed in any tangible medium of expression. For additional information and forms to register your copyright, contact the Register of Copyrights, Library of Congress, Washington, D.C. 20559, 202/707-3000.
See "For More Information" on page 9.
- **Staffing:** Depending on the size of your business, staffing can be an important concern. If you're going to hire employees, be sure their roles are clearly defined. Prepare an organizational chart of personnel that covers the functions of sales, service, manufacturing, and purchasing. Familiarize yourself with federal and state regulations that protect the rights of potential employees. The



Equal Employment Opportunity Commission (EEOC) provides information about regulations affecting small business owners. See "For More Information" on page 9. Advertise open positions and interview candidates in a non-discriminatory manner.

- **Training and Retention:** Provide opportunities for your staff to learn more about their jobs and responsibilities. Maintain a pleasant work environment with fair compensation. While pay is an important reward for employees, it's not the only way to recognize their contributions. A bonus day off, special lunch or dinner, and even the occasional pat on the back for a job well done can help motivate your team. If you need to terminate an employee, make sure you have legitimate, documented business reasons for firing someone. Be sure the standards you apply are fair and consistent, and are clearly communicated to employees.



Home-Based Businesses

Many small businesses start out in the home. If you have a home-based business, it's usually a one-person operation, and the work performed can be anything from accounting to writing articles. Working at home, however, usually succeeds only if you are a highly motivated self-starter. Are you disciplined enough to establish a regular work schedule and stick to it? If you work out of your home, don't let other obligations interfere with business. Housework, yard work and other distractions may make it easy to neglect work.

Also, ask yourself if you will mind the solitude of working at home. It can be lonely, and if you're a "people person," you may find it difficult to be productive at home. You can try to overcome this problem by getting out each day to visit clients or customers and by staying active in professional organizations.

Certain expenses for a home-based business may be tax-deductible. If your home office meets specific IRS requirements, you may be able to deduct a portion of your mortgage interest, utilities, property taxes, and insurance as business expenses. You may also be able to deduct

the costs of traveling to and from your home to other locations to conduct business. Tax rules in this area are subject to change and depend on your individual situation, so consult your accountant or tax advisor for details.

Finally, when the business is in your home, you need to talk with an insurance professional to be sure you are protected. Workers compensation, business, or professional liability insurance may be appropriate in your situation.

Family-Owned Businesses

Passing the business from one generation to the next is a special concern for family-owned businesses. Succession problems usually can be solved with open communication and expert help. Start by sitting down with family members to discuss the future of the business; together, create a plan that members of the next generation can agree upon. If no family members are committed to the business, you'll need to prepare to sell the business to an outsider when you decide to retire.

You and your spouse should have updated wills that clearly state your intent to have the business stay in the family. Take the time to develop a plan to ensure that your estate goes to family members rather than to taxes. There have been recent changes to the tax code so consult with your attorney or accountant about the tax consequences that result when you pass the business from one generation to the next. Create an estate-planning team that includes experienced people you can trust to ensure a smooth transition.

Selling Your Business

Running your own business can be enormously satisfying. But there may come a time when you are ready to sell the business and move on. The challenge is to find an effective way to sell in a reasonable amount of time and on the best possible terms. Many businesses are sold through classified ads in newspapers, business journals or trade publications. Local business associations, such as your chamber of commerce or economic development office, can also help get the word out to qualified buyers. Here are a few other avenues you can explore.

- **Business brokers.** A business broker has a portfolio of potential buyers; people eager to buy a successful business. They may be able to help in locating sources of financing. Business brokers are paid on commission; therefore, a high sale price is to their advantage — a factor that works in your favor as the seller. However, a broker who is looking for a quick sale might be inclined to undervalue your business. Before you sign up with a broker, always ask for references from previous customers and check with the Better Business Bureau.



- **Competitors.** If your business has gained market share at the expense of your competitors, one or more of them might be interested in acquiring your business. To protect your interests and ensure that your business maintains its value, have your lawyer or accountant approach potential buyers. Only when genuine interest on the part of the competitor has been established can your company's name safely be divulged.
- **Customers.** A customer who purchases a product from you and then resells it is another potential buyer. However, if you have multiple customers who compete with each other, you'll want to exercise extreme caution approaching one of them. Again, consider using a third party to sound out interest.
- **Vendors.** Vendors are good prospects for much the same reason as customers. Purchasing your business represents an expansion into a known area with low risk. This is particularly true if you've been a customer of theirs for some time and have an established sales record.
- **Employees/Partners.** Some of the best prospects may be right under your own business roof — partners and employees. If you've been running the business with others, those people are likely candidates to take over. A sale like this also causes less trauma to customers. You may even continue to participate in the business as a consultant.

If you decide to market your business, it's wise to keep your plans confidential. If word gets out that you plan to sell, you could be giving your competitors an unintended boost; your suppliers, employees and customers may become wary. Both situations could adversely affect your ability to continue in business and ultimately affect your selling price.

What Is Your Business Worth?

Determining how much you should ask for your business is a complicated process that is best done with the help of a business broker and an accountant. Audited statements prepared by a reputable accountant will help establish your business credentials. Tax returns also offer proof of business performance. Generally, three years of financial records will serve to establish where the business is going and its profitability. Among the items you'll need to gather are:

- Income statements
- Balance sheets and income tax returns from the last three to five years
- Records of accounts receivable and payable
- A copy of any outstanding notes or mortgages owed
- Existing contracts with employees, customers or suppliers
- Present lease
- Legal documents such as the corporate bylaws or partnership agreement
- Any patents, trademarks or copyrights

Ways to value your business. There are various methods for valuing a business, each with its limitations. One method involves calculating net worth by subtracting liabilities from assets. Fixed or tangible assets can include everything from machinery and office equipment to inventory, receivables (you may have to guarantee their collection) and prepaid expenses, such as taxes and deposits. On the other side of the balance sheet are liabilities; items that may reduce the selling price of your company. They include payables such as salaries, bills and periodic expenses, short-term bank notes and/or long-term loans, as well as federal, state and local taxes. One key drawback to this valuation method is that it does not take into account the profit or earning potential of the business.

Another method of valuing a business is based on its income or profits and the return on investment that a buyer could reasonably expect.



However, since small business owners often write off everything they legally can in order to reduce taxes, their profit margin may appear to be smaller than it really is. It behooves you, as a seller, to prepare an itemized profit-and-loss statement that shows what excess cash your business generates, not simply what your final profit was for tax purposes.

Be wary of trying to set a price on your business based on simplistic formulas, rules of thumb, or on comparisons to the amount paid for similar businesses. Unlike home sales in a particular real estate market, there are usually too many variables among businesses to make truly useful comparisons for pricing purposes.

The Value of Goodwill. If establishing the net worth of your business is straightforward, determining the value of an entity created through your personal efforts is more subjective. Goodwill is the single most difficult portion of your business to put a price on. Its worth isn't part of a balance sheet. Your reputation and relationships with your customers, vendors, and the community, along with your participation in trade-related activities, all contribute to goodwill. In fact, your customer list may be among your business' most valuable assets.

In the final analysis, your company is worth what someone will pay for it, and no more. Generally, a potential buyer's offer will be influenced by how soon he or she expects to see a return on the initial investment. Five to six years is usually considered a reasonable length of time to recoup the initial investment. Among the other factors that will influence a buyer's offer are the age of your business, how easy or difficult the business is to operate, and the economic climate, both locally and nationally. Again, get professional help in setting a price and negotiating the sale of your business — it can really pay off in the long run.

Financing

How the sale of your business is financed may be driven by your personal financial needs and lifestyle. Start by deciding whether you would like to remain involved with the business or walk away from it entirely. This helps determine whether you will want to participate in the financing or have the buyer obtain independent financing. The following options illustrate the levels of financial involvement you might have in the sale of your business.

- **Cash.** Once a selling price is agreed upon, the buyer simply pays you that amount. You have no involvement in the financing.
- **Seller financing.** The buyer pays a portion of the agreed-upon selling price at the time of sale and you provide financing for the balance. The seller-financed portion may be driven by the amount of goodwill factored into the total business valuation because goodwill is so hard to value.

- **Lease option.** Your buyer leases the business with an option to purchase. This gives a buyer without sufficient cash or financing resources an opportunity to participate in the business and earn the necessary cash portion of the sale price. While the business is being leased, you are still the owner.
- **Other Inducements.** To sweeten the deal for a potential buyer, you may want to offer to serve as a consultant or sign a non-compete agreement. Consulting allows you to stay involved in the business and gives the buyer the benefit of your expertise and customer loyalty. It also gives the buyer confidence that you do not intend to compete under a new business name. A non-compete agreement can be an added inducement to a sale, although you should check with your attorney to find out your state's requirements. This agreement formally assures the buyer that, for a set period of time, you don't intend to start up all over again under a new name and lure away customers loyal to your former company.

Passing the Torch

Speak with a lawyer before finalizing the sale of your business. To make sure you have complied with relevant state and federal requirements, have your attorney review the sales documents, or draw them up. You don't want any unpleasant surprises after the sale.

Being Your Own Boss

Starting and growing your own business can be an exciting and rewarding venture that often brings financial success, along with a sense of accomplishment and contentment. Success takes planning, determination, hard work and, maybe, just a little luck. Go for it. And... good luck!



For More Information

References

American Bar Association Legal Guide for Small Businesses

Published by Random House

Information Group \$17.00 (Paperback)

ISBN: 0-812-93015-0

The Ultimate Guide to Electronic Marketing for Small Business: Low-Cost/High-Return Tools and Techniques that Really Work

by Tom Antion

Published by John Wiley & Sons, Inc. \$19.95 (Paperback)

ISBN: 0-471-71870-X

The McGraw-Hill Guide to Starting Your Own Business:

A Step-by-Step Blueprint for the First-Time Entrepreneur

by Stephen C. Harper

Published by The McGraw-Hill Companies . . . \$14.95 (Paperback)

ISBN: 0-071-41012-0

Small Business Kit for Dummies

by Richard D. Harroch

Published by John Wiley & Sons, Inc. \$29.99 (Paperback)

ISBN: 0-764-55984-2

Homemade Money, Starting Smart!: How to Turn Your Talents, Experience, and Know-How Into a Profitable Homebased Business That's Perfect for You! (Fifth Edition)

By Barbara Brabec

Published by M. Evans \$24.95

ISBN: 0-871-31998-5

Websites

www.nawbo.org

The National Association of Women Business Owners is a dues-based national organization designed to attract, support, and motivate women business owners through educational programming and networking opportunities.

www.score.org

The Service Corps of Retired Executives is a non-profit organization dedicated to entrepreneur education and the formation, growth and success of small businesses nationwide. Comprising more than 10,500 volunteers, with more than 600 business skills, SCORE provides small business advice and training at no charge.

www.sba.gov

The Small Business Administration offers a wealth of information including publications, workshops, and counseling. The site gives helpful start-up tips and links to other online resources.

www.eeoc.gov

The Equal Employment Opportunity Commission website details information about employment practices and regulations affecting small business owners.

www.uspto.gov

The US Patent and Trademark Office provides information for registering patents and trademarks on the Internet or by calling 800-786-9199.

www.irs.gov

The Internal Revenue Service publications 15 and 15A spell out tax withholding and payment requirements for employers.

www.irs.gov/businesses/small/index.html

The IRS offers various products including CDs and online courses that can answer just about any tax question a small business owner might have.



For information about other Life Advice topics,

go to **www.metlife.com/lifeadvice**.

To order up to three free Life Advice brochures, call

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