Business Planning
SALES KIT

In this kit:
Producer guides | FAQs | Fact finder | Sales ideas | Consumer guides

PINNEY
INSURANCE
PINNEYINSURANCE.COM | 800-823-4852
2266 LAVA RIDGE COURT | ROSEVILLE, CA 95661

Working With Business Owners

Mutual of Omaha Advisors

For producer use only. Not for use with the general public.

Helping Your Business is Our Business

167456_1019

What if you could successfully approach small business owners about their needs? Their dream is to become more profitable and more stable. For small business owners, protecting their physical and financial assets is always top of mind.

This guide includes owner's buying behavior and their attitudes toward insurance and financial services purchases. Use this information to design an approach that addresses small business owners' concerns head-on.

Another great resource is Mutual of Omaha's Advanced Markets team, which can help you with recommendations on business planning concepts such as buy-sell agreements, key employee insurance and executive compensation once you get into the sales phase with business owners.

How Business Owners Want to Buy

When it comes to business purchases, insurance or otherwise, owners like to start the ball rolling. They do a lot of research online and want referrals. They tend to value:

- **Service and quality over price** – they want the best option they can afford rather than the cheapest
- **Personalization** – owners see their businesses as unique and want programs tailored to their needs
- **Consideration of their time** – time is money to the self-employed, who generally prefer appointments to walk-ins
- **Rapport with their agent** – owners generally prefer to work with one agent but want access to specialists, who may offer new ideas or uncover gaps

What it means to you

Keep in mind the topics that are important to business owners. For example, consider concepts like linking life insurance to the prominent concern topics to demonstrate its versatility and potential for lifetime benefits. Doing so can increase your effectiveness in this market and be the final touch on a financial masterpiece for your clients.

Tips on Approaching Small Business Owners

Small business owners respond well to an approach that includes educational information and planning for their future success. They feel their business is unique. If you can teach them something, they will be more open to meeting with and listening to you.

Do your research:

- Know the owner's name and what their business does
- Factfind about the business before contacting the owner
- Find industry-related issues they might be facing – present how you can help

Provide educational value:

- Find an immediate need:
  - Bring something to make the business better – knowledge, education, updates on laws, etc.
  - Customize your advice around past needs, budget, future plans and the small business industry
- Use stories and testimonials about helping others in similar situations
- Mention that agents are also local business owners
- Suggest issues that could negatively affect their business
- Be prepared to leave something behind and schedule an appointment if the owner isn't available
- Multiple touches help get you remembered:
  - Direct mail, call, email, etc.
  - Brand yourself and get your name in front of owners

Respect the owner's time:

- Recommend a strategy to get their attention: use the owner's name and simply ask for an introduction
- Owners are busy and may not be able to meet the first time around, but don't give up on setting the meeting
- Ask for 3 minutes of their time. Those 3 minutes earn you the next 15 another day
- Best businesses to walk and talk – manufacturing, construction, retail and medical

Relate on a personal level:

- "What keeps you up at night?"
- "What is your exit strategy?"
- Don't discount the gatekeeper
  - They can be your advocate. Explain to them what you can do for the owner and try to schedule an appointment
- Your questions don't have to be product related (i.e., interests, hobbies, family, etc.)
- Don't focus on you and what you can offer – focus on them and their needs during the first contact

Networking

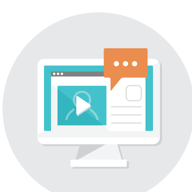
By going where business owners already are, you can create a competitive edge and distinguish yourself from other insurance professionals. This will ensure that you stay referable and relevant to your client and potential clients.

Networking tips:

- Attend networking events, associations and small business groups
- Use referrals through associations and professional networking groups
- Find businesses that are in their first year of operation – owners advocate for suppliers to proactively engage them at the earliest stages of starting a business
- Consult industry peers
- Visit store locations
- Read websites for specs and reviews
- Provide a cost-benefit analysis
- Educate owners by presenting seminars at association meetings, local business schools, etc.
- Owner forums
- Be active and engage on social media

How to Sell to Business Owners

There is a significant gap in small business owners' understanding of insurance options and benefits for their businesses. They view their insurance provider as a partner who can consult them on their business needs, identify gaps in their current coverage and provide educational tools for solving business issues. They prefer the simplicity of a generalist over a specialist, with the caveat that they would expect the generalist to have access to specialists to include in conversations as needed.



Nearly 50 percent of small businesses are underinsured.

(Independent research conducted by BOLT Insurance)

Owners' preferred method of communication

Small business owners want to know that you "service their industry" and that their information will be safe, secure and not sold or shared with other companies.

Communication tips:

- Use a local phone number instead of an 800 number
- Send personalized direct mail or letters:
  - Hand-addressed card-sized letters are opened most often
- Send personalized email:
  - Personalized subject lines indicate that the content is relevant to the owner or business, and increases panelists' likelihood to open an email
  - Send the email from an individual, rather than a marketing inbox
- Use results-driven language (by doing this, you will get this)
- Simplify and speak in terms that are easy to understand
- Incorporate messaging about ROI, rather than price
- Be sure to follow-up:
  - Follow-up even if you are told no and provide educational information when you do

- The owner may not buy now, but follow-ups may help you get the business later
- Advise with frequency tailored to their needs
- Use noninvasive regular touches by checking in every 60-90 days after initial point of contact
- Perform more of a branding call vs. a sales call

Example:

"This is John Doe, from Mutual of Omaha, checking on how your business is doing and reminding you that I'm here if you need me. Would you like me to follow-up monthly, bimonthly or quarterly?"

Do's and don'ts

Targeting small business owners can be difficult, but if you follow the essential do's and don'ts of selling to them, you will be more successful at getting in front of the decision makers when you need to. The goal is to help the research process and make it easier for the business owners to focus on the critical aspects of protecting what they have worked hard to build.

Do's:

- Build trust and dependability through a personal connection
- Connect with the owners on common values and interests
- Tailor solutions to owner's needs and constraints
- Show respect for owner's time – if 5 or 10 minutes, DO NOT go over
- Present references to other small business examples to accentuate product/service relevance
- Exhibit professional persistence
- Be upfront about benefits and total costs
- Give a timely quote or explanation of the quote
- Present options to save the owners time and make their businesses appear more professional
- If you say you will call back, call back. Follow-up now and 3-5 times a year
- Keep the conversation about them
- Listen more instead of presenting and leaving
- Provide good service and find them the best option
- Point out what is relevant or go over the information with the owner. If you don't think it's important to go over with them, they won't either

Don'ts:

- Expect a meeting without an appointment
- Make a generic pitch
- Show up without doing your research about the company needs
- Just hand marketing materials to the owner to read over
- Neglect to follow-up after initial interaction
- Disrespect the owner's time by starting over at every touch point
- Make a pitch centered on the product rather than owners' needs
- Start high and lower the price after several interactions
- Contact owners only during renewal time – build a relationship with them

Lack of business valuation knowledge and financial knowledge about one's own business is one of the top two issues facing small business owners and leaders.

(Small Business Association)

Pain Points for Small Business Owners

As their business matures, owners' pain points tend to shift away from cash flow management and revenue to talent acquisition and keeping the customer base consistent. They cited talent acquisition, employee performance, customer satisfaction, cash flow and risk management as some of their biggest pain points. Additionally, most owners do not have a succession or emergency plan in place.

Buy/Sell arrangement:

- Day-to-day concerns often trump strategic planning for the future
- Owners consider themselves to still be growing
- Most owners don't think about impending or possible changes
- Many owners felt they were unprepared and wanted to call an agent right away to get guidance and a plan in place
- Consider solutions such as business valuation, buy-sell reviews and life insurance to help fund the buy-sell agreement

Cash flow:

- Reducing and controlling costs
- Budget cuts with government
- Having enough money to pay employees insurance
- Concerns regarding the cost and quality labor
- Consider solutions such as supplemental insurance for employees that's paid by the employees
- Business overhead expense coverage in case something happens to the owner
- Cash accumulation life insurance

Mitigating risk/safety:

- If something happened to the owner, the business could quickly become a liability
- Being liable or sued if something happens
- Understanding the benefit of protecting family (life insurance for themselves)
- Unknown health care factors
- Consider solutions such as disability income insurance
- Business overhead expense coverage
- Key employee insurance

Employees:

- Issues surrounding employee hiring, training, safety and retention
- Growth – if we grow and hire more people, what happens if business doesn't continue to be successful? Is it better to stay where you're at now?
- Employee motivation
- Management team – personality conflicts
- Costs for employees
- Consider solutions such as executive bonus, retirement plans, deferred compensation, key employee insurance, employee paid supplemental insurance

Prove Your Value

To succeed in penetrating the small business market, it's important to think and act like a business owner. Understanding the concerns and questions that owners have will help you come up with a more personalized and relevant angle to approach them.

Questions to ask small business owners:

- If you were injured or sick and couldn't work, who would run your business?
- Are you prepared if something should happen to you or a key employee?
- Are your families and employees protected if something happened to you?
- If you lose a key employee, what financial impact would it have on your business?
- Are you concerned about retaining key employees?
- How can we help each other out? Create a win-win situation

Go where they are

Small business owners tend to respond to relationships rather than agents selling them something. In order to develop those relationships, you need to get in front of the owners where they are already present.

Ideas to get in front of owners:

- Attend industry events
- Invite the owner to lunch
- Participate in networking groups
- Participate in business owners forums
- Attend charity events or volunteer
- Participate and engage in social media
- Attend business openings
- Host a golf outing
- Give a presentation for medical students (dental, chiropractic, ex.) in their third or fourth year
- Speak to the gatekeeper, they will make an appointment if it's a good fit
- Attend industry tradeshows
- Walk-ins are welcome for construction industries
- Anticipate startup needs by giving educational workshops at professional schools and small business incubators
- Work with local business associations and industry groups to offer educational seminars and networking events, rather than trying to recruit owners to an event hosted solely by Mutual of Omaha

Insurance triggers

New purchases are primarily triggered by a change in internal needs, rather than external influence. While there was no single trigger for an insurance purchase, the majority of owners follow the needs of their employees and advice of their peers.

Trigger events:

- Startup needs
- Lapse or issue in existing coverage
- Renewal period
- Moving to a different location
- Employee demand
- Referrals through business associations
- Business needs change
- Business growth
- Employees make a recommendation
- Network referrals from industry peers
- Change of ownership
- As a result of the "break-fix" mentality, the majority of sales interactions are initiated by the owner

Services You Can Offer Small Business Owners

- Business valuations
- Buy/Sell planning
- Key employee and executive compensation strategies
- Wealth management and estate planning
- Succession consulting
- Income planning
- Retirement planning
- Protecting the family/income replacement
- Employee benefits
- Business overhead coverage

Why Mutual of Omaha

For more than a century, Mutual of Omaha has been committed to listening to our customers and helping them through life's transitions by providing an array of insurance and financial products.

MutualofOmaha.com

Marketing to Business Owners

Interview Guide

Transamerica®

For producer use only. Not for distribution to the public.

Business-Owner Interview Guide

Business-owner clients have specific financial goals, but what's the best way to get the information you need to offer them strategies to meet these goals? This Interview Guide is an easy and efficient way to gather and analyze crucial information that will help you uncover those goals. Once you have this information, you can offer the appropriate life insurance strategies that may ensure the financial health of the business.

Opening: Tell the client that you would like to get to know more about his or her business to determine how you can best support the unique financial challenges and considerations that come with running a business. The more you learn about the goals and personal feelings regarding his or her business, the more customized strategies you can offer.

Start by learning about the general business background:

Business Owner(s)	Age	Ownership Percentage	Income	Family Relation

Business Name ______________________________

Business Function/Services ______________________________

Number of employees (full time/part time): ____________ Number of years in operation: ____________

Annual gross sales: $ ______________________________

Business Type:

☐ Sole Proprietor ☐ General Partnership ☐ Limited Partnership

☐ C Corporation ☐ S Corporation ☐ LLC ☐ Professional Corporation

Throughout the interview, you will learn about the client's business. You may also uncover some financial challenges. You can help clients and their professional advisors determine the appropriate strategies.

Business-Related Questions:

1. Tell me about your business.

2. Is your business family-owned?

3. Who will run the business when you die or retire? Family, partner, employees, or a third party?

4. Do you want to make sure your co-owner or a family member has enough cash to carry out a succession plan?

5. Do you plan to transfer ownership of your business during your lifetime?

6. Does your business strongly depend on one or two “key” people? If so, what would happen to your business if that person(s) were gone? Are you insured against that loss?

Family-Related Questions:

1. Are you married? Have there been any previous marriages?

2. What would happen to your family if your business failed after you died?

Retirement-Related Questions:

1. When do you plan to retire?
2. Do you currently have a retirement plan set up?
3. Would you like to supplement your current retirement savings?
4. Would you like to make tax-deductible contributions to a plan with guaranteed retirement benefits?
5. Are you looking for a retirement plan that will work with your cash flow?
6. Do you need to take distributions from your retirement plan at this point?

Family-Related Question:

1. Will you need the money in your retirement savings or would you like to pass it on to your loved ones?

Transamerica Life Insurance Company, Transamerica Financial Life Insurance Company (collectively "Transamerica") and their representatives do not give ERISA, tax, or legal advice. This material and the concepts presented here are for informational purposes only and should not be construed as tax or legal advice. Clients and other interested parties must consult with and rely solely upon their own independent advisors regarding their particular situation and the concepts presented here.

Discussions of the various planning strategies and issues are based on our understanding of the applicable federal income, gift, and estate tax laws in effect at the time of publication. However, tax laws are subject to interpretation and change, and there is no guarantee that the relevant tax authorities will accept Transamerica's interpretations. Additionally, the information presented here does not take into consideration the general tax and ERISA provisions applicable to qualified retirement plans or the applicable state laws of clients and prospects.

Although care is taken in preparing this material and presenting it accurately, Transamerica disclaims any express or implied warranty as to the accuracy of any material contained herein and any liability with respect to it. This information is current as of May 2015.

Transamerica Financial Life Insurance Company, Harrison, NY 10529, is authorized to conduct business in New York. Transamerica Life Insurance Company, Cedar Rapids, IA, 52499, is authorized to conduct business in all other states.

TRANSAMERICA®

OLA 1386 0515

For producer use only. Not for distribution to the public.

Help Protect What Matters Most to Your Business

Mutual of Omaha Advisors

Helping Your Business is Our Business

146403_1019

Owning your own business can be one of the most satisfying experiences of your life. You can follow your dream, earn a good living, provide employment opportunities for others, and maybe even make a difference in the world. But owning a business also entails a lot of responsibilities.

With proper planning, taking care of the things that matter most to your business – building a strong foundation, preparing for the future and taking care of your employees – can help you and your business thrive.

Helping your business is our business.

Building a Strong Foundation

One of the first things any business owner should consider is how to protect against events that may threaten the future of your business, beyond the basic property/casualty protection.

Controlling ownership
A buy-sell agreement is an agreement between owners that allows you or the business to buy out a co-owner's share based on a number of triggering events like retirement, death, bankruptcy, disability, divorce or selling the business to a third party. You can enter into a buy-sell agreement with your co-owners at any time, but it often makes sense to do so shortly after the business is formed and when new owners are brought in.

Protection from the loss of a key employee
Have you thought about what would happen if one of your key employees were to die unexpectedly? Would your business be able to continue without serious financial consequences? Coverage to protect your business against the loss of a key employee can help you navigate through a difficult time.

Protection against a disability
If you're disabled and can't work, business overhead protection can help keep your business afloat by providing benefits that generally help cover expenses like employee salaries, taxes, employee benefits, rent, mortgage, utilities and equipment.

Tax deductions
Don't forget to take advantage of tax deductions, which can help you have access to more capital you need to help grow your business. Things that business owners can claim as tax-deductible expenses include wages/compensation, office supplies, travel expenses, as well as some insurance premiums.

Buy/Sell Agreements Using Life Insurance

A buy/sell agreement can help ensure your business remains intact and your family has financial security. There are several strategies that allow you to use life insurance to help fund a buy-sell agreement – ask your insurance agent/producer about your options.

Here are the advantages of having a buy-sell agreement:

- It minimizes the possibility that the business may fall into the hands of outsiders
- It can help establish a value for the business and for estate tax purposes
- It creates a market for the business by providing the deceased owner's estate with a purchaser of the deceased's business interest
- It takes an otherwise illiquid asset and creates immediate liquidity for the deceased's heirs

Key Employee Using Life Insurance

The loss of a key employee's skills can put your business at serious financial risk. Life insurance can play an important role in protecting your business if you lose a key employee.

Here's how it works:

- You, as the business owner, determine the key employees and their value (the value can be calculated by using a multiple of the employee's income or estimating the employee's contribution to the company's profit and the replacement cost of the employee)
- Once the key employees and their value are determined, the business purchases life insurance on each employee and names the business as the owner and beneficiary
- The business pays the policy premiums – and in the event of a key employee's death, the business receives the proceeds from the policy tax free*

* Employer Owned Life Insurance (EOLI) – Failure to satisfy IRC Section 101(j) notice and consent requirements, as well as the reporting requirements contained in the federal regulations, may result in the loss of the income tax-free treatment of the life insurance policy's death benefit.

"A small business is an amazing way to serve and leave an impact on the world you live in."

Nicole Snow, bestselling author

Preparing for the Future

You may want to stay in your business for 5, 10, 20 or more years from now. But if adversity strikes or if you decide to embark on a new adventure, do you have a plan in place to help protect your business partners and family members?

Here are some things to consider:

Who's going to run your business?
If something happens to you, you might think your family would carry on the passion you put into your business. While this plan may work perfectly for some, in many cases, family members may not have the qualifications or desire to continue running the business and your co-owners may not welcome the idea of an unknown partner.

How might you exit your business?
Even though you aren't thinking about this now, someday you may decide you'd like to retire, work fewer hours or sell the business. When that time comes, do you have an exit strategy? The graphic below shows many of the elements involved in a successful exit plan. Which is the most important to you?

Increasing the number of employees correlates with increased innovation, while increasing revenue does not.

- BizEquity, 2016

What's your business worth?

Knowing the true value of your business is critical to proper business planning and achieving your personal goals. This is especially important when you want to retire or sell the business – and a business valuation will provide you with one of the details you need to plan the sale of your business.

A business valuation can help:

- Ensure that your business and family are properly protected
- Plan for your retirement, your estate and a buy/sell agreement, if necessary
- Create a succession plan for the future of your business
- Prepare for taxable events

Passing on the Family Business

You've worked hard to build your business and you want to help ensure that it continues even after you are no longer around. The challenge is figuring out how to pass your business to the next generation – especially if some children participate in the family business and others don't.

One solution to help protect the business – and keep family harmony – is to purchase a life insurance policy. You can leave your business to the participating children and use the life insurance proceeds to provide an inheritance to other family members. Although the inheritances do not necessarily need to be the same, life insurance can help ensure they are more equitable.

Taking Care of Your Employees

As a business owner, you're often challenged to find ways to do something extra to retain valuable employees and attract new talent.

Special Compensation Arrangements for Key Employees
You might not want to think what would happen to your business if one of your key employees left. Here are some benefit options that can help retain your key employees:

- Executive bonus plans – this offers a select group of employees important financial protection for themselves and their family, such as income replacement, college funding, estate liquidity and supplemental retirement
- Deferred compensation plans – these plans can help your employees save taxes now while building cash for their future

Benefits for Employees
Many firms without benefits are unfamiliar with voluntary products and how those offerings can help retain and attract their employees.

If your employees need coverage to supplement or fill in the gaps of their current benefits package, you can offer certain products that may be able to be paid by the convenience of payroll deduction. The voluntary coverage you offer to your employees could include:

- Life insurance – even if you provide life insurance equal to the employee's base salary, an employee can purchase an additional policy to help supplement his/her existing coverage or that of his/her spouse
- Disability income insurance – as with life insurance, employers who are not in the position to fund a disability insurance program for their employees can offer a voluntary benefit, which is employee-paid. This allows workers to get coverage more easily than if they were to purchase an individual policy on their own outside of the workplace
- Critical illness insurance – this is a relatively new type of insurance that pays benefits when a person is diagnosed with cancer or has a heart attack; the idea is that the benefit can be used to help pay for costs not covered by health insurance like travel expenses, prescription drugs, etc.
- Other coverage – you may also consider offering health, dental and/or vision insurance

Executive Bonus Plans Using Life Insurance

Executive bonus plans using life insurance can be a smart – and simple – way to recruit, retain and reward your key employees.

Here's how it works:

- The employer selects one or more employees
- The employee applies for a personal life insurance policy
- Once approved, the employer pays the life insurance premiums directly to the life insurance company. The employer gets to deduct the premium as an ordinary and reasonable business expense
- The premium amount is treated as taxable income to the employee; however, the employer has the option to provide the employee with an additional bonus amount to compensate for the increased taxes
- The employee retains full ownership rights to the policy, including the ability to name and change the beneficiary. The employee can also access the cash value at any time and for any reason
- In the event of the employee's death, the death benefit is paid income tax free to the employee's beneficiary*

* Death benefit proceeds from a life insurance policy are generally not included in the gross income of the taxpayer/beneficiary (Internal Revenue Code Section 101(a)(1)). There are certain exceptions to this general rule including policies that were transferred for valuable consideration (IRC §101(a)(2)). This information should not be construed as tax or legal advice. Consult with your tax or legal professional for details and guidelines specific to your situation.

Deferred Compensation Using Life Insurance

Deferred compensation plans are a great way to recruit, retain and reward your highly-compensated or key employees.

Here's how a deferred compensation plan using life insurance works:

- The employer and employee enter into a written agreement. The employer agrees to pay a supplemental retirement benefit if the employee stays with the employer until retirement
- The employer applies for and owns a life insurance policy on the employee, paying premiums out of after-tax income. To have funds to pay the promised benefits, the employer is also the beneficiary of the policy
- The employer uses the policy's cash values to help provide the promised benefits to the employee. At the employee's death, the employer receives the life insurance proceeds income tax free*
- Payments the employer makes to the employee are deductible as a business expense because of the written agreement. They are taxable as income to the employee or the employee's beneficiary when received

*Employer Owned Life Insurance (EOLI) – Failure to satisfy IRC Section 101(j) notice and consent requirements, as well as the reporting requirements contained in the federal regulations, may result in the loss of the income tax free treatment of the life insurance policy's death benefit.

Why Mutual of Omaha

For more than a century, Mutual of Omaha has been committed to listening to our customers and helping them through life's transitions by providing an array of insurance, financial and banking products.

MutualofOmaha.com

ADVANCED PLANNING

Life Insurance for Business At-a-Glance

FORMS OF BUSINESS ENTITIES THAT CAN USE PLAN(S):
CP *C Corp – Publicly Traded* **CC** *C Corp – Closely Held* **L** *Limited Liability Company* **P** *Partnership* **S** *S Corporation* **SP** *Sole Proprietorship*

Executive Bonus	Restricted Executive Bonus	Group Carve-Out	Death Benefit Only	Def Comp/ Supp Exec Retire Plan	Split Dollar Endorsement	Split Dollar Collateral	Key Person	Cross Purchase Buy-Sell	Entity Purchase Buy-Sell

EXECUTIVE BONUS CP, L, S, P, CC, SP

GOALS & STRATEGIES	***Plan Description*** ‣ Employer provides life insurance for key employees and owners	***Objectives*** ‣ Provide funds for personal life insurance with generally income tax-free proceeds[1] and potential for tax-favored cash accumulation ‣ Retain key employees by providing a nonqualified perk ‣ Provide life insurance protection for employees using business dollars
ADVANTAGES	***Employer Advantages*** ‣ Premiums deductible as salary expense by business ‣ Recruiting/retention tool ‣ Employer can select participants ‣ Easy to install	***Employee Advantages*** ‣ Life insurance at lower out-of-pocket cost ‣ Tax-deferred cash value accumulation can be accessed to supplement income (note that not all policies have the potential to accumulate cash value)[2] ‣ Employee controls policy
DISADVANTAGES	‣ Bonus to pay premium may put employee in higher marginal income tax bracket	
INSURANCE	***Premium Payer*** ‣ Premiums are treated as compensation to employee ‣ Employer may gross up bonus to cover employee's additional income tax costs	***Owner/Beneficiary*** ‣ Employee owns the policy and names the beneficiary
TAXES	***Income Tax Consequence*** ‣ Premiums are deductible to business if total compensation is reasonable ‣ Premiums are taxable income to employees ‣ Death proceeds are generally income tax-free[1]	***Estate Tax Consequence*** ‣ Death proceeds included in gross estate if employee retains "incidents of ownership" ‣ If structured properly, may avoid estate inclusion

VIEW Footnotes/Disclosure

1003185-00002-00 Ed. 11/2019

Prudential
Bring Your Challenges®

ADVANCED PLANNING

Life Insurance for Business At-a-Glance

FORMS OF BUSINESS ENTITIES THAT CAN USE PLAN(S):
CP *C Corp – Publicly Traded* **CC** *C Corp – Closely Held* **L** *Limited Liability Company* **P** *Partnership* **S** *S Corporation* **SP** *Sole Proprietorship*

Executive Bonus	Restricted Executive Bonus	Group Carve-Out	Death Benefit Only	Def Comp/ Supp Exec Retire Plan	Split Dollar Endorsement	Split Dollar Collateral	Key Person	Cross Purchase Buy-Sell	Entity Purchase Buy-Sell

RESTRICTED EXECUTIVE BONUS CP, L, S, P, CC, SP

GOALS & STRATEGIES	***Plan Description*** ‣ Employer provides life insurance for key employees and owners maintain a golden handcuff feature	***Objectives*** ‣ Provide funds for personal life insurance with generally income tax-free proceeds[1] and potential for tax-favored cash accumulation ‣ Retain key employees by providing a nonqualified perk in combination with a restricted agreement ‣ Provide life insurance protection for employees using business dollars
ADVANTAGES	***Employer Advantages*** ‣ Golden handcuffs to attract and retain key employees ‣ Easy to establish ‣ Employer can select participants ‣ Premiums deductible by the business	***Employee Advantages*** ‣ Life insurance at lower out-of-pocket cost ‣ Tax-deferred cash value accumulation can be accessed to supplement income (note that not all policies have the potential to accumulate cash value)[2] ‣ Employee names beneficiary
DISADVANTAGES	‣ Bonus to pay premium may put employee in higher marginal income tax bracket ‣ Benefit may be perceived by employee as imperfect, due to paying taxes now but having restricted use of the asset	
INSURANCE	***Premium Payer*** ‣ Premiums are treated as compensation to employee ‣ Employer may gross up bonus to cover employee's additional income tax costs	***Owner/Beneficiary*** ‣ Employee owns the policy and names the beneficiary
TAXES	***Income Tax Consequence*** ‣ Premiums are deductible to business if total compensation is reasonable ‣ Premiums are taxable income to employees ‣ Death proceeds are generally income tax-free[1]	***Estate Tax Consequence*** ‣ Death proceeds included in gross estate if employee retains "incidents of ownership" ‣ If structured properly, may avoid estate inclusion

VIEW Footnotes/Disclosure

1003185-00002-00 Ed. 11/2019

Prudential
Bring Your Challenges®

ADVANCED PLANNING

Life Insurance for Business At-a-Glance

FORMS OF BUSINESS ENTITIES THAT CAN USE PLAN(S):
CP *C Corp – Publicly Traded* **CC** *C Corp – Closely Held* **L** *Limited Liability Company* **P** *Partnership* **S** *S Corporation* **SP** *Sole Proprietorship*

GROUP CARVE-OUT L, S, P, CC, SP

GOALS & STRATEGIES	***Plan Description*** ▸ Replacement of group term life insurance (over $50,000) with individual permanent policies for selected class of employees	***Objectives*** ▸ Provide permanent insurance protection (executive bonus and split dollar arrangements commonly used)
ADVANTAGES	***Employer Advantages*** ▸ See executive bonus or split dollar, as elected	***Employee Advantages*** ▸ See executive bonus or split dollar, as elected
DISADVANTAGES	▸ See executive bonus or split dollar, as elected	
INSURANCE	***Premium Payer*** ▸ See executive bonus or split dollar, as elected	***Owner/Beneficiary*** ▸ See executive bonus or split dollar, as elected
TAXES	***Income Tax Consequence*** ▸ See executive bonus or split dollar, as elected	***Estate Tax Consequence*** ▸ See executive bonus or split dollar, as elected

VIEW Footnotes/Disclosure

1003185-00002-00 Ed. 11/2019

Prudential
Bring Your Challenges®

ADVANCED PLANNING

Life Insurance for Business At-a-Glance

FORMS OF BUSINESS ENTITIES THAT CAN USE PLAN(S):
CP *C Corp – Publicly Traded* **CC** *C Corp – Closely Held* **L** *Limited Liability Company* **P** *Partnership* **S** *S Corporation* **SP** *Sole Proprietorship*

Executive Bonus | Restricted Executive Bonus | Group Carve-Out | Death Benefit Only | Def Comp/ Supp Exec Retire Plan | Split Dollar Endorsement | Split Dollar Collateral | Key Person | Cross Purchase Buy-Sell | Entity Purchase Buy-Sell

DEATH BENEFIT ONLY CP, L, S, P, CC, SP *(NOT FOR OWNER EMPLOYEES)*

GOALS & STRATEGIES	***Plan Description*** ‣ Provides death benefits only to employee's designated beneficiaries	***Objectives*** ‣ Provide a continued source of income to surviving family members upon death of a participant ‣ Use business dollars to informally fund obligations
ADVANTAGES	***Employer Advantages*** ‣ Golden handcuffs to attract and retain key employees ‣ Employer can select participants ‣ Benefit payments are deductible to the business	***Employee Advantages*** ‣ Employee cost is limited to income tax paid on benefits received ‣ Salary continuation for participant's family ‣ In very limited situations, benefits may be structured to avoid federal estate taxes
DISADVANTAGES	‣ Employer tax deduction is delayed until benefits are actually paid out ‣ Payments taxable to employee when received ‣ Risk of forfeiture	
INSURANCE	***Premium Payer*** ‣ Business	***Owner/Beneficiary*** ‣ Business entity is the policyowner and beneficiary
TAXES	***Income Tax Consequence*** ‣ Premiums are not deductible ‣ Death proceeds are generally received by the business income tax-free[1] ‣ Death benefit payments deductible to business and taxable to employee when made	***Estate Tax Consequence*** ‣ Estate exclusion is possible but requires careful planning to ensure that the executive has no policy rights, and the executive cannot be entitled to postretirement benefits under any other contractual plan

VIEW Footnotes/Disclosure

1003185-00002-00 Ed. 11/2019

Prudential
Bring Your Challenges®

ADVANCED PLANNING

Life Insurance for Business At-a-Glance

FORMS OF BUSINESS ENTITIES THAT CAN USE PLAN(S):
CP *C Corp – Publicly Traded* **CC** *C Corp – Closely Held* **L** *Limited Liability Company* **P** *Partnership* **S** *S Corporation* **SP** *Sole Proprietorship*

Executive Bonus	Restricted Executive Bonus	Group Carve-Out	Death Benefit Only	Def Comp/ Supp Exec Retire Plan	Split Dollar Endorsement	Split Dollar Collateral	Key Person	Cross Purchase Buy-Sell	Entity Purchase Buy-Sell

DEFERRED COMPENSATION/SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN CP, L, S, P, CC, SP
(NOT FOR OWNER EMPLOYEES)

GOALS & STRATEGIES

Plan Description

- Corporation can provide selected employees with retirement benefits or allow employees to defer otherwise taxable income until retirement

Objectives

- Provide benefits in excess of qualified plan limitations
- Use business dollars to informally fund obligations

ADVANTAGES

Employer Advantages

- Golden handcuffs to attract and retain key employees
- Employer can select participants
- No IRS approval—Notice to DOL is required
- Administration less expensive than qualified plans

Employee Advantages

- Supplemental retirement income (note that not all policies have the potential to accumulate cash value)
- If properly structured, avoids taxation until benefit is received
- Can provide death benefits if death occurs prior to retirement
- May be no cost to employee

DISADVANTAGES

- Employer tax deduction is delayed until benefits are actually paid out
- Payments taxable to employee when received
- Risk of forfeiture

INSURANCE

Premium Payer

- Business entity (premium payments may include money deferred by employee)

Owner/Beneficiary

- Business entity is the policyowner and beneficiary

TAXES

Income Tax Consequence

- Premiums are not deductible
- Disability, retirement, and death benefit payments are deductible to business and taxable to employee when paid[3]

Estate Tax Consequence

- Present value of benefits payable to designated beneficiaries included in employee's gross estate
- Unlimited marital deduction could apply

VIEW Footnotes/Disclosure

1003185-00002-00 Ed. 11/2019

Prudential
Bring Your Challenges®

ADVANCED PLANNING

Life Insurance for Business At-a-Glance

FORMS OF BUSINESS ENTITIES THAT CAN USE PLAN(S):
CP *C Corp – Publicly Traded* **CC** *C Corp – Closely Held* **L** *Limited Liability Company* **P** *Partnership* **S** *S Corporation* **SP** *Sole Proprietorship*

SPLIT DOLLAR ENDORSEMENT (ECONOMIC BENEFIT REGIME)[4] L, S, P, CC

GOALS & STRATEGIES	***Plan Description*** ▸ Employer and employee purchase insurance on life of participant ▸ Premiums and death benefits are shared ▸ Generally, employer owns the contract and endorses the right to name the beneficiary for a portion of the proceeds to the employee	***Objectives*** ▸ Provide life insurance protection for owners or key employees using employer dollars
ADVANTAGES	***Employer Advantages*** ▸ Plan is selective ▸ Golden handcuffs to retain key employees ▸ No IRS approval is required ▸ Easy to install and inexpensive to administer ▸ Business recovers premium expense	***Employee Advantages*** ▸ Premiums paid by business with minimal cost to employee ▸ Death proceeds generally received income tax-free by beneficiaries[1] ▸ Policy may be given to insured as a taxable bonus upon retirement
DISADVANTAGES	▸ Employee is taxed annually on the imputed insurance value (reportable economic benefit) ▸ This imputed economic benefit increases with age, becoming prohibitively costly in later years	
INSURANCE	***Premium Payer*** ▸ Business should pay all premium expense. If employee contributes to premium cost, these dollars are treated as taxable income to the business	***Owner/Beneficiary*** ▸ Business is the policyowner ▸ Business is generally the beneficiary to the extent of total policy cash value ▸ Balance paid to employee's designated beneficiaries
TAXES	***Income Tax Consequence*** ▸ Employer-paid premiums are not deductible ▸ Employee taxed on "economic benefit" if business pays all premiums, unless offset by employee contributions ▸ Proceeds generally received income tax-free by business and employee beneficiaries[1]	***Estate Tax Consequence*** ▸ Proceeds included in employee's gross estate when "incidents of ownership" are retained

VIEW Footnotes/Disclosure

1003185-00002-00 Ed. 11/2019

Prudential
Bring Your Challenges®

ADVANCED PLANNING

Life Insurance for Business At-a-Glance

FORMS OF BUSINESS ENTITIES THAT CAN USE PLAN(S):
CP *C Corp – Publicly Traded* **CC** *C Corp – Closely Held* **L** *Limited Liability Company* **P** *Partnership* **S** *S Corporation* **SP** *Sole Proprietorship*

Executive Bonus | Restricted Executive Bonus | Group Carve-Out | Death Benefit Only | Def Comp/ Supp Exec Retire Plan | Split Dollar Endorsement | Split Dollar Collateral | Key Person | Cross Purchase Buy-Sell | Entity Purchase Buy-Sell

SPLIT DOLLAR COLLATERAL ASSIGNMENT (LOAN REGIME)[4] L, S, P, CC

GOALS & STRATEGIES

Plan Description

- Employer and employee purchase insurance on life of participant
- Premiums and death benefit are shared
- Insured participant or a third party owns contract with limited assignment to employer

Objectives

- Provide life insurance protection for owners or key employees using employer dollars

ADVANTAGES

Employer Advantages

- Plan is selective
- Golden handcuffs to retain key employees
- No IRS approval is required
- Business recovers premium expense (loans) from participant upon rollout or death

Employee Advantages

- Death proceeds generally received income tax-free by beneficiaries[1]
- Premiums paid by business with minimal cost to employee when interest rates are low
- Tax-favored accumulation of policy cash values (note that not all policies have the potential to accumulate cash value)

DISADVANTAGES

- Employee has interest payment, or reportable taxable income, annually
- If loan rates are high, annual cost may be prohibitive

INSURANCE

Premium Payer

- Business can pay all or part of premiums, as per written agreement
- Participant may make payments equal to loan interest due to offset income tax consequences

Owner/Beneficiary

- Employee or ILIT is policyowner
- Business usually has claim against cash value and proceeds equal to the cumulative premium contributions made
- Balance paid to employee's designated beneficiaries

TAXES

Income Tax Consequence

- Employer-paid premiums are not deductible
- Employee taxed on interest rate charged for cumulative outstanding loan balance, unless offset by employee contributions
- Proceeds generally received income tax-free by business and employee's beneficiaries[1]

Estate Tax Consequence

- Proceeds included in employee's gross estate when "incidents of ownership" are retained
- Proceeds can be excluded from estate by additional planning involving third-party ownership

VIEW Footnotes/Disclosure

ADVANCED PLANNING

Life Insurance for Business At-a-Glance

FORMS OF BUSINESS ENTITIES THAT CAN USE PLAN(S):
CP *C Corp – Publicly Traded* **CC** *C Corp – Closely Held* **L** *Limited Liability Company* **P** *Partnership* **S** *S Corporation* **SP** *Sole Proprietorship*

Executive Bonus	Restricted Executive Bonus	Group Carve-Out	Death Benefit Only	Def Comp/ Supp Exec Retire Plan	Split Dollar Endorsement	Split Dollar Collateral	Key Person	Cross Purchase Buy-Sell	Entity Purchase Buy-Sell

KEY PERSON CP, L, S, P, CC, SP

GOALS & STRATEGIES	***Plan Description*** ▸ Protects the business against financial loss upon death of valuable employee	***Objectives*** ▸ Provide tax-free funds to indemnify the business[1] ▸ Provide business with cash to recruit, hire, and train replacement employee
ADVANTAGES	***Employer Advantages*** ▸ Proceeds generally received income tax-free[1] ▸ Offsets financial loss ▸ Protects credit and financial integrity of business	***Employee Advantages*** ▸ Policy can be used to fund salary continuation at retirement[2]
DISADVANTAGES	▸ Premiums paid by employer with after-tax dollars	
INSURANCE	***Premium Payer*** ▸ Business entity	***Owner/Beneficiary*** ▸ Business entity is the policyowner and beneficiary
TAXES	***Income Tax Consequence*** ▸ Premium payments are not deductible by business ▸ Premiums are not taxable to employee	***Estate Tax Consequence*** ▸ Death proceeds are included as part of fair market value of business ▸ If decedent was business owner, business interest would increase taxable estate

VIEW Footnotes/Disclosure

1003185-00002-00 Ed. 11/2019

Prudential
Bring Your Challenges®

ADVANCED PLANNING

Life Insurance for Business At-a-Glance

FORMS OF BUSINESS ENTITIES THAT CAN USE PLAN(S):
CP *C Corp – Publicly Traded* **CC** *C Corp – Closely Held* **L** *Limited Liability Company* **P** *Partnership* **S** *S Corporation* **SP** *Sole Proprietorship*

Executive Bonus | Restricted Executive Bonus | Group Carve-Out | Death Benefit Only | Def Comp/ Supp Exec Retire Plan | Split Dollar Endorsement | Split Dollar Collateral | Key Person | Cross Purchase Buy-Sell | Entity Purchase Buy-Sell

CROSS PURCHASE BUY-SELL L, S, P, CC

GOALS & STRATEGIES	***Plan Description*** ‣ Each business owner purchases insurance on the other business owner(s) to buy and sell their respective business interests at an agreed-upon price at disability or death	***Objectives*** ‣ Convert non-liquid business interest to cash ‣ Provide surviving business owner(s) with cash to purchase business interest from deceased owner's estate
ADVANTAGES	***Employer Advantages*** ‣ Avoids forced liquidation of business ‣ Assures business continuity ‣ Keeps ownership among active surviving owners	***Employee Advantages*** ‣ Provides market for non-liquid business interest ‣ Provides surviving owners with a step-up in cost basis in purchased interest ‣ Creditor protection from business creditors for cash values and proceeds ‣ Can establish a fair market value for federal estate tax purposes
DISADVANTAGES	‣ Business with several owners requires multiple policies ‣ After-tax personal income required for premium payments	
INSURANCE	***Premium Payer*** ‣ Business owners	***Owner/Beneficiary*** ‣ Each business owner is the purchaser and beneficiary of a policy on the life of the other owner(s)
TAXES	***Income Tax Consequence*** ‣ Premium payments made with after-tax income ‣ Proceeds received income tax-free by owners[1] ‣ Gain, if any, upon sale of the business interest is taxable	***Estate Tax Consequence*** ‣ Value of business interest included in gross estate ‣ Value of policy(ies) on surviving partner(s) or shareholder(s) included in gross estate

VIEW Footnotes/Disclosure

ADVANCED PLANNING

Life Insurance for Business At-a-Glance

FORMS OF BUSINESS ENTITIES THAT CAN USE PLAN(S):
CP *C Corp – Publicly Traded* **CC** *C Corp – Closely Held* **L** *Limited Liability Company* **P** *Partnership* **S** *S Corporation* **SP** *Sole Proprietorship*

Executive Bonus	Restricted Executive Bonus	Group Carve-Out	Death Benefit Only	Def Comp/ Supp Exec Retire Plan	Split Dollar Endorsement	Split Dollar Collateral	Key Person	Cross Purchase Buy-Sell	Entity Purchase Buy-Sell

ENTITY PURCHASE BUY-SELL L, S, P, CC

GOALS & STRATEGIES	***Plan Description*** ‣ Business purchases insurance on the owners to buy back their respective business interests at an agreed-upon price at disability or death	***Objectives*** ‣ Provide the business with cash to buy back decedent's interest from deceased owner's estate
ADVANTAGES	***Employer Advantages*** ‣ Cash value and proceeds are assets of business ‣ Avoids forced liquidation of business ‣ Assures business continuity ‣ Only one policy per owner	***Employee Advantages*** ‣ Provides market for non-liquid business interest ‣ Business funds are used to pay premiums ‣ Can establish a fair market value for federal estate tax purposes
DISADVANTAGES	‣ No step-up in cost basis for surviving owner(s) ‣ Family attribution rules may create problems for C corporations	
INSURANCE	***Premium Payer*** ‣ Business entity	***Owner/Beneficiary*** ‣ Business entity is the policyowner and beneficiary
TAXES	***Income Tax Consequence*** ‣ Premiums are not deductible ‣ Gain, if any, upon sale of the business interest is taxable	***Estate Tax Consequence*** ‣ Value of business interest included in gross estate ‣ Life insurance proceeds do not "balloon" estate where there is a properly structured buy-sell agreement

VIEW Footnotes/Disclosure

1003185-00002-00 Ed. 11/2019

Prudential
Bring Your Challenges®

RETURN TO MAIN

[1] For employer-owned life insurance policies issued after August 17, 2006, IRC §101(j) provides that death proceeds will be subject to income tax; however, where specific employee notice and consent requirements are met, and certain safe harbor exceptions apply, death proceeds can be received income tax-free. Life insurance proceeds are otherwise generally received income tax-free under IRC §101(a). The authority for tax-favored accumulation is IRC §72.

[2] Outstanding loans and withdrawals will reduce policy cash values and the death benefit and may have tax consequences.

[3] Premiums paid by an employer for disability insurance to fund a salary continuation plan for the company's employees are tax-deductible to the business, and the employees are generally not required to report such premiums as income. However, only a corporation may deduct premiums for the owner-employer without taxation to the employee.

[4] The Sarbanes-Oxley Act makes it a crime for publicly traded companies to directly or indirectly enter into a loan with certain directors and executive officers. It is unclear whether the Act applies to split dollar arrangements. Clients should contact their tax or legal advisors for the most recent development.

ADVANCED PLANNING

Comparison

Business Entities

General Entity Tax Characteristics and Executive Benefits Using Life Insurance

	C CORPORATION	S CORPORATION	GENERAL PARTNERSHIP	LIMITED PARTNERSHIP	LIMITED LIABILITY COMPANY
EASE OF FORMATION	State law requirements for incorporation must be met. Implementation expenses tend to be less than partnership costs.	State law requirements for incorporation must be met.	There are few formal restrictions and general partnerships are normally inexpensive to form.	State law requirements for formation must be met.	State law requirements for the formation of the LLC must be met. Formation of an LLC can be costly, depending on the operation agreement.
IRS ELECTION REQUIRED	No.	Yes: Subchapter S status must be actively elected.	No.	No.	No: "Check-the-box" default classifications automatically apply. Election required for an entity to be treated as a corporation for federal tax purposes.
NUMBER OF OWNERS & LIMITATION ON OWNERSHIP	One or more shareholders. No limits on types of entities or number of shareholders.	Domestic corporation limited to 100 owners who must be one of the following: (1) Individuals (not nonresident aliens) (2) 401(a) qualified plans (3) 503(c) charitable organizations (4) Estates (5) Certain qualifying trusts	Two or more individuals or entities. No limits on types of entities or number of partners.	Two or more individuals or entities. Required to have at least one general partner. No limits on types of entities or number of partners.	No limits on types of entities or number of members. Must have at least two members in order to be taxed as a partnership for federal tax purposes. While it is possible in certain states to have a one-member LLC, it will generally be treated as a sole proprietorship for federal tax purposes.
DIFFERENT CLASSES OF OWNERSHIP INTERESTS	No limitations on classes of voting stock. Equity interests can be varied through common stock, preferred stock, and voting and nonvoting stock.	Requires one class of stock and pro rata allocations and distributions of earnings to owners. Voting differences permitted.	Different classes of general partners can exist.	Different classes of limited partners and general partners can exist.	Different classes of members can exist.
OWNER'S PARTICIPATION IN MANAGEMENT	In a large corporation, control is generally in the hands of top management. In a closely held corporation, the owners generally exercise management control.	The management of an S corporation is fairly flexible. Active participation is more likely due to the limited numbers of shareholders.	All general partners are eligible to actively participate in management. The partnership agreement can limit management control to certain general partners.	Management is limited to general partners. Limited partners risk losing their limited liability if they participate in management.	Depends on LLC statute. However, members are generally free to participate in management unless LLC agreement prohibits participation. Management participation may cause member to become subject to self-employment tax.

1002169-00002-00 Ed. 01/2020

Prudential
Bring Your Challenges®

	C CORPORATION	S CORPORATION	GENERAL PARTNERSHIP	LIMITED PARTNERSHIP	LIMITED LIABILITY COMPANY
LIFE OF BUSINESS	Unlimited or perpetual, unless limited by state law or terms of the charter.	Unlimited or perpetual, unless limited by state law or terms of the charter. Revocation or termination of S election does not affect continuity of life.	The life of a partnership or LLC is generally for a specific term. The death, withdrawal, insolvency, or legal disability of a general partner (member) may terminate the partnership (LLC) for state law purposes but will not necessarily cause a termination for federal tax purposes.		
LIABILITY OF OWNERS	Stockholders are generally not liable for the entity's debts and obligations. Liability is limited unless the shareholders guarantee notes or loans.		A general partner is usually as fully liable as an individual for all debts and obligations of the entity.	A general partner is fully liable. A limited partner's liability is usually limited to the amount of his or her contribution unless the member has guaranteed a debt of the LP.	A member's liability is limited to the amount of his or her contribution unless the member has guaranteed a debt of the LLC.
FEDERAL TAXATION: ENTITY LEVEL OR PASS-THROUGH TAXATION	Entity taxation: The corporation is taxed as a separate entity at a flat 21%. Undistributed income may become subject to the accumulated earnings tax or personal holding company tax.	Generally pass-through taxation: Not treated as a separate taxable entity. Shareholders are taxed on their pro rata share of income, loss, deductions, and credits whether distributed or not. S corporations (that were once C corporations) may be subject to tax on built-in gains, passive income, or LIFO inventory.	Pass-through taxation: Not treated as a separate taxable entity. Partners are taxed on their allocable share of income, loss, and deductions whether distributed or not.		Pass-through taxation: Use of the default classifications under the "check-the-box" regulations provides that, at the federal level, a two-or-more-member LLC will be treated as a partnership;[1] a one-member LLC will be treated as a sole proprietorship. Members are taxed on their allocable share of income, loss, and deductions whether distributed or not.
TAX RETURNS	Form 1120: Due 15th day of the 4th month following the close of the taxable year.	Form 1120S: Due 15th day of the 3rd month following the close of the taxable year.	Form 1065: Use with partnerships and LLCs with two or more members. Due 15th day of the 3rd month following the close of the taxable year. Form 1040, Schedule C: Use with one-member LLCs. Due 15th day of the 4th month following the close of the taxable year (generally April 15th).		
ALTERNATIVE MINIMUM TAX	AMT: Not applicable.				
SECTION 199A DEDUCTION	Not applicable.	Section 199A provides a deduction to owners of sole proprietorships, partnerships, and S corporations equal to 20% of the income earned by any qualified trade or business and has the following phaseouts: Single is $163,300 completely phased out by $213,300; Married filing jointly is $326,600 completely phased out by $426,600 (adjusted for inflation). The deductible amount is the lesser of – (A) 20% of the taxpayer's qualified business income with respect to the qualified trade or business, or (B) the greater of – (i) 50% of the W-2 wages with respect to the qualified trade or business, or (ii) the sum of 25% of the W-2 wages with respect to the qualified trade or business, plus 2.5% of the unadjusted basis immediately after acquisition of all qualified property.			
ALLOCATION OF INCOME: LOSS AND DEDUCTIONS	N/A: Corporation does not pass through items to shareholders.	Allocation is determined by pro rata stock ownership allocated on a daily basis.	Allocation is generally determined by pro rata ownership. Partners (members) may have non-pro rata rights to profits, losses, and distributions if they have "substantial economic effect."		
CHARACTER OF INCOME AND DEDUCTIONS	N/A: No pass-through.	Character (ordinary, capital gain, tax-free, loss, etc.) determined at the entity level and passes through as such.			
OWNER'S BASIS: ON FORMATION	Basis is equal to the amount of money plus adjusted basis of property contributed less liabilities assumed by the corporation. Owner's share of corporation's liabilities does not increase basis.		Basis is equal to the amount of money plus adjusted basis of property transferred to the partnership (LLC) less liabilities assumed by the entity. A partner's (member's) pro rata share of partnership liabilities will increase basis.		
OWNER'S BASIS: LIABILITIES	Debt does not increase basis.	Indirect borrowings do not increase basis. Only direct loans from shareholder to S corporation increase basis for purposes of determining the amount of loss deduction.	Basis increased by a partner's (member's) allocable share of liabilities. A decrease in the share of liabilities is treated as a cash distribution.		

	C CORPORATION	S CORPORATION	GENERAL PARTNERSHIP	LIMITED PARTNERSHIP	LIMITED LIABILITY COMPANY
OWNER'S BASIS: SUBSEQUENT ADJUSTMENTS	Only distributions in excess of earnings and profits decrease basis.	Income increases basis. Losses decrease basis. Distributions of cash or property decrease basis.	Income increases basis. Losses decrease basis. Distributions of cash, property, and relief of liabilities decrease basis.		
DEDUCTIBILITY OF OR LIMITATION ON BUSINESS LOSSES	A C corporation can deduct net operating losses only to the extent of its taxable income, subject to the carry-back and carry-forward rules.	Losses of an S corporation pass through to its shareholders. Losses are limited to the shareholder's basis plus the amount of money loaned by the shareholder to the corporation.	Losses are limited to a partner's (member's) basis (including allocable share of liabilities) in the partnership (LLC) interest. In addition, the at-risk rules and the passive-activity rules apply to any loss.		
CONTRIBUTIONS TO THE ENTITY	Generally, non-recognition treatment for all parties on transfer of property where transferors as a group control the corporation immediately after the exchange (ownership of at least 80% of the total combined voting power). Receipt of stock for services is treated as taxable compensation.		Generally, non-recognition treatment on transfer of property. No control requirement. Exception: When a partner (member) acquires a partnership (LLC) interest in exchange for services: (1) If the partnership (LLC) interest is in partnership (LLC) capital, the service partner (member) realizes compensation income. (2) If the partnership (LLC) interest is in future profits, the service partner (member) generally does not realize income.		
NONLIQUIDATING DISTRIBUTIONS	Must be proportionate to the extent required by state law. Taxable as a dividend to the extent of earnings and profits (E&P). Distributions in excess of E&P and stock basis generally result in capital gain.	Must be proportionate to the extent required by state law. S corporations with no E&P: Tax-free to extent of stock basis, and any excess taxable as capital gain. S corporations with E&P: Basically tax-free to the extent of the accumulated adjustments account (AAA) attributable to the shareholder, then taxable to the extent of E&P, and any excess taxable as capital gain.	Need not be proportionate to partnership (LLC) ownership. Partners (members) do not recognize income upon receiving distributions unless: ▸ Money and/or marketable securities are received in excess of the partner's (member's) basis for his interest ▸ Partner (member) is relieved of debt in excess of adjusted basis of ownership interest ▸ Partner receives disproportionate amount of property in exchange for unrealized receivables or substantially appreciated inventory (hot assets)		
DISTRIBUTIONS OF APPRECIATED PROPERTY	The corporation recognizes gain on the distribution of appreciated property.	The sale or distribution of S corporation assets may result in a built-in capital gains tax at the corporate level. S corporation distributions reduce stock basis by the FMV of the distributed property.	Generally, partnerships (LLCs) do not recognize gain or loss on distributions of property to partners (members) unless the distribution is considered substantially disproportionate under IRC §751(b). Partnership (LLC) distributions reduce a partner's (member's) basis in the partnership (LLC) interest to the extent of the basis of the distributed property.		
DISTRIBUTIONS IN REDEMPTION	Test to see if redemption is essentially equivalent to a dividend. If yes, generally ordinary income under IRC §301. If no, taxed at capital gain rates under IRC §302. IRC §318 attribution rules apply. IRC §303: A qualifying redemption of deceased owner's stock to pay qualifying estate expenses receives capital gains treatment.	Determine whether there is any C corporate E&P. Distributions by S corporations without E&P: Basically tax-free to the extent of the shareholder's basis, excess taxable as capital gain. Distributions by S corporations with E&P: Basically tax-free to the extent of the accumulated adjustments account (AAA) attributable to the shareholder, then taxable to the extent of E&P, excess taxable as capital gain. IRC §318 Family attribution rules apply but will not have a negative tax impact if S corporation does not have E&P.	Payments received in exchange for property, including goodwill, are treated as a sale or exchange (i.e., capital gain treatment). All other payments are taxed as guaranteed payments or as a distributive share of income that may produce ordinary income for the departing owner.		

	C CORPORATION	S CORPORATION	GENERAL PARTNERSHIP	LIMITED PARTNERSHIP	LIMITED LIABILITY COMPANY
TRANSFERABILITY OF INTERESTS	Stock is easily transferable unless bylaws provide restrictive rights. Rights of first refusal, mandatory buy-sell agreements usually exist.	Same as C corporation. Charter should provide that a transfer cannot be made to an ineligible shareholder.	Generally, requires approval of all partners and may cause termination of the old partnership and creation of a new partnership. Limited partners may be allowed to freely assign their interest.		Generally, a state's LLC law provides that unanimous, or at least majority, consent is needed to transfer all incidents of membership. LLC members, however, are generally free to assign their economic interests without approval of other members.
SALE OR EXCHANGE OF INTERESTS	Shareholders ordinarily recognize capital, rather than ordinary gains or losses, upon the sale of their stock. Generally, there is no step-up in entity's basis (inside basis) in the assets.		The sale of partnership (LLC) interests produces capital gains or losses, except for amounts received for unrealized receivables and substantially appreciated inventory items (hot assets which are subject to ordinary income tax). The entity may elect to step-up inside basis of assets to reflect sales.		
ASSET BASIS: ADJUSTMENTS ON TRANSFER OF INTEREST	Generally, no adjustment in basis of assets owned by the corporation to reflect transferred stock.		IRC §754 election permits an entity to adjust asset basis to reflect the change in basis of the transferred partnership interest.		
SELF-EMPLOYMENT TAXES FOR OWNERS	A shareholder's compensation for services rendered as an employee is subject to employment taxes. Distributions (dividends) are not subject to employment taxes.	A shareholder's compensation for services rendered as an employee is subject to employment taxes. Shareholder's distributive share of S corporation earnings is not subject to self-employment tax.	A general partner's distributive share of partnership trade or business income generally is subject to self-employment taxes. A limited partner's distributive share is not subject to self-employment tax. Dual status partners (general and limited partners) generally may allocate between interests.		LLC members are deemed partners under proposed regulations and must meet the test for limited partner status to avoid self-employment taxes.
FRINGE BENEFITS	Generally excludable from income for shareholder-employee.	A more than 2% shareholder-employee is treated in the same manner as a partner in a partnership (i.e., the benefit is included in income).	Partners (members) do not receive favorable tax treatment for certain employee fringe benefits including accident or health insurance, meals and lodging, cafeteria plans, and group term life insurance (i.e., benefits not excludable from income).		
QUALIFIED PLANS	A shareholder must be an employee and receive compensation to be included in the plan. S corporations: Plan loans permitted to shareholders who own more than 5% of stock.		Partners (members) may be included only if partner (member) performs services for the partnership (LLC) and either receives guaranteed payments or is not treated as a limited partner. Plan loans permitted to partners (members) who own more than 10% of the capital interests or profits interest in the partnership (LLC).		
KEY EMPLOYEE COVERAGE[2]	Key employee life insurance purchased on the life of a key employee by a C corporation is an effective tax strategy since an income tax-free death benefit is purchased without a tax effect on the shareholders because the corporation is a separate tax entity and the nondeductible premium does not flow through to the shareholders.	Although income earned to pay nondeductible premium is taxed to the owners and reduces their basis, life insurance policies on key executives are still an effective strategy since death benefits [under IRC §101(a)] increase basis. If policy proceeds are used to pay deductible expenses, such as additional compensation for a replacement employee, the deduction shelters taxable income. If policy proceeds are used to pay nondeductible expenses, such as loan principal, there is no sheltering of taxable income. However, proceeds increase basis, which allows for greater amounts of tax-free distributions in the future.			
SECTION 162 BONUS PLANS	This is a very effective tool where the corporation is in a higher tax bracket than the shareholder-employee because the premium on the personally owned policy is deductible by the corporation.	**Plan established for an owner** Because these entities do not pay taxes but instead pass through income and deductions to their owners, the bonus plan provides little, if any, tax leverage, thus is not generally an effective tool for majority owners but may be of some benefit to a minority owner. A bonus payment to an owner does reduce basis in a pass-through entity. Basis reduction is a consideration where the entity expects to make future distributions to its owners, as basis shelters distributions from taxation. **Plan established for an employee** This is an effective strategy. The employee has taxable income. The owners do not have a tax burden, since the bonus is deductible by the business as compensation to the employee. However, the owners do have a basis reduction (and AAA in an S corporation).			

	C CORPORATION	S CORPORATION	GENERAL PARTNERSHIP	LIMITED PARTNERSHIP	LIMITED LIABILITY COMPANY
SPLIT-DOLLAR[2] (Economic Benefit Tax Regime) The IRS issued final regulations addressing the taxation of split-dollar arrangements on September 17, 2003. The split-dollar arrangement outlined in this chart is structured as a non-equity endorsement split-dollar arrangement involving an employee. Note: The Sarbanes-Oxley Act makes it a crime for publicly traded companies to, directly or indirectly, enter into a loan with certain directors and officers. It is unclear whether the Act applies to split-dollar arrangements. Clients should contact their tax or legal advisors for the most recent developments.	This is an effective strategy for financing an insurance policy because the corporation is a separate tax entity (i.e., the nondeductible premium effect of increasing income does not flow through to the shareholders). The shareholders receive valuable insurance protection for the smaller economic benefit cost. Upon termination of the split-dollar arrangement, generally at retirement, the policy can be used by the corporation to finance a deferred compensation payout or can be rolled out through purchase by, or bonus to, the insured. There are additional estate issues where a controlling shareholder is party to the agreement.	Split-dollar agreements are less effective for tax purposes for owners in a pass-through entity. However, split-dollar arrangements are often implemented for gift tax leverage when, for estate purposes, the policy will be owned by an irrevocable life insurance trust (ILIT) or other third party. The final regulations retain a special rule for non-equity split-dollar insurance arrangements. Under this special rule, non-equity arrangements entered into in a compensatory context or a gift context will be subject to the economic benefit regime. Thus, where an ILIT is the owner of the policy, gift tax leverage is still possible. However, other means for repaying the business must be addressed, since the policy cash values will be unavailable to the trust. Where owners/employees of a pass-through entity need insurance, a bonus arrangement may be less complex. **Sole or Majority Owner** –Noncontributory plan: The owner is taxed on income earned to pay premiums and on the economic benefit. As a result, the owner is taxed twice on a portion of the premium. –Contributory plan: With the enactment of the final regulations, contributory plans lose their tax efficiency since any payment made by the split-dollar participant to the business results in taxable income to the business. **Multiple Owner Plans** –Same as above. The only difference is that the nondeductible premium expense is spread among multiple owners. –S corporation: Nondeductible premium expense is allocated pro rata to all shareholders in direct proportion to their ownership of stock. Depending on percentage ownership, certain shareholders bear more cost of the insurance, which, under a noncontributory split-dollar arrangement, may result in termination of the S election. –Partnerships and LLCs: Special allocations based on substantial economic effect may allow the nondeductible premium dollars to be directed to specific partners (members) to adjust inequities in premium expense. **Employee (not an owner)** –Employees receive valuable insurance coverage for the economic benefit cost, but the owners bear the cost of the plan due to the nondeductible premium amounts.			
NONQUALIFIED DEFERRED COMPENSATION[2]	This may be an effective strategy for deferring income for multiple shareholder-employees due to the separation of owners from the entity and tax-bracket differences. The IRS refuses to rule concerning the application of constructive receipt with regard to a controlling shareholder.	Limited deferral opportunities are available for shareholders, depending on the number of owners participating and whether all partners participate proportionately. **Sole or Majority Owner** –Not an effective strategy. Plan results in double taxation to the owner. First, when the income is deferred and used to pay nondeductible insurance premium. And again, when the owner or his or her beneficiaries receive benefits. **Multiple Owners** –Same as above. The only difference is that the nondeductible expense is spread among multiple owners. –S corporation: Nondeductible expense is allocated pro rata to all shareholders in direct proportion to their ownership of stock. Depending on percentage ownership, certain shareholders may bear more of the cost. –Partnerships and LLCs: Special allocations based on substantial economic effect may allow the nondeductible expense to be directed to specific partners (members) to adjust other inequities. **Employee (not an owner)** –Employees are able to defer income to future dates, but the owners bear the tax burden of the plan due to the nondeductible expense.			

[1] A LLC can elect to be taxed as a C corporation or S corporation.

[2] For employer-owned life insurance policies issued after August 17, 2006, IRC §101(j) provides that the death benefit will be subject to ordinary income tax; however, where specific employee notice and consent requirements are met and certain safe harbor exceptions apply, death proceeds can be received income tax-free. Life insurance proceeds are otherwise generally received income tax-free under IRC §101(a).

1002169-00002-00 Ed. 01/2020

FINANCIAL PROFILES

Financial Underwriting Tips for Business Cases

HOW TO POSITION YOUR CASE FOR SMOOTH UNDERWRITING

PRUDENTIAL ADVANCED MARKETS TEAM EXPERIENCED GUIDANCE FOR COMPLEX CHALLENGES®

Insurance Professionals Can Encounter Two Primary Challenges when Working with Business Owners:

- Convincing business owners that life insurance can help protect their business and then motivating them to take action.
- Getting the insurance carrier to issue the amount applied for.

Once you get past the first hurdle with a signed application, you have to "make the case" to the underwriter. That's why packaging the case from a financial underwriting perspective is critical, particularly when large amounts are being requested. Your goal should be to help the underwriter at the life insurance carrier understand the financial basis for the customer's coverage request. Having everything in order will result in a smoother underwriting process.

Use these tips to help you position your case.

General Tips and Guidelines for Positioning the Case

Have a clear understanding of the parameters that will be applied to a particular business situation. Familiarize yourself with the insurance company's financial underwriting guidelines before you submit the case. If the requested amount applied for falls outside the guidelines, realize that you will need to provide additional supporting facts to win the case. These facts are outlined in the cover letter.

What to Include in a Cover Letter

Always submit a cover letter with documentation that addresses all the important and relevant information from the underwriter's perspective. If your case is for key person coverage and buy-sell funding, there are additional details that you will want to include. Try to anticipate the underwriter's questions.

At a minimum, the cover letter should state:

- The purpose of the insurance. If the insurance is to cover more than one need, identify all the intended purposes. **State a clear business purpose that the life insurance policy will serve.** In the business market, the life insurance case generally falls within one of four basic uses:
  - Key person coverage
  - Funding of buy-sell agreements
  - Financing of executive benefit plans
  - Business loan protection
- The policyowner's relationship to the insured—make sure there is a clear insurable interest.
- How the requested coverage amount was determined. (Note: If your case is for key person coverage, see tips below for additional information you need to include.)
- The amount of insurance currently in force.
- The purpose of the current coverage and whether the new coverage will be a replacement.
- The business' plans to "afford" the insurance if cash flow from operations is poor.
- The ownership/beneficiary structure you propose. This must match the typical format for the business need you are funding (e.g., for key person coverage, the business generally is the owner and beneficiary of the policy). If it does not match the typical format, make sure you explain the reason for the difference.

1002833-00002-00 Ed. 01/2020

Additions to the cover letter for a business start-up:

It is particularly important that you tell the whole business story in a business start-up situation.

- Submit the business plan. (If a brand-new business does not have a business plan, it may be difficult to successfully process the application through underwriting.) The business plan should:
  - Discuss the company's strategic position in the market.
  - Identify competitors.
  - Identify ownership.
  - Detail growth plans.
- Include capitalization data. Your best applicants will be those who are well capitalized by established institutions.
- Provide a detailed biography of each key employee of the business.
- Include additional supporting data. Don't hesitate to use the Internet to search for information on the business, its owners, the industry outlook, etc. You may be amazed by what you can find by doing a simple Internet search!

Make Sure You Tell the Same Story!

The application, cover letter, and supporting documentation should all tell the same story. Conflicting statements and numbers need to be explained. Build the strengths that support the coverage you are requesting, but don't hide the negatives—explain them.

TWO BUSINESS AREAS WHERE FINANCIAL DATA IS CRITICAL ARE KEY PERSON COVERAGE AND BUY-SELL FUNDING.

Specific Tips for Positioning Key Person Coverage in the Cover Letter

Where the coverage requested is based on the need to help offset the loss caused by the death of a person whose services are important to the success of a business, include in the cover letter:

- An explanation of why the individual is key and how the amount of coverage was determined.
  - Include supporting documentation such as tax returns and a detailed bio of the key individual reflecting experience, education, specific talents, and skills.
  - Ensure the amount of insurance coverage reflects the estimated monetary loss the business would suffer from the death of the key employee. In the absence of documentation, estimate the monetary loss to the business.

Estimating key employee compensation pointers

- The method most frequently used is based on either a generic multiple of the key employee's income or a percentage of an existing debt.
- Salary is often only a portion of a key person's compensation. Perks such as stay bonuses, stock options, and benefits such as nonqualified plans can often be included.
- For key people who have an ownership interest in the business, look to the tax structure of the entity.
  - Distributions are often made to key employees who have ownership interests in S corporations, or guaranteed payments may be made to key employees in partnerships. Such payments will be included in a key employee's income tax return.
  - In new start-up businesses, key employees may have taken a decrease in income at the time they joined the business. If so, historical income records may be more reflective of their value.
  - Don't forget to relate data regarding the degree to which the key person's ability is contributing to the ongoing growth of the company, its profits, and its borrowing capabilities. These abilities may be specialized skills, or knowledge and influence.

- Debt liquidation coverage is often intertwined with key person coverage. Where this is the case:
  - Clearly outline the terms of the debt including the amount of the debt, the length of the loan, and the interest rate.
  - If the debt is a line of credit, indicate the average outstanding debt for the last two to three years.
  - Indicate whether the key person has personally guaranteed the debt and whether the business will experience credit difficulties at the key person's death. (Generally, underwriters will cover only a percentage of the outstanding debt. Often this is in the 60% to 70% range.)

NOTE: Coverage may be justified beyond the normal income multiple or percentage of debt guidelines, but you will need to build your case.

Specific Tips for Positioning Funding for Buy-Sell Agreements in the Cover Letter

Where the coverage requested is to provide cash to help survivors purchase the interest of a deceased owner under the terms of a buy-sell agreement, it is important for the cover letter to clearly establish how the buyout will occur and the parties involved.

- The ownership of the policies should mirror the buy-sell agreement.
- If the buy-sell is not in a common format (such as the entity approach, where the business is the owner and beneficiary of the policies, or the cross-purchase arrangement, where each owner purchases a policy on each of the other owners):
  - Outline the type of buy-sell plan.
  - Provide support of the insured's pro rata share of the current business' fair market value with adjustments made for the business' future financial growth.
- Provide a formal business valuation done by an accredited appraiser, if possible. If not, use the value of the business found in the business' financial statements. The focus is generally on the income and cash flow statements, not the balance sheet—unless you have an asset-intensive business.

  Essentially, an earnings approach values the business as a "going concern," equating future income flows to the sum an investor would be willing to pay to own such an investment under current market conditions. **This method is referred to as the capitalization method.** Under the capitalization method, income flow from the business is converted into a present value number by dividing it by the desired rate of return that an investor would reasonably expect to earn. This divisor is commonly referred to as the capitalization rate or "cap rate."

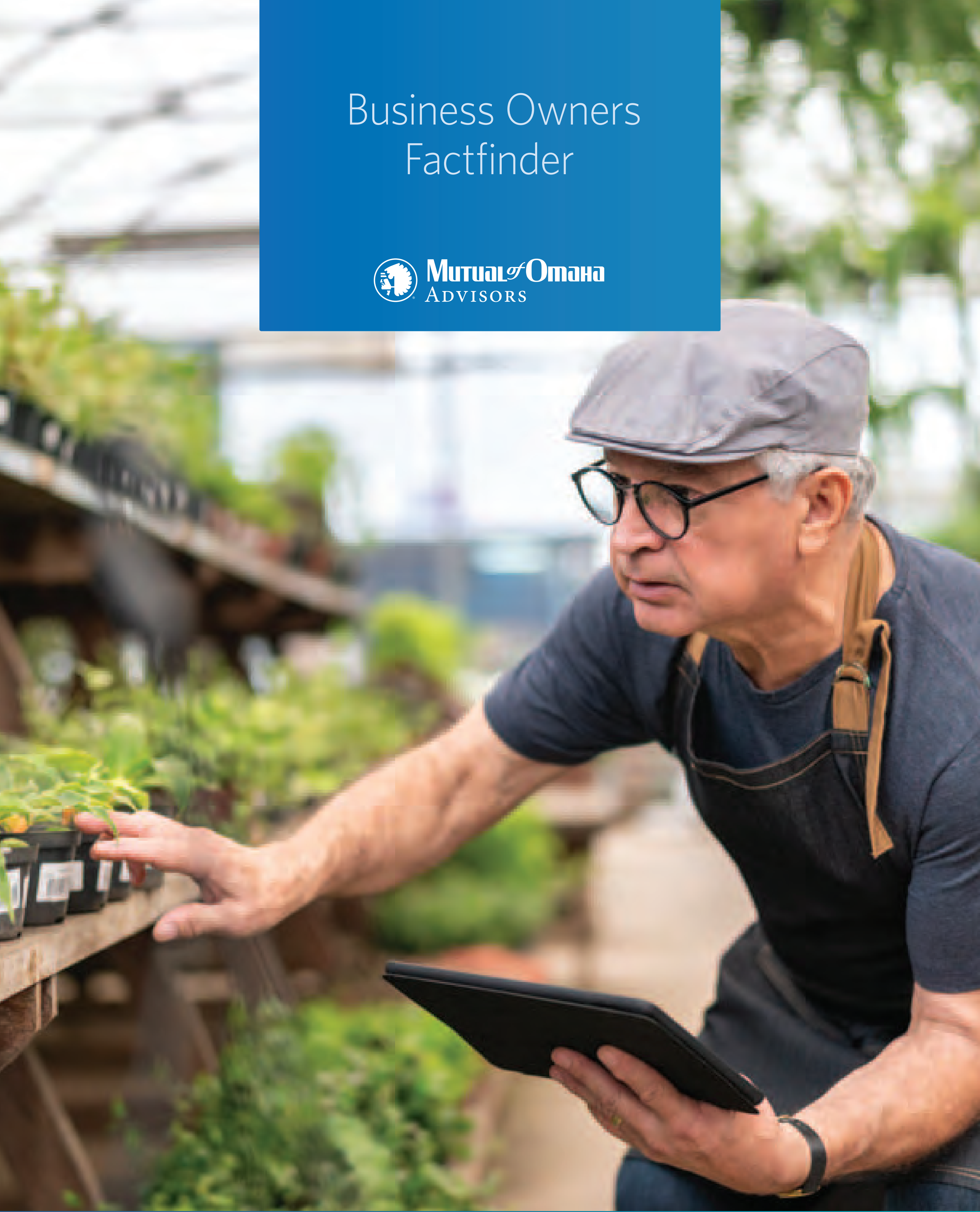
  The same results can be obtained by multiplying earnings by a number that is the inverse of the desired cap rate. **For example**, a 5% cap rate translates to a multiple of 20. While the mathematical calculation of the present value of the business is simple, the determination of the two components—income and cap rate—is more of an art. The cap rate for most closely held businesses ranges from 11.5% to 35.5%. If you are asking for coverage in excess of these multiples, you will need to build your case.

Close the Case with the Client and the Underwriter

Packaging a case from a financial underwriting perspective is critical. By using these tips, you will help the underwriter at the life insurance carrier understand the financial basis for the client's coverage request, positioning the case for a smooth underwriting process.

Business Owners Factfinder

Mutual of Omaha Advisors



Helping Your Business is Our Business

146401_0220

Informal Business Valuation Request

How does your business owner client plan for the future without knowing the value of their business?

Business Name ____

Business Owner Name ____________________ Date of Birth ____________ Other Contact Name ____________

Tax ID ____________________ Phone Number __________________ Fax Number ________________________

Address ____ City/State/ZIP ______________________________

Email Address ____

Number of Years in Business _______________ Total Number of Employees _______________

Do you rent or own your office space? ☐ Rent ☐ Own

a. If Rent: Is the rent paid to an independent 3rd party? ☐ Yes ☐ No

If Yes: What is your monthly rent? _______________ What is the square footage? _______________

b. If Own: Is your rent paid to an entity you own or are affiliated with? ☐ Yes ☐ No

If Yes: What is your current monthly rent you are paying or receiving? _______________

What would the true market level monthly rent be? _______________

What is the square footage? _______________ What is the estimated value? _______________

What is the remaining mortgage?s _______________

Form of Business: ☐ Sole Proprietorship ☐ Partnership ☐ S Corp ☐ C Corp

☐ LLC ☐ Other (please describe) ______________________________

Do you plan on changing the business organizational form in the near future? ______________________________

What is your estimate of the value of your business? ______________________________

Have you had a formal appraisal? When was it done? What was the value? ______________________________

What is your projected revenue growth? ______________________________

What percentage of your business is recurring? ______________________________

What percentage of your sales comes from your top three customers? ______________________________

What would be the impact on revenues and profits if the owner(s) leave?

☐ No impact ☐ Decline minimally ☐ Significant decline ☐ Plummet

---

IMPORTANT:

Attach the most recent three years of the following:

- Income statement/Profit and loss statement
- Balance sheet
- Company tax returns

Also, if prepared, please attach these documents:

- Cash flow statements
- Statements of owner's net
- Most recent valuation or appraisal

The purpose of this information is to assist the business owner in the furtherance of their planning. A formal appraisal would be needed to establish the value for tax purposes or prior to a transfer.

Tranferring Your Business

Are you planning on retiring?

When, and what plans have you made to provide for your retirement income needs? ______________________________

____

What does your ideal exit plan from your business look like? ______________________________

____

What specific plans have you made for the continuation of your business? ______________________________

____

Have you designated successor management? ______________________________

If the business is to be retained...

Who could manage the business tomorrow? ______________________________

How will spouse/family receive income from the business? ______________________________

Will additional cash in the business be needed to smooth out the transition? ______________________________

If the business is to be sold...

Who will buy the business? ______________________________

Do you have a written plan to transfer your company ownership? ______________________________

If yes, what is the agreed upon price? ______________________________

How current is your plan? ______________________________

How was the valuation determined? ______________________________

How is the plan funded? ______________________________

If the business is to be transferred...

When and who will you transfer management control to? ______________________________

When and who will you transfer ownership to? ______________________________

If the business is to be liquidated...

What price would liquidation bring?______________________________

What arrangements have you made, if any, to make up the difference between this and the fair market value of your business?

____

Protecting Your Business

What would happen to your business if...

Something happened to your key employees (sick, leave or die)? ____________________

____

You couldn't come back to work (die or disabled)? ____________________

____

In the event of you or another owner's disability, would additional funds be needed to help the business pay for normal operating expenses? ☐ Yes ☐ No How much $__________ How long?__________

Do you currently have a plan in place to pay for these expenses? ____________________

Salary Continuation

At owner's disability, will salary/draw be continued?
☐ Yes ☐ No How much? $__________ How long?__________

At a key employee's disability, will salary be continued?
☐ Yes ☐ No How much? $__________ How long?__________

At another employee's disability, will salary be continued?
☐ Yes ☐ No How much? $__________ How long?__________

Do you have any DI coverage to fund your plan? ____________________

____

Current or Desired Employee Benefit Plans

Does the business have any of the following plans in place for owners? Employees? Please explain.

- Retirement plans (e.g., 401(k), SIMPLE, SEP): ____________________
- Disability Income: ____________________
- Long-term Care: ____________________
- Other: ____________________

Business Owned Life Insurance

Insured	Insurance Company	Type of Policy	Insurance Benefit	Cash Value Benefit	Annual Premium	Policy Loans

Total Life Insurance Benefits In-force ____________________

Protecting Your Family

What would happen to your family if...

You couldn't work in your business? ______________________________

____

When you retire, become disabled or die, what do you want to happen to your business interest? ______________

____

When a partner/owner retires, dies, or becomes disabled, do you want to buy their interest? ☐ Yes ☐ No

____

- Do you feel you and your family are financially prepared if something happens to you? ______________

____

- What amount of money would provide your family an adequate standard of living should something happen to you?

____

- In the event of your death, what percentage of your monthly income should be provided for your family's continuing income needs? ______________________________

Current Life Insurance In-Force

Owner (A/B) (Mark "A" if "Client A") (Mark "B" if "Client B")	Insurance Company	Type of Policy (Group, Term, UL, Whole Life, etc.)	Insurance Benefit	Cash Value Benefit	Annual Premium	Beneficiaries

Total Life Insurance Benefits In-force ______________

- In the event of your death, would you like your children's college education to be partially or fully funded?

☐ Yes ☐ No

____

- What impact would being out of work due to an injury or illness have on your family's financial future?

____

Percentage of income to replace: Client A ______________

Client B ______________

Current Disability Insurance In-Force						
Owner (A/B) (Mark "A" if "Client A") (Mark "B" if "Client B")	Insurance Company	Individual or Group Policy	Monthly Benefit	Elimination Period	Benefit Period	COLA Rate

Critical Illness

Whom do you know that has had cancer, a heart attack, or a stroke? ______________________________

Do you currently own a critical illness policy? If so, what is the coverage amount and the premium?

____

Retirement Planning

- What are your thoughts or concerns about your retirement? ______________________________

____

- Is there anything special you want to do in retirement? ______________________________

____

At what age do you plan to retire? Client A __________ Client B __________

At what age will you begin to collect Social Security? Client A __________ Client B __________

Are you currently saving for retirement? ☐ Yes ☐ No

Professional Advisors				
Advisor	Name	Address	Phone Number	Email
Attorney				
Accountant				
Banker				
Insurance Agent				
Financial Advisor				
Other__________				
Other__________				
Other__________				

Notes

Why Mutual of Omaha

For more than a century, Mutual of Omaha has been committed to listening to our customers and helping them through life's transitions by providing an array of insurance, financial and banking products.

MutualofOmaha.com

ADVISOR TRAINING

Buy-Sell Arrangements Funded Using Life Insurance

For use with concept brochure, LYC8451

A buy-sell agreement is a legally binding contract that should be drafted by an attorney with knowledge of the topic. It is not your job to draft the buy-sell agreement; rather, it is to provide the life insurance solution that will fund the buy-sell agreement. It is important for you to understand how the buy-sell agreement works in order to make suitable life insurance recommendations.

A buy-sell agreement is entered into when business owners are looking to:

- Create a ready market for their share of the business
- Establish an agreed upon value for the business
- Prevent outsiders, including the deceased owner's spouse, from entering the business
- Ensure the cash will be available to purchase their share, which in turn provides cash for their estate

There are several types of buy-sell agreements. The most common are cross-purchase, entity, and wait and see.

With a cross purchase agreement:

- Each owner buys a policy and pays the premiums for a policy on each of the other owners. Each owner is the beneficiary on the policy they own
- The face amount of the policy is only for the portion of the share the owner would purchase. For example, if a business has four owners, each owner would purchase a policy for one-third of the insured's business share so that three people could purchase 100 percent of the deceased business owner's share
- To determine the number of policies required, subtract one (1) from the total number of owners and multiply by the total number of owners (i.e., with four owners, 3 x 4 = 12 policies)
- Upon the death of an owner, the other owners purchase the deceased owner's share. The other owners' cost basis will be increased by the amount of the payment for tax purposes. This is referred to as a "step-up" in basis
- This is usually not the best option when there is a big difference in ages among the owners, or when some of the owners have health issues. The younger owners may pay larger premiums on policies insuring the older owners; or healthier owners pay larger premiums on policies insuring the less healthy owners

With an entity agreement:

- The business buys one policy for each of the owners and pays the premiums for all of the policies. Upon an owner's death, the business purchases the deceased owner's share. With this method, fewer policies are required, but the policy is for a higher dollar amount since each policy must be for 100 percent of each business owner's share
- The business is not allowed to deduct the premiums as a business expense
- The business is the beneficiary of each policy
- There is no "step-up" in basis for the remaining owners
- Because the policies are owned by the business, the value of the policies and their proceeds become subject to the entity's creditors
- If the insured has more than a 50 percent interest in the business, they would have the ability to change the policy's beneficiary. When the proceeds are paid upon the insured's death, this will cause the proceeds to be included in the deceased's estate

With a wait and see agreement:

- The wait and see buy-sell combines the entity and cross purchase agreements into one
- With this arrangement, the specific purchaser of the deceased business owner's share remains unknown until death occurs. The business entity has the first opportunity to purchase the deceased owner's shares and if it chooses not to, the other owners may purchase the interest. If the other owners choose not to buy, then the business entity is required to complete the purchase
- Like a cross-purchase agreement, each participating business owner owns, pays the premiums for and is the beneficiary of the respective life insurance policies
- If the business entity is required to complete the purchase, generally, the owner's will contribute the life insurance proceeds to the business in order to fund the business redemption plan

- By funding a buy-sell agreement with life insurance, it helps avoid putting strain on the business's cash flow.
- Surviving owners want the lowest transfer cost without interrupting the operation of the business, and the deceased owner's surviving family members want the highest value they can get. A funded buy-sell agreement provides both.
- Life insurance provides the lowest cost option for funding a buy-sell agreement because the premium is always less than the death benefit proceeds paid.
- When implementing a buy-sell agreement using life insurance, term or permanent insurance can be used. Term life insurance is generally less expensive; however, it does have some limitations. Term insurance only pays a benefit upon the insured's death and the coverage is limited to the initial term duration selected. Permanent life insurance is a more flexible option. In addition to a death benefit, this type of a policy also has a cash value feature. In the event of disability or retirement, the cash surrender value can also be used to buy out the departing owner's share of the business.
- Building an investment or sinking fund takes time. If the owner dies "too soon," the business may not have the funds it needs to purchase the deceased owner's business interest.
- When applying for a life insurance policy to fund a buy-sell agreement, the maximum amount of coverage that an insured can be underwritten for is based on the current value of the business. The client cannot apply for a higher amount based on a projected future value of the business.
- It's important to schedule annual reviews since the business's valuation can frequently change. Too often, these plans are created and then forgotten. A policy sold with an increasing death benefit allows some flexibility, but it's almost impossible to have a policy with a face amount that directly correlates with the business valuation. Scheduling reviews and making adjustments, if necessary, is the only way to ensure adequate funding.

Business Exit Strategies

ADVANCED PLANNING

Life Insurance Funded Buy-Sell Arrangements

BUY-SELL ARRANGEMENT FUNDED WITH LIFE INSURANCE

When a business owner or partner dies, a buy-sell arrangement compels the remaining business owner(s) or partner(s) to purchase the business at an agreed upon price from, for example, the deceased's spouse or estate. When that buy-sell arrangement is funded by life insurance, the surviving owner(s) or partner(s) have immediate access to the cash needed for that purchase. Properly structured and funded, a buy-sell arrangement funded with life insurance can help to ensure the financial wellness of the survivor(s) and the business.

COMPARISON OF ENTITY PURCHASE AND CROSS PURCHASE ARRANGEMENTS

Please note that this chart presents a general discussion of issues relating to choosing a buy-sell arrangement funded with life insurance. It does not attempt to address issues related to the taxation of a specific tax entity except where noted.

	ENTITY PURCHASE (REDEMPTIONS, LIQUIDATIONS)	CROSS PURCHASE
The Plan	A buy-sell agreement that obligates the business to purchase, at an agreed-on price, the interest of a business owner on the occurrence of a specified event—generally the owner's death, disability, or termination of employment.	A buy-sell agreement where business owners agree among themselves that the remaining/surviving owner(s) are obligated to purchase (or have the option to purchase), at an agreed-on price, a departing owner's interest on the occurrence of a specified event—generally an owner's death, disability, or termination of employment.
The Purchaser	The business.	The remaining/surviving business owner(s).
Seller	The owner or his or her estate.	
Seller: Basis in Business Interest	Lifetime sale: Basis remains adjusted cost basis. Sale at death: The business interest receives a "step-up" in basis to fair market value at the death of an owner.	
Purchaser: Basis in Business Interest	The remaining/surviving owners do not receive any cost basis adjustment in their business interest after the buy-out. Subsequent sales may trigger additional taxable gain. (Note: Where a stock redemption is funded with life insurance in a pass-through entity, the life insurance will cause the owners to receive an increase in basis.) The percentage ownership of the remaining/surviving owners is increased pro rata, by the amount repurchased (i.e., redeemed/liquidated). This can sometimes realign voting power, shifting the control of the business in an undesirable way.	The remaining/surviving business owner(s) receive a new basis in the purchased interest(s)—the fair market value paid. This new basis is used to measure taxable gain for subsequent sales. The surviving/remaining owners' percentage of ownership can remain the same or change depending upon the agreement and the amount of the deceased/departing owner's interest purchased by each survivor/remaining owner.

Continued on the next page.

1004863-00002-00 Ed. 10/2019

<table>
<tr><th></th><th>ENTITY PURCHASE
(REDEMPTIONS, LIQUIDATIONS)</th><th>CROSS PURCHASE</th></tr>
<tr><td>Estate Tax Valuation</td><td colspan="2">The price at which a deceased owner’s business interest must be sold under a buy-sell agreement will generally be binding as the estate tax value of the business interest where the buy-sell agreement:
‣ Provides that the arrangement is binding on the parties during the life and at the death of the owners for a price that is determinable from the agreement.
‣ Provides that it’s entered into for a bona fide business reason.
‣ Is not a testamentary device to transfer the business to members of decedent’s family for less than adequate consideration.
▪ In family situations, has terms comparable to similar arrangements entered into by persons in arm’s length transactions.</td></tr>
<tr><td>Family Attribution Rules</td><td>Apply only to corporate redemptions.
Consequences of the rule: When “related” persons own the stock, a redemption may be subject to taxable dividend treatment (ordinary income) instead of sale or exchange treatment through the application of the IRC §318 attribution/constructive ownership rules. (However, in an S corporation with no C corporation accumulated earnings and profits, the attribution rules do not result in dividend treatment.)
These rules can be waived if the conditions in IRC §302(c)(2)(A) are met.
The attribution rule does not apply if the redemption qualifies under IRC §303 as a payment of estate administrative expenses or taxes.</td><td>There are no problems of constructive ownership or attribution under IRC §318 when a cross purchase arrangement is used.</td></tr>
<tr><td>Life Insurance Funding</td><td>The business is the owner, the premium payer, and the beneficiary of a policy on the life of each owner in an amount sufficient to help assure the performance of its repurchase obligation under the agreement.</td><td>Each owner applies for, owns, and is the beneficiary of a policy on the life of each of the other owners in an amount equal to his or her share of the purchase obligation.</td></tr>
<tr><td>Policies Needed</td><td>Only one policy per owner is required.</td><td>As the number of owners increases, multiple policies are required. The number of policies needed is: n x (n -1), where n = the number of owners.</td></tr>
<tr><td>Policy Management</td><td>Fewer policies owned and administered by the business entity will increase the likelihood that premiums will be paid, policy performance will be monitored, and death benefit proceeds will be used for the intended buy-sell purpose.</td><td>Multiple personally owned policies add additional complexity to the management process and the successful outcome of the plan.
In addition, where a trust is used as a policy management tool, “transfer-for-value” problems can result, leading to partial or full taxation of the death benefit proceeds.</td></tr>
</table>

Continued on the next page.

	ENTITY PURCHASE (REDEMPTIONS, LIQUIDATIONS)	CROSS PURCHASE
Policy Premiums	Premiums are a nondeductible business expense for income tax purposes. Age discrepancies, underwriting ratings, and percentage ownership that can result in insurance costs that are radically different among the multiple owners become less of an issue where business dollars pay premiums. S corporations, partnerships, and limited liability companies: Depending on the type of pass-through entity, the accounting methods used, and the nature of the buy-sell arrangement, nondeductible premiums reduce the value of an owner's interest in the entity (basis reduction).	Premiums on personally owned life insurance policies are a nondeductible expense for income tax purposes. Premium discrepancies become more of an issue where personal dollars are used to purchase policies. To defray personal premium cost, business dollars are often put to use through the implementation of executive benefit strategies such as a bonus agreement. As the result of these strategies, additional compensation may result to the business owners. Care must be taken that these additional dollars can be justified as "reasonable compensation."
Tax Bracket Considerations	Consideration must be given to the taxation of the entity and the effect of nondeductible premiums on the entity and its owners. For example, when funding a cross purchase arrangement, premium payments made by a corporation in a high tax bracket may be more costly than a deductible bonus paid to the owners in lower tax brackets.	
Policy Cash Values	When permanent policies are used, policy cash values are corporate assets. Cash values can be accessed by the business for use in a lifetime purchase resulting from an owner's disability or withdrawal from the business.* S corporations, partnerships, and limited liability companies: Depending on the type of flow-through entity, the accounting methods used, and the nature of the buy-sell arrangement, cash value increases the owner's basis.	Where permanent policies are used, cash values can be accessed by the policyowner for use in a lifetime purchase resulting from an owner's disability or withdrawal from the business.*
Policy Proceeds: Income Taxation	For "employer-owned" policies issued after August 17, 2006, IRC §101(j) provides that the death benefit in excess of premiums and other amounts paid will be taxed as ordinary income. However, if specific employee notice and consent requirements are met and certain safe harbor exceptions apply, the death benefit can be received income tax-free under IRC §101(a). See "Transfer of Policies."	For "employer-owned" policies issued after August 17, 2006, IRC §101(j) provides that the death benefit in excess of premiums and other amounts paid will be taxed as ordinary income. However, if specific employee notice and consent requirements are met and certain safe harbor exceptions apply, the death benefit can be received income tax-free under IRC §101(a). IRS Revenue Bulletin 2009-24 Notice 2009-48 provides additional interpretation of IRC §101(j) and its application to a cross purchase arrangement. See "Transfer of Policies."
Policy Proceeds: Effect on Business Value	The death benefit received by the business may increase the value of the business.	The business value is not affected by receipt of policy proceeds by an owner.

Continued on the next page.

	ENTITY PURCHASE (REDEMPTIONS, LIQUIDATIONS)	CROSS PURCHASE
Policy Proceeds: Estate Includibility	Corporations: If all of the incidents of ownership in the policy are held by the corporation, only the value of the stock, not the policy proceeds, will be includible in the decedent's gross estate for estate tax purposes. Partnerships and limited liability companies: There are no direct regulations that deal with incidents of ownership held by a partner/ member. The general belief is that, where the entity is both the owner and the beneficiary of a policy on a partner's/member's life, the partner's/member's gross estate should include just his or her proportionate share of the business value, which reflects a proportionate share of the policy proceeds.	The cash value of the policies owned by the decedent on the other owners' lives is includible in the decedent's gross estate.
Transfer of Policies**	Since the business is the owner of the life insurance policies, there is no need to transfer ownership at the death of an owner. Accordingly, this limits the possibility of incurring a "transfer-for-value" problem resulting in partial or full taxation of the death benefit proceeds. Care must be taken when decisions are made to change the form of the buy-sell agreement (e.g., from entity purchase to cross purchase) so that the "transfer-for-value" rule is not violated.	"Transfer-for-value" problems are more likely since the estate of the deceased owner will own policies on the lives of the surviving owners. At the death of a business owner, the deceased owner's estate and the surviving owners may choose to shift ownership to provide for full funding at a subsequent death. Unless an exception to the "transfer-for-value" rule applies, all or a portion of the death benefit could be subject to income taxation. To avoid a "transfer-for-value" problem for the surviving owners, the estate can sell the policies only to the respective insureds, a corporation where the insured is an officer or stockholder, a partnership in which the insured is a partner, or a partner of the insured.

*Life insurance policy cash values are accessed through withdrawals and policy loans. Outstanding loans and withdrawals will reduce policy cash values and the death benefit and may have tax consequences.

**A transfer or exchange to a third party may be considered a reportable policy sale and require tax reporting by the purchaser and the issuing insurance company.

1004863-00002-00 Ed. 10/2019

ADVISOR TRAINING

Key Employee Life Insurance

For use with concept brochure, LYC8447

A key employee is typically defined as someone who may:

- Be responsible for management decisions
- Be highly paid
- Have a significant impact on sales
- Have built productive relationships with customers and creditors

There are four ways a business can typically suffer if a key employee dies:

- The death may result in a loss of management skill and experience. This loss can be hard to overcome when the business has little, or no, management depth
- When a key employee has specialized skills that are vital to the business functioning, the business may not be able to easily replace the employee. Furthermore, if clients recognize the key employee is vital to the business operations, they may delay orders or refrain from doing additional business until they find out how the organization will respond to the loss
- The business may experience credit problems. A drop in business income may make it more difficult to make payments to creditors. In addition, creditors may hesitate to extend loans or favorable credit terms to a business that has lost a key employee. This is particularly true if the key employee's talents or resources were factors that encouraged the creditor to extend the loans or special terms in the past
- The business can also experience losses associated with hiring or training a replacement for the key employee. Even if the company can promote from within, business losses may continue to accrue until the replacement becomes more familiar with their new responsibilities

The advantages of key employee life insurance include:

- The employer receives funds to help meet financial obligations and to train a replacement if a key employee dies
- With a permanent policy, the accumulated cash value is available for the policyowner to use as they wish. If withdrawals or loans are taken, the employer must remember these distributions will affect the policy value and the death benefit

Key employee life insurance is one of the simplest plans to implement when it comes to business life insurance programs:

- The employer applies for, owns, pays premiums for and is the beneficiary of the life insurance policy on the key employee's life. All incidents of ownership must belong to the business. If the insured employee has any incidents of ownership, the policy proceeds will be included in the employee's estate for federal estate tax purposes
- If the employee dies, the policy proceeds are paid to the employer to use as the employer deems necessary

There are many ways to value a key employee. A valuation method can be used independently, or you can use a combination of valuation methods. Four of the most common are:

- Multiple of income (generally 5-10 times their annual compensation)
- Contribution to profit
- Cost of replacement
- Amount of outstanding business loans

Key Person Coverage

Business Planning

Strategy Summary

Small business owners put maximum effort into establishing and running their business, but are they taking the right steps to make sure the business can survive the unexpected death of a key employee? The sudden departure of a key employee could be catastrophic to a company—not because the owner did anything wrong, but because they did not do enough.

Impact of Losing a Key Person

When thinking about the continued success of a company, who would be considered a key person? Is it the employee the owner relies on when they are not in the office? The employee who works best with customers? Or the employee who finds creative ways to finance the business?

Loss of a key employee could have devastating effects on a business, including:

- Loss of sales due to a lack of manpower or the disappearance of personal relationships
- Disruption of production or operations
- Significant costs to search for and train a replacement for the key person
- Loss of competitive position or goodwill in the marketplace

Safeguarding Your Client's Business

A life insurance policy, owned and paid for by the business, on the key person's life can help safeguard your client's business by providing the needed funds to help in the transition after the loss of a key person.[1]

At the death of the insured, the business can use the federal income tax-free death benefit to find and train a successor and to replace the revenue lost by the untimely death of a key person. With key person coverage in place, the company and its owners will benefit from:

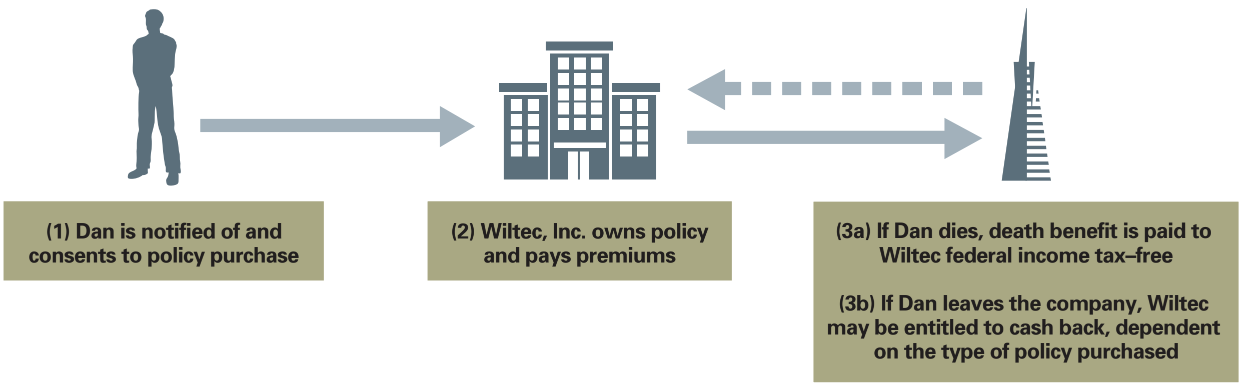
- Cash reserves available to look for, hire, and train a replacement employee
- Liquidity to cover loss in revenue during the period before a replacement is hired and able to work at the same level of productivity
- Flexibility to change the policy to a form of nonqualified deferred compensation if needs change over time
- Tax-deferred growth of the policy's cash value and access to the cash value accumulation in the event of financial need, if a cash value policy is purchased

A policy purchased for a key person need can provide additional benefit as a retention tool. Split dollar arrangements are often set up with this as a key objective, granting a portion of the coverage for the employee to designate beneficiaries.

Transfer of the policy to the employee may be subject to rules on non-qualified deferred compensation. The employer should consult with their legal and tax counsel for guidance on individual specifics.

[1] For a C corporation, all or a portion of the life insurance proceeds and the annual increase in cash value may be subject to the corporate alternative minimum tax. Moreover, certain situations may result in an exception to the general rule that life insurance proceeds are federal income tax-free under IRC § 101(a), including policies transferred for valuable consideration, or corporate- or employer-owned policies that do not fall within the IRC § 101(j) exception.

Case in Point: Wiltec, Inc.



Mike, Ron and Carol are owners of Wiltec, Inc., a computer software company that specializes in the design of animation graphics for the movie industry. The corporation has been in existence for three years and is valued at $4 million.

Dan is an employee of Wiltec who specializes in advanced graphic design. Dan's expertise gives the company the ability to successfully bid on and win the larger more profitable movie projects. Dan is a highly paid key employee and is provided with a generous benefits package. The owners of Wiltec realize that substantial profits originate from Dan's expertise, and that his premature death would cause financial loss to the firm.

The owners of Wiltec establish a key person coverage plan funded with life insurance, which provides Wiltec with a number of advantages:

- Protection from economic loss caused by Dan's death.
- Funds to recruit and train Dan's replacement.
- Access to the life insurance cash value for a variety of business needs, such as collateral for a loan or funding of salary continuation plans.*
- The life insurance proceeds are generally federal income tax–free.

* Loans, withdrawals and death benefit accelerations will reduce the policy value and death benefit. Provided the policy is not and does not become a modified endowment contract (MEC), 1) withdrawals are tax-free to the extent that they do not exceed the policy basis (generally, premiums paid less withdrawals and 2) policy loans are tax free as long as the policy remains in force. If the policy is surrendered or lapses, the amount of the policy loan will be considered a distribution from the policy and will be taxable to the extent that the loan and other distributions on lapse or surrender exceed the policy basis.

Transamerica and its agents and representatives do not give tax or legal advice. This material and the concepts presented here are for information purposes only and should not be construed as tax or legal advice. Any tax and/or legal advice you may require or rely on regarding this material should be based on your particular circumstances and should be obtained from an independent professional advisor.

Discussions of the various planning strategies and issues are based on our understanding of the applicable federal income, gift, and estate tax laws in effect at the time of publication. However, these laws are subject to interpretation and change, and there is no guarantee that the relevant tax authorities will accept Transamerica's interpretations. Additionally, the information presented here does not consider the impact of applicable state laws upon clients and prospects.

Although care is taken in preparing this material and presenting it accurately, Transamerica disclaims any express or implied warranty as to the accuracy of any material contained herein and any liability with respect to it. This information is current as of June 2015.

Life insurance products issued by Transamerica Life Insurance Company, Cedar Rapids, IA. Transamerica Financial Life Insurance Company, Harrison, NY.

ADVANCED PLANNING

Business Strategies

Protecting Your Business from the Loss of a Key Employee

FREQUENTLY ASKED QUESTIONS:

BUSINESS CONTINUATION WITH KEY PERSON LIFE INSURANCE

When should a business and its owners consider buying insurance on its key employees? How is a key person's value to the business determined? What are the primary tax considerations?

A key person can be either an owner or an employee. What distinguishes someone as a key person is that his or her loss would severely impact the financial wellness of the business until a replacement could be found and trained. Many businesses, especially those that are small or medium sized, depend on the skills and talents of one or more key individuals for their growth and continued success. In fact, some companies could not survive if a key employee suddenly died.

When the present and future financial wellness of a business is dependent on the specialized skills, knowledge, or influence of a person or persons, the business should seriously consider acquiring insurance to help cover its potential loss at the death of such employee. Such insurance coverage is usually referred to as key person life insurance.

Under most circumstances, the business should be the owner, premium payer, and beneficiary of the policy purchased on a key employee. The goal is to have an influx of cash at the death of a key person in order to help stabilize the business until a new employee can be found, hired, and trained. Not only does key person coverage ensure that there will be cash available to help hire a replacement or to pay down loans, it also helps to instill confidence in employees and creditors that the business will continue. Employees will be less likely to leave and lenders will be less likely to call in a loan.

When should a business and its owners consider buying insurance on its key employees?

The following are examples of common situations where a business should consider purchasing insurance on its key employees:

The business needs to secure a loan. Many banks and venture capital groups insist on key person insurance for one or more members of the management team when lending to a new business or venture. The lender may ask that it be named beneficiary on the life insurance policy. However, a better approach may be to have the business be the beneficiary with a collateral assignment of the death benefit to the lender.

That way, as the loan principal is reduced, the lender will get that portion of the death benefit equal to the debt with the balance going to the business. If the lender is named beneficiary of the entire amount, it may receive a death benefit larger than the current amount of debt.

Continued on the next page.

Prudential
Bring Your Challenges®

The business is carrying a large debt load. Even if the lender does not require life insurance on key executives in order for a business to obtain a loan, it may be wise for the business to consider insuring those key executives. That way, if one of the key executives dies, all or a portion of the loan can be paid off at the death of the executive.

An individual brings in more than his or her share of sales or clients to a business. Sales organizations often have one or two key sales people who generate a large share of a company's sales. If one of these sales people were to die, it could seriously affect the profitability of the business.

A well-known attorney who attracts major corporate clients or major cases to a law firm is another example of a key person contributing more than his or her fair share to a successful business.

A key person has a unique talent that would be difficult to replace. Often, a business has an individual employee who brings a unique talent or perspective to a business that helps set that business apart from its competitors and contributes immensely to its success. As stated earlier, it could be a person who has the talent and creativity to develop new and profitable products. Or it could be a person who has a unique ability to motivate sales people. Individuals with different but complementary talents often join forces to start a business. One could be a financial whiz and able to obtain major financing while the other is equally talented in marketing. The business would likely suffer greatly if either of these individuals died. Key person life insurance—in addition to life insurance to fund a buy-sell agreement—could be important to the future of the business.

A larger company buys out a smaller successful business. The larger company often recognizes the founder(s) of the smaller company or another key person within that company as being a key element to the continued success of the company after the acquisition. The retention of key customers of the smaller company and/or the retention of employees may depend on the figurehead of the smaller company remaining. If that person were to die, it could mean the loss of a customer base or a mass exodus of employees. Key person life insurance can help mitigate the loss associated with such an event.

There are certainly other situations where the purchase of key person life insurance is worth considering. For example, a key person could be a top sales person or sales trainer; an engineer, scientist, or programmer who is responsible for the development of new products; a person who has many industry contacts that help bring in business; or an individual whose financial expertise is the key to the business's ability to borrow money. The loss of any of these individuals could be devastating to a business. The bottom line is, any employee whose death could negatively affect the viability and/or profitability of a business is a candidate for key person insurance.

Once a key employee is identified, the next step is to assess the impact his or her death would have on the business in order to determine the face amount of insurance coverage needed to help protect the business.

How is a key person's value to the business determined, and how much insurance should be bought?

The amount of insurance coverage should reflect the estimated monetary loss the business would suffer from the death of the key employee. It is difficult to set up a definite formula whereby the value of an employee to his or her company can be easily determined. Varied approaches exist to estimate the monetary loss to the business. In absence of documentation, the method most frequently used by underwriters to determine whether the face amount requested makes sense is based on either a generic multiple of the key employee's income or a percentage of an existing debt.

For key employees, W-2 compensation is often only a portion of their income. Perks such as stay bonuses, stock options, and benefits such as nonqualified plans can often be included. When the key employee has an ownership interest in a business, distributions by S corporations and guaranteed payments by partnerships or LLCs may be included. In a new startup business, key employees often take a decrease in income in return for an interest in the business. When this is the case, historical income records may be more reflective of their value. Often, coverage equal to five to ten times income can be justified.

If the purpose of the key person coverage is in part to cover a business loan, the amount of the loan is a major factor in determining the amount that will be issued. Another determining factor is whether the key employee has personally guaranteed the debt. Generally, coverage is limited to 60 – 70% of the outstanding debt.

Coverage can be justified beyond the normal income multiple or percentage of debt guidelines, but documentation that supports the coverage requested needs to be provided. In this respect, documentation such as tax returns and a detailed bio reflecting experience, education, specific talents, and skills should be included, along with a discussion of how the amount requested was determined in a cover letter.

What are the primary tax considerations?

The Internal Revenue Code (IRC) provides that no deduction is allowed for premiums paid on a life insurance policy covering the life of an officer, an employee, or any person financially interested in the business where the business is directly or indirectly a beneficiary of the policy.[1] Since a business is usually the owner and beneficiary of a key person life insurance policy, the premiums paid by the business are generally not deductible. Furthermore, the premiums paid by the business are generally not taxable income to the employee.

In general, life insurance proceeds paid by reason of the death of the insured are exempt from income tax under IRC §101(a). However, there are situations where the death proceeds from a key person policy might be subject to income tax.

Continued on the next page.

[1] IRC §264(a)(1).

One situation where the proceeds could be subject to income tax is under IRC §101(j). This section provides that death proceeds from employer-owned life insurance contracts issued after August 17, 2006, will be taxed as ordinary income to the extent the amounts paid under the contract exceed premiums and other amounts paid by the employer. At first glance, this provision seems to negatively impact key person life insurance. Fortunately, the rules also provide that, if certain notice and consent requirements are met before policy issue, and if certain exceptions apply, death benefits can still pass income tax-free.

One of the exceptions provides that death benefits will not be taxable if the insured qualifies as a director or is a *highly compensated employee* or a *highly compensated individual* at the time the policy is issued. The term highly compensated employee is defined as an employee who was a 5 percent owner of the business at any time during the preceding year or who received compensation in excess of a specific amount during the preceding year ($130,000 in 2020 and $125,000 in 2019), indexed for inflation in future years). The term highly compensated individual is defined as an individual who was one of the five highest-paid officers or individuals who are among the highest-paid 35 percent of all employees.

Normally, a key employee will qualify as either a highly compensated employee or a highly compensated individual under this exception. In light of the reporting rules, it is important to maintain documentation that proves you have met the notice and consent requirements in a timely manner.

Finally, a key person life insurance policy may have estate tax consequences when the insured is also an owner in the business. This can occur since the gross estate of a business owner includes the value of his or her interest in the business. Life insurance proceeds paid at the business owner's death and received by the business are taken into account in valuing his or her business interest.[2] However, it should be noted that the proceeds do not necessarily increase the value of the business on a dollar-for-dollar basis since the business has also lost the value of its key employee.

Summary

The continued success of a business depends on its key people. Key person life insurance is an important risk management tool. The annual premium cost for a key person policy is a small price to pay in comparison with the potential loss that a company could suffer at the death of a key person.

[2] Reg. §20.2031-2(f).

ADVISOR TRAINING
Estate Equalization

For use with concept brochure, LYC8557

Estate equalization allows a business owner to divide their children's inheritances equitably when some children work in the family business and others do not.

Some considerations include:

- Leaving equal shares of the family business can cause conflict when some children do not want to participate in the business. Having the non-participating children receive shares of the business can also be a detriment to the ongoing success of the business
- Leaving the business to only the participating child can also cause conflict within the family if the division is seen as unfair
- Splitting the business equally does not recognize the participating child for their contributions toward building the business
- A child who participates in the family business may not be able to afford to buy out the other's shares
- Liquidating business assets or selling off shares can impact the future success of the business – and may even leave participating children without a business left to run

- It's important for a business owner to understand that equitable does not always mean 'equal.' A parent may want to compensate the child in the business for the time and effort they spent building the business. They may also provide the child involved in the business with a higher amount because they are receiving illiquid assets and not receiving their inheritance outright. The child who takes over the business has additional risk because the business must be successful in order for the child involved in the business to receive their inheritance.
- It is generally a good idea for the business owner/parent to discuss how the inheritance is structured with their children. Knowing that their parents put thought into their plans will make it easier for their children to understand the rationale behind their decisions – and should cause less family conflict when the children receive their inheritance.
- This planning technique is especially important when a business owner's business accounts for more than 50 percent of their net worth.
- Although estate equalization is generally used in business cases, this same strategy can be used when there is no business involved (i.e., if the parent owns a family home that they wish to leave to one child, but there are not enough assets to leave all children an equitable amount).

As a successful business owner, it's important to find balance between the two things that mean the most to you: your family and your business. If all children do not participate in the family business, splitting up your estate can become complicated. It's important to plan ahead so the family business doesn't break apart your family.

Underwritten by:
United of Omaha Life Insurance Company
3300 Mutual of Omaha Plaza
Omaha, NE 68175
mutualofomaha.com
800-775-6000

United of Omaha Life Insurance Company
A Mutual of Omaha Company

Estate Equalization

Distributing Your Family Business Equally

LYC8557

Passing on
The Family Business

You have worked hard to build your business and you want to make sure that it continues even after you are no longer around. The challenge with a family business is figuring out how to pass your business on to the next generation – especially when some children participate in the family business and others do not.

There are many considerations, such as:

- Leaving equal shares of the family business can cause conflict when some children do not want to participate in the business
- Leaving the business to only the participating child can also cause conflict within the family if the division is seen as unfair
- Splitting the business equally does not recognize the participating child for their contributions toward building the business
- A child who participates in the family business may not be able to afford to buy out the other's shares
- Liquidating business assets or selling off shares can impact the future success of the business – and may even leave participating children without a business left to run

One solution that can help protect the business – and keep family harmony – is to purchase a life insurance policy. You can leave your business to the participating children and use the life insurance proceeds to provide an inheritance to other family members. Although the inheritances do not necessarily need to be the same, life insurance can help ensure they are more equitable.

Using Life Insurance To Equalize An Inheritance – how it works*

Randy Erickson, age 50, is a successful business owner. Randy and his wife, Susan, have two sons. Their oldest son, Jeff, has spent the past eight years helping grow the family business; and, their other son, Sean, chose a different career path.

Randy and Susan's current estate consists of:
- A business value of $1,500,000
- Non-business assets of $500,000

Under current arrangements, Jeff would inherit the family business and Sean would receive $500,000 in non-business assets. Randy and Susan would like to leave their children a more equitable inheritance, but they also want to make sure that Jeff can continue to run the family business without having to liquidate part of it. They are considering a couple of options, both which could be considered equitable:

Option 1:

The Erickson's can purchase $1,000,000 of life insurance that would pay out at the death of the last surviving parent, and Sean would be the beneficiary of this policy. Adding this to the current $500,000 of estate value will leave both sons with an equal inheritance of $1,500,000.

Option 2:

To acknowledge Jeff's contributions to the family business, the Erickson's can leave Jeff the business and purchase only $500,000 of life insurance with Sean as the beneficiary. This would leave Sean with a total inheritance of $1,000,000. The additional value that Jeff would receive takes into consideration that the business must remain successful in order for Jeff to benefit from his share of the inheritance. It also recognizes that he will likely need to put in additional effort once his father is no longer around to help him run the business.

This example is fictitious in nature and only represents a situation a consumer could face.

The Benefits of Planning Ahead

Promote Family Harmony
As a parent, you want to do what is best for your family. Equalizing your estate helps mitigate family problems that can sometimes arise when the distribution of an estate appears inequitable.

Allow for Business Continuation
A properly structured plan helps arrange for children who are active in the family business to be able to continue running the business without having to liquidate assets.

Receive Potential Tax Benefits
Depending on the type of life insurance you choose, your policy may have a cash value.** This cash value grows tax-deferred and you have access to it through tax-free loans and withdrawals. In addition, as long as you properly structure your policy, your beneficiaries will receive the funds without paying income or estate taxes.

Take time to plan ahead. Your forethought can help ensure that all of your children benefit from the legacy you intend to leave for them – and allow your family business to continue on.

[Agent Photo]

[Agent name]
[Agent phone number]
[Agent email address]
[Agent license number]

*** The amount that may be available through loans or withdrawals, as defined in the contract.*

The Winning Play for Small Businesses

SELL MORE BY OFFERING BENEFITS FOR EMPLOYERS AND EMPLOYEES

TRANSNAVIGATOR℠ INDEX UNIVERSAL LIFE

More than half of an employer's top performers will leave their current company within the next three years.[1]

Companies are struggling to retain key employees, and small businesses may find it more important than ever to provide incentives for their workers. TransNavigator℠ Index Universal Life insurance from Transamerica Life Insurance Company can create employee retention possibilities with time-triggered advantages and additional benefits for an employee to stay with a company.

A POLICY FOR THE SPOUSE

Purchasing a policy on a key employee or the employee's spouse is a retention strategy that benefits everyone involved: the employer retains the employee and enjoys tax advantages[2], the client and spouse get valuable coverage and the potential to build tax-deferred policy value, and you provide a higher-value service while selling additional life insurance policies to the same client.

THE SMALL BUSINESS TRIPLE PLAY

Transamerica's Small Business Triple Play provides a way to keep employees in an organization by offering a win/win/win scenario: benefits for the employer, the employee, and the employee's spouse.

The Solution

An employer can tighten the tether between them and their employee with a simple solution: purchasing two TransNavigator℠ index universal life insurance policies—one for the employee, and one for the employee's spouse. Consider the example of Ellen, and her husband Clark, both age 40. Ellen is a valuable employee at Graphix, LLC, and the company would like to reduce the chances of Ellen leaving for greener pastures. Graphix, LLC, purchases TransNavigator policies for both Ellen and Clark:

Benefits for the Employer:

- Can offer a unique benefit to key employees
- May receive a tax deduction for the premium paid[2]
- Helps keep talent in-house

Benefits for the Employee and Spouse:

Income Replacement:

If Ellen or Clark pass away, their policy death benefit can be paid as a monthly guaranteed income stream for up to 25 years with our Income Protection Option (IPO), available at no additional premium cost.

Cash Value Accumulation Potential:

Once Ellen and Clark have accumulated sufficient cash value, they will be able to access it through loans and/or withdrawals for an additional source of funds to help supplement their income or for other needs.[2]

Long Term Care (LTC) Coverage:

TransNavigator offers an available LTC Rider that can provide up to $1M to help cover LTC expenses should Ellen or Clark experience a qualifying chronic illness.

THINK WIN/WIN/WIN

Our unique product features allow small business owners to provide a differentiated benefit, receive a meaningful tax deduction, and reduce the high costs associated with employee turnover.

PRODUCER ADVANTAGES

This strategy provides a great way for you and the client to get the most out of each sale, while creating new opportunities with markets you may not currently be serving.

Contact your agency or Transamerica to learn more about how you can put this strategy to work for clients today.

[1]http://millennialbranding.com/2013/cost-millennial-retention-study/

[2]The premium payment for life insurance on the spouse will be treated as employee compensation, so the total of all premium payments and other compensation must stay under the section 162 limits to maintain the income tax deduction for the employer. TransNavigator is a non-participating flexible-premium universal life insurance policy issued by Transamerica Life Insurance Company, Cedar Rapids, IA 52499. Policy Form No. ICC12 UL07 or UL07 (CVAT), Long Term Care Rider Form No. ICC12 LTCR02 or LTCR02. Policy and rider form and number may vary, and this policy and rider may not be available in all jurisdictions. Insurance eligibility and premiums are subject to underwriting.

Loans, withdrawals and death benefit accelerations will reduce the policy value and death benefit. Provided the policy is not and does not become a modified endowment contract (MEC), 1) withdrawals are tax-free to the extent that they do not exceed the policy basis (generally, premiums paid less withdrawals and 2) policy loans are tax free as long as the policy remains in force. If the policy is surrendered or lapses, the amount of the policy loan will be considered a distribution from the policy and will be taxable to the extent that the loan and other distributions on lapse or surrender exceed the policy basis.

TransNavigator℠ is a flexible-premium index universal life insurance policy issued by Transamerica Life Insurance Company, Cedar Rapids, IA 52499. Policy Form No. ICC14 IUL08 REV or IUL08 REV, Long Term Care Rider Form No. ICC12 LTCR03 or LTCR03. Policy and rider form and number may vary and this policy and rider may not be available in all jurisdictions.

Transamerica and their representatives do not give tax or legal advice. This material is provided for informational purposes only and should not be construed as tax or legal advice. Clients and other interested parties must be urged to consult with and rely solely upon their own independent advisors regarding their particular situation and the concepts presented here. Discussions of the various planning strategies and issues are based on our understanding of the applicable federal tax laws in effect at the time of publication. However, tax laws are subject to interpretation and change, and there is no guarantee that the relevant tax authorities will accept Transamerica's interpretations. Additionally, this material does not consider the impact of applicable state upon clients and prospects.

Although care is taken in preparing this material and presenting it accurately, Transamerica disclaims any express or implied warranty as to the accuracy of any material contained herein and any liability with respect to it. This information is current as of April 2015.

For producer use only. Not for distribution to the public.

OLA 2307 0415

TRANSAMERICA®

ADVANCED PLANNING

BUSINESS STRATEGIES

Executive Bonus Arrangements

THE CHALLENGE

Your employees make important contributions to your business. Some key employees may have unique skills and abilities that are critical to the continued success of your organization. Do you worry that they will be lured away by a competing company? Are you concerned that their current benefits package may not be enough to keep them working for your company? Or is there an employee at a competing firm whom you would like to have working for you?

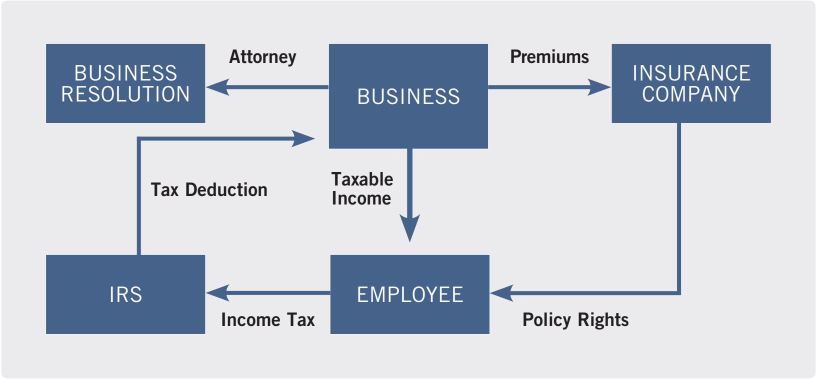
THE SOLUTION

One solution to attracting and retaining quality employees may be an **executive bonus arrangement.**

An executive bonus or a restrictive executive bonus arrangement is a way for you to provide needed life insurance to a key employee and receive an income tax deduction for doing so.

A well-designed executive bonus arrangement can have benefits for both the employee and the employer. Although the premiums paid by the employer are taxable to the key employee, the company can pay a double bonus to cover the employee's income tax liability. Alternatively, the employee can access the policy values to pay the tax.* The employee has full policy ownership rights, including the right to any policy values, the right to name a personal beneficiary, and the right to name a third party, such as a trust, as policyowner.

HOW AN EXECUTIVE BONUS STRATEGY WORKS



Typically, a business resolution is drafted by an attorney and adopted by the business, which notifies the participants of its intention to establish an executive bonus arrangement.

- The business may decide to pay the premium directly to the insurance company or the business may pay a taxable bonus to the key employee, who then pays premiums to the insurance company for a policy he or she generally owns.
- The business will include the bonus amount as taxable income to the employee for the current year.
- The key employee reports the bonus as income and remits the appropriate income tax to the IRS.
- The business receives a tax deduction in the year the bonus is included in the key employee's income.
- The key employee, typically, has full policy ownership rights, including the right to any policy values, the right to name a personal beneficiary, and the right to name a third party, such as a trust, as policyowner.
- **If life insurance is provided:** When the employee dies, the policy proceeds are paid to the named beneficiary, usually a family member. Or, when the employee retires, policy cash values can be used to supplement his or her retirement income.
- **If an annuity is provided:** When the employee retires, annuity values can be used to supplement his or her retirement income.

* Outstanding loans and withdrawals will reduce policy cash values and the death benefit and may have tax consequences.

Continued on the next page.

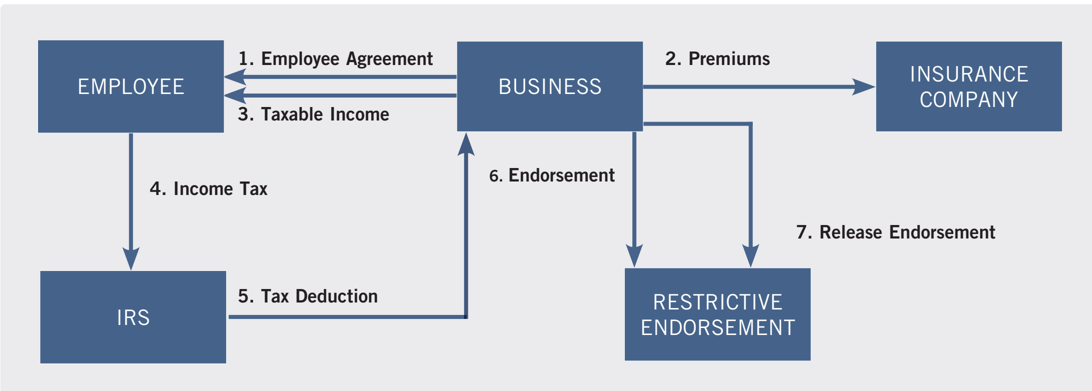
1010394-00002-00 Ed. 01/2020

Prudential
Bring Your Challenges®

A restrictive executive bonus arrangement (also referred to as REBA) is a way for an employer to provide needed life insurance to a selected key employee.

An employer may provide life insurance to a key employee on a tax-deductible basis while restricting the employee's access to the policy cash value. Although the employee (or his or her trust) owns the policy, when the policy is issued, a restrictive endorsement is placed on the policy that limits access to policy values. The premiums paid by the employer are taxable to the key employee, but the company can pay a double bonus to cover the employee's income tax liability. The arrangement acts as "golden handcuffs" to encourage the key employee to stay with the employer.

HOW A RESTRICTIVE EXECUTIVE BONUS STRATEGY WORKS



BENEFITS TO THE BUSINESS

- The employer is able to select the employees it wishes to include and can offer individual arrangements designed to meet the needs of the business and each employee. Bonus amounts and benefits may vary among participants.
- The arrangement typically requires minimal administration and associated costs and does not require IRS approval or complicated government reporting.
- Plan costs are deductible if total compensation to the employee is reasonable.

REBA ONLY

- The restrictive executive bonus arrangements (REBA) endorsement can serve as "limited golden handcuffs," in effect tying a key employee to the business.

BENEFITS TO THE EMPLOYEE

- The employee is able to purchase life insurance at a lower out-of-pocket cost than if he or she were to purchase the insurance on his or her own.
- The employee is the owner of the policy with the right to name a personal beneficiary. The employee is also completely free to name a third party, such as a trust, as the policyowner.
- The policy is portable and can provide benefits before and after retirement. At the death of the employee, policy proceeds can help to replace lost income to the family, liquidate debts, and/or pay taxes and final expenses.

Continued on the next page.

HOW TO IMPLEMENT

- The employer identifies the key employees to participate in the arrangement.
- The attorney for the business drafts the resolution and employment agreement to establish the plan.
- The appropriate life insurance face amount or annuity and type of policy are determined.
- The employee applies for the life insurance and completes all medical and underwriting requirements.
- **REBA ONLY** In conjunction with the purchase of the life insurance policy or annuity, a restrictive executive bonus arrangements (REBA) endorsement is placed on the policy that restricts the employee's access to the policy values but gives the employee the right to name and change the beneficiary and receive all of the death proceeds.
- Product: life insurance or a non-qualified deferred annuity.

TAX CONSIDERATIONS

- The bonus, whether paid in cash or premium payments, is considered compensation and is generally tax-deductible subject to the limits under Section 162 of the Internal Revenue Code (IRC). The bonus is subject to payroll taxes and withholding and must be reported on the employee's Form W-2.
- The employee must pay income tax on the bonus. However, your business may provide an additional bonus to the employee to make up for the income-tax payments. This is called a "double bonus" and provides enough cash to cover both the insurance or annuity premiums and the employee's income tax on the bonus. This approach effectively eliminates any out-of-pocket expense for the key employee.

1010394-00002-00 Ed. 01/2020

Executive Benefit Strategy

Companies are often looking for new ways to attract and retain key executives. The right executive benefit plan can help accomplish the goals of both employer and employee. The following chart examines the key differences of various executive benefit plans.

	Executive Bonus Plan	Restricted Executive Bonus Arrangement	Nonqualified Deferred Compensation Plan	401(k) Look-Alike Plan (Nonqualified)	Section 457 Plan[1] (Salary Deferral Benefit)
Strategic Goal	Provides a way for employers to help highly compensated executives fund life insurance in a cost-effective manner and provide them with another option to help meet financial goals such as paying for college or supplementing retirement savings.	Provides a way for employers to help highly compensated executives fund life insurance in a cost-effective manner and provide them with another option to help meet financial goals such as paying for college or supplementing retirement savings, while restricting owner's access to policy.	Provides a way for employers to reward their key employees by helping highly compensated executives defer pre-tax income as well as help provide supplemental income for disability or retirement.	Gives highly compensated executives who may be "maxed out" on qualified plans a way to defer taxable income in a nonqualified plan to help provide supplemental income for disability or retirement.	Helps reward and ensure the loyalty of highly compensated executives by allowing not-for-profit organizations to set up nonqualified deferred compensation plans — Sec. 457(f) — for deferrals in excess of Sec. 457 limits.
Product[2]	TransUltra® SP 2006 TransUltra Plus® 2006 Trendsetter® LB Trendsetter® Super TransNavigator℠ IUL Transamerica Journey℠ VUL	TransUltra® SP 2006 TransUltra Plus® 2006 Trendsetter® LB Trendsetter® Super TransNavigator℠ IUL Transamerica Journey℠ VUL	TransUltra® SP 2006 TransUltra Plus® 2006 TransNavigator℠ IUL Transamerica Journey℠ VUL	TransUltra® SP 2006 TransUltra Plus® 2006 TransNavigator℠ IUL Transamerica Journey℠ VUL	TransSecure® II TransUltra® SP 2006 TransUltra Plus® 2006 TransNavigator℠ IUL Transamerica Journey℠ VUL
Does the Plan Offer Income Deferral?	No. However, it does offer income tax deferral on inside build-up in life policy.	No. However, it does offer income tax deferral on inside build-up in life policy.	Yes. Executive defers a percentage of taxable salary or bonus.	Yes. Executive defers a percentage of taxable salary and/or bonus for a period of years until retirement, etc. Employer may also make matching contributions.	Yes. Executive defers a percentage of taxable salary and/or bonus until death, retirement, etc., as long as the amount of the deferred compensation is subject to a substantial risk of forfeiture. Employer may also make matching contributions.
Who Owns the Policy and Determines Beneficiaries?	Executive, who can name spouse or other beneficiaries.	Executive, who can name spouse or other beneficiaries. The employer can restrict access to the policy's cash value as well as the ability to transfer the policy without employer consent until a set date (usually retirement) or death of the insured executive.	Employer, which names itself beneficiary.	Employer, which names itself beneficiary.	Employer, which names itself beneficiary.

	Executive Bonus Plan	Restricted Executive Bonus Arrangement	Nonqualified Deferred Compensation Plan	401(k) Look-Alike Plan (Nonqualified)	Section 457 Plan[1] (Salary Deferral Benefit)
How Are Premiums Paid?	By the executive, who receives an equivalent bonus from the employer (can be a "double bonus" to offset additional tax liability).	By the executive, who receives an equivalent bonus from the employer (can be a "double bonus" to offset additional tax liability).	Employer uses deferred compensation to pay policy premiums.	Employer uses deferred compensation and any matching funds to pay policy premiums.	Employer uses deferred compensation to pay policy premiums.
How Is the Death Benefit Distributed?	Named beneficiaries receive an income tax-free life insurance death benefit.	Named beneficiaries receive an income tax-free life insurance death benefit.	Beneficiaries specified in deferred compensation agreement receive either taxable annual income or taxable lump-sum death benefit, depending on plan design.	Beneficiaries specified in deferred compensation agreement receive either taxable annual income or taxable lump-sum death benefit, depending on plan design.	Beneficiaries specified in deferred compensation agreement receive either taxable annual income or taxable lump-sum death benefit, depending on plan design.
Benefits to Employer	▪ Distinguishes its compensation package. ▪ Provides select executives with attractive pre- and post-retirement benefits. ▪ Income tax deduction generally allowed for executive bonus payments. ▪ Minimal plan setup costs. ▪ Flexibility to include executives or a group of key employees because it is not subject to the nondiscrimination requirements that apply to a qualified plan.	▪ Distinguishes its compensation package. ▪ Provides select executives with attractive pre- and post-retirement benefits. ▪ Income tax deduction generally allowed for executive bonus payments. ▪ Minimal plan setup costs. ▪ Flexibility to include executives or a group of key employees because it is not subject to the nondiscrimination requirements that apply to a qualified plan.	▪ Provides income tax-free death benefit and accumulates tax deferred cash value for the employer. (Premium payments are not tax-deductible.)[3] ▪ Through withdrawals or policy loans, employer can use accumulated net cash value to pay the deferred compensation (this will reduce the policy's values and death benefit). ▪ Minimal ERISA requirements (provided only a select group of management or highly compensated employees are covered). ▪ Provides select executives with additional deferral opportunities different from those available to other employees. ▪ Helps recruit, retain, and reward talented staff. ▪ Income tax deduction for benefits payment.[4]	▪ Provides income tax-free death benefit and accumulates tax deferred cash value for the employer. (Premium payments are not tax-deductible.)[3] ▪ Through withdrawals or policy loans, employer can use accumulated net cash value to fund the deferred compensation plan distributions (this will reduce the policy's values and death benefit). ▪ Minimal ERISA requirements. ▪ Provides select executives with additional deferral opportunities different from those available to other employees. ▪ Helps recruit, retain, and reward talented staff. ▪ Income tax deduction for benefits payment.[4]	▪ Encourages long-term executive loyalty. ▪ Provides select executives with attractive benefits.

	Executive Bonus Plan	Restricted Executive Bonus Arrangement	Nonqualified Deferred Compensation Plan	401(k) Look-Alike Plan (Nonqualified)	Section 457 Plan[1] (Salary Deferral Benefit)
Benefits to Executive	▪ Accumulates tax-deferred life insurance policy cash value. ▪ Provides income tax-free death benefit protection for beneficiaries. ▪ Through partial withdrawals and policy loans, creates an additional source of income to help meet financial goals.[5] ▪ Is not subject to qualified plan limits and penalties. ▪ Executive retains policy when leaving employment.	▪ Accumulates tax-deferred life insurance policy cash value. ▪ Provides income tax-free death benefit protection for beneficiaries. ▪ Through partial withdrawals and policy loans, creates an additional source of income to help meet financial goals.[5] ▪ Is not subject to qualified plan limits and penalties. ▪ Executive retains policy when leaving employment.	▪ Has additional deferral opportunities not subject to qualified plan limits and penalties. ▪ Can help supplement retirement income not available through 401(k) or profit-sharing plans. ▪ When executive retires, becomes disabled, or dies, or at another specified date, employer can begin distribution of the deferred compensation. ▪ Executive is not taxed until income is distributed since benefits are an unsecured promise by the employer. ▪ Can help with financial planning objectives such as college funding. ▪ Can provide a pre-retirement survivor benefit. ▪ Ability to access funds in the event of severe financial hardship.	▪ Has additional deferral opportunities not subject to qualified plan limits and penalties. ▪ Can help supplement retirement income not available through 401(k) or profit-sharing plans due to government limits. ▪ When executive retires, becomes disabled, or dies, or at another specified date, employer can begin distribution of the deferred compensation. ▪ May receive additional retirement income through employer matching. ▪ Executive is not taxed until income is distributed since benefits are an unsecured promise by the employer. ▪ Can help with financial planning objectives such as college funding. ▪ Can provide a pre-retirement survivor benefit. ▪ Ability to access funds in the event of severe financial hardship.	▪ Policy or its cash value can be transferred to the executive upon retirement (executive will pay income tax on the value of this benefit paid by the employer). ▪ Enjoys tax-deferred supplemental retirement savings. ▪ Executive receives taxable death benefit protection for his/her family if he/she dies while working for the organization.

	Executive Bonus Plan	Restricted Executive Bonus Arrangement	Nonqualified Deferred Compensation Plan	401(k) Look-Alike Plan (Nonqualified)	Section 457 Plan[1] (Salary Deferral Benefit)
Prospects	▪ Small to midsized businesses. ▪ Employers who want to recruit and retain key executives. ▪ Employers with executives who want a cost-effective way to provide financial security for their families. ▪ Companies that do not offer qualified retirement plans. ▪ Businesses that want to provide benefits to non-owner executives.	▪ Small to midsized businesses. ▪ Employers who want to recruit and retain key executives. ▪ Employers with executives who want a cost-effective way to provide financial security for their families. ▪ Companies that do not offer qualified retirement plans. ▪ Businesses that want to provide benefits to non-owner executives.	▪ Employers who want to recruit and retain key executives. ▪ Companies that want to offer benefits in excess of those offered by their qualified retirement plans. ▪ Employers with executives who want to supplement their income and provide financial security for their families.	▪ Employers who want to recruit and retain key executives. ▪ Companies that want to offer benefits in excess of those offered by their qualified retirement plans. ▪ Employers with executives who want to supplement their income and provide financial security for their families.	▪ Not-for-profit organizations that combine qualified and non-qualified retirement plans. ▪ Not-for-profit organizations that want to recruit and retain key executives. ▪ Not-for-profit employers with executives who want to supplement their retirement benefits. ▪ State, county and municipal governments that want to provide retirement supplement to highly compensated employees.

[1] Non-qualified deferred compensation plans, including Section 457(f) must meet the requirements of IRC Section 409(A). Employees participating in a Section 457(f) plan will typically forfeit benefits if voluntary or involuntary separation from the employer occurs before retirement.

[2] Life insurance products are issued by Transamerica Life Insurance Company, Cedar Rapids, IA 52499. All products may not be available in all jurisdictions.

[3] The death benefit above premiums paid will not be taxable under IRC Section 101(j) as long as written Notice and Consent is obtained prior to policy issue. Employer must also follow annual reporting requirements of IRC Section 6039I.

[4] Must be considered reasonable compensation to qualify for tax deductions.

[5] Loans, withdrawals and death benefit accelerations will reduce the policy value and death benefit. Provided the policy is not and does not become a modified endowment contract (MEC), 1) withdrawals are tax-free to the extent that they do not exceed the policy basis (generally, premiums paid less withdrawals and 2) policy loans are tax free as long as the policy remains in force. If the policy is surrendered or lapses, the amount of the policy loan will be considered a distribution from the policy and will be taxable to the extent that the loan and other distributions on lapse or surrender exceed the policy basis.

TransSecure® II is nonparticipating, limited payment, interest-sensitive whole life insurance policy issued by Transamerica Life Insurance Company, Cedar Rapids IA 52499. Policy Form Nos. ICC08-180 (in states that form part of the Interstate Insurance Compact), 1-18011108; Group Certificate No. 2-18036108 for certificates issued under a group policy issued to the Rhode Island National Consumer Protection Trust. Policy forms and numbers may vary, and this policy may not be available in all jurisdictions.

TransUltra® SP 2006 is a nonparticipating flexible premium universal life insurance policy issued by Transamerica Life Insurance Company, Cedar Rapids, IA 52499. Policy Form #1-11411106; Group Certificate #2-74036106 for certificates issued under a group policy issued to the Rhode Island National Consumer Protection Trust. Policy form and number may vary, and this policy may not be available in all jurisdictions.

TransUltra Plus® 2006 is a nonparticipating, flexible-premium universal life insurance policy issued by Transamerica Life Insurance Company, Cedar Rapids, IA 52499. Policy Form No. 1-11311106 (CVAT), Group Certificate No. 2-73036106 for certificates issued under a group policy issued to the Rhode Island National Consumer Protection Trust. Policy form and number may vary, and this product may not be available in all jurisdictions.

TransNavigator℠ is a flexible-premium index universal life insurance policy issued by Transamerica Life Insurance Company, Cedar Rapids, IA 52499. Policy Form No. ICC14 IUL08 REV or IUL08 REV, Long Term Care Rider Form No. ICC12 LTCR03 or LTCR03. Policy and rider form and number may vary and this policy and rider may not be available in all jurisdictions.

The Transamerica Journey℠ is a flexible premium variable universal life insurance policy issued by Transamerica Life Insurance Company Cedar Rapids, IA 52499, Policy Form #ICC13 VL23 and #VL23. Distributor: Transamerica Capital, Inc., Member FINRA.

The Trendsetter® Super (Policy Form Nos. 1-322 11-107, 1-306 11-107, 1-305 11-107, 1-304 11-107, 1-303 11-107, and 1-334 11-107) and Trendsetter® LB (Policy Form No. TL19) are term life insurance policies issued by Transamerica Life Insurance Company, Cedar Rapids IA 52499. **Premiums increase annually for Trendsetter Super YRT and starting in year 11 for the 10-year policy, in year 16 for the 15-year policy, in year 21 for the 20-year policy, in year 26 for the 25-year policy, and in year 31 for the 30-year policy.** Policy forms and numbers may vary, and these policies may not be available in all jurisdictions. Insurance eligibility and premiums are subject to underwriting.

Transamerica Life Insurance Company ("Transamerica"), and its agents and representatives do not give ERISA, tax or legal advice. This material and the concepts presented here are for information purposes only and should not be construed as ERISA, tax or legal advice. Any ERISA,tax and/or legal advice you may require or rely on regarding this material should be based on your particular circumstances and should be obtained from an independent professional advisor.

Although care is taken in preparing this material and presenting it accurately, Transamerica disclaims any express or implied warranty as to the accuracy of any material contained herein and any liability with respect to it. This information is current as of March 2015.

TRANSAMERICA®

ADVANCED PLANNING

LIFE INSURANCE–BASED STRATEGIES TO ATTRACT AND RETAIN KEY EMPLOYEES

Executive Compensation Plans

Life Insurance

Prudential

THE PRUDENTIAL INSURANCE COMPANY OF AMERICA

1012403-00002-00 Ed. 01/2020

HOW PRUDENTIAL CAN HELP

The Prudential Insurance Company of America and its affiliates offer a wide range of insurance products that can help your business continue successfully in the event of your death or disability. Insurance is a vitally important business tool that is often overlooked.

Whether your business is a sole proprietorship, a partnership, a limited liability company, or a closely held corporation, Prudential can help. Purchasing insurance for business needs may prove to be one of the most important decisions of your life.

Executive Compensation Plans

Executive compensation strategies— how they can work for you.

As a business owner, you are keenly aware of how difficult it is to attract and retain key personnel. The competition for superior technical, managerial, and executive talent is so fierce that you're constantly faced with finding ways to make your executive compensation package more attractive.

However, restrictive economic and regulatory factors make it difficult to reward key contributors using traditional compensation and benefit strategies in a cost-effective manner. That's why, for most business owners, designing an effective executive compensation plan requires guidance from experienced professionals.

Your financial professional can help you sort through your options, both traditional and nontraditional, to arrive at sound solutions.

This brochure describes how using life insurance–based executive compensation strategies may help you attract, reward, and retain executives and key employees while also providing your business with important financial advantages.

Nonqualified plans pick up where your qualified plan leaves off.

Deducting the cost of benefits is a key consideration in an executive compensation strategy. A tax-qualified plan, such as a 401(k), SEP, or SIMPLE, is the cornerstone of an executive compensation package. The contributions made to these plans are generally income tax-deductible, and the plans provide the opportunity to accumulate money on an income tax-deferred basis. That money is generally not included in an executive's income until distributed.

TAX-QUALIFIED DRAWBACKS:

- Government mandates regarding employee eligibility, etc.
- Employer/fiduciary reporting and disclosure requirements.
- Limitations on max employee contributions and benefits.
- Excise taxes if the contribution limits are exceeded.

Tax-qualified plans are a good starting point, but considering the drawbacks, many business owners turn to nonqualified strategies to supplement their tax-qualified plans.

Life insurance can play an important role in unlocking the advantages of using nonqualified plans.

Life insurance is a unique financial instrument that, as an informal funding mechanism, offers:

- An opportunity for income tax-deferred growth.
- Tax-favored withdrawal and loan provisions.[1]
- Potential for income tax-free death benefits under IRC §101(a).

And it is flexible with regard to:

- The amount and frequency of premium payments.
- Policy ownership and beneficiary designations.
- The design of death benefits to meet plan formulas.

[1] Outstanding loans and withdrawals will reduce policy cash values and the death benefit and may have tax consequences.

Nonqualified plans can be customized to fit your needs.

Nonqualified plans can be structured to enable you to provide benefits that address precise business objectives to only those key employees or executives your company wishes to reward and retain. They even allow you to fund the plan in a way that will help your company recapture plan costs.

In other words, when it comes to benefit levels, eligibility, and control of plan assets in a nonqualified plan, you, as the business owner, are the one with the power to make those decisions.

The following nonqualified plan strategies could help your business effectively address the specific needs of its executive compensation program.

- NONQUALIFIED DEFERRED COMPENSATION PLANS
- EXECUTIVE BONUS (SECTION 162) ARRANGEMENT
- RESTRICTIVE EXECUTIVE BONUS ARRANGEMENT
- DEATH BENEFIT ONLY ARRANGEMENT (DBO)
- SPLIT-DOLLAR LIFE INSURANCE

What are my nonqualified choices?

NONQUALIFIED DEFERRED COMPENSATION PLANS

These plans provide income tax-deferred supplemental retirement, death, and/or disability benefits. Referred to by various names, these plans are contractual arrangements between the employer and the executive and may involve:

- **A Traditional Deferred Compensation Plan:** This arrangement involves the deferral of the executive's current income including salary and/or bonus.
- **A Supplemental Executive Retirement Plan (SERP):** This arrangement involves funding of future benefits strictly with employer benefits.
- **A blend of the two.**

In deferred compensation plans, participants or their beneficiaries receive benefits after a particular event occurs, such as retirement, death, disability, or termination of employment.

As the employer, you may specify a minimum service requirement before your employee qualifies for the benefits. Benefit payments, which may be in installments of specified amounts and duration, are generally tax-deductible to your business and taxable to the recipient.

ADVANTAGE TO YOU:

These plans may be an excellent solution when your company needs to supplement its qualified retirement plan for key employees. If life insurance is used as an informal funding device, the policy proceeds may even be enough to recoup the plan's costs.

EXECUTIVE BONUS (SECTION 162) ARRANGEMENT

Under this arrangement, the executive buys a life insurance policy and the business pays for it. The major advantage of this strategy is simplicity.

- The only document needed is a corporate resolution, if appropriate.
- The executive's only cost for insurance is the income tax due when the bonus (the insurance premium) is paid.
- The premium for the insurance policy may be deductible as a business payroll expense for you.
- If a permanent life insurance policy is purchased with the bonus, it will have the added benefit of income tax-deferred cash value growth.[1]

ADVANTAGE TO YOU:

This is a good strategy when your company is seeking a current income tax deduction for contributions to the arrangement but is not concerned about controlling the policy values. Your executive will see the life insurance bonus as providing a meaningful, immediate benefit that is completely portable.

RESTRICTIVE EXECUTIVE BONUS ARRANGEMENT

Similar to an executive bonus plan, in the restrictive executive bonus arrangement, the employee owns the policy while the employer pays the premium cost. However, in a restrictive executive bonus plan, the employee's ability to exercise many policy rights is limited through the use of a restrictive endorsement placed on the underlying policy.

- The restrictive endorsement remains in effect until the employee meets the terms negotiated in a separate employment contract.
- If the plan is properly established, the premium may be deductible to you.
- Like the bonus arrangement, the executive's only cost for the insurance is the income tax due on the bonus.
- The restrictive endorsement acts as "golden handcuffs," encouraging the executive to remain with the company.

ADVANTAGE TO YOU:

This is a good strategy when your company is seeking a current tax deduction for contributions to the arrangement and desires to restrict the employee's access to the policy values.

[1] Outstanding loans and withdrawals will reduce policy cash values and the death benefit and may have tax consequences.

DEATH BENEFIT ONLY ARRANGEMENT (DBO)

A DBO arrangement is an agreement to provide survivor income benefits at the death of a key employee.

- The income benefit is often based on a formula aimed at replacing all or a portion of an executive's salary for a period of years after death.
- From a tax standpoint, DBO plan benefits are treated the same way as benefits under a nonqualified deferred compensation plan.
- The survivor pays taxes on the benefits, while the business is generally able to deduct the benefit payment as a compensation expense.

ADVANTAGE TO YOU:

A DBO plan for selected executives may be the plan to choose when your company is in need of a tax-favored way to supplement the existing death benefits provided by the company's basic group life insurance and/or qualified pension plans.

SPLIT-DOLLAR LIFE ARRANGEMENT[2]

In a split-dollar arrangement, your company facilitates the purchase and pays most or all the costs of a permanent (cash value) life insurance policy on an executive's life.

- The business acquires a sufficient ownership interest in the policy so that its premium advances are repaid by a share of the policy proceeds.
- Either the executive or the designated beneficiary receives the remaining policy value.
- A written split-dollar agreement spells out the rights of all parties under the contract.

ADVANTAGE TO YOU:

A split-dollar arrangement is an excellent way to provide an executive with a substantial lump sum death benefit with minimal current tax impact, while the company maintains control of the plan assets. Split-dollar benefits may also be combined with nonqualified deferred compensation benefits.

[2] The Sarbanes-Oxley Act makes it a crime for publicly traded companies to, directly or indirectly, enter into a loan with certain directors and officers. It is unclear whether the Act applies to split-dollar. Clients should contact their own tax advisors concerning their specific situations.

Which strategy is right for me?

As you can see, there are several powerful tools available to help you supplement your executive compensation plan for key executives. You've also learned how life insurance can play a key role in designing such a plan to help you meet your goals at a minimal cost. **Now you're ready for the next step—a confidential fact-finding meeting with your financial professional.**

Working with your financial professional, you and your advisors can develop a life insurance–based executive compensation plan that is just right for your company. Detailed information regarding each of the approaches described in this brochure is available from your financial professional.

THE PROTECTION COMPANY FOR OVER 140 YEARS

Prudential Financial is one of the world's largest financial institutions and has been meeting customers' financial challenges for over 140 years.

Guarantees are based on the claims-paying ability of the issuing insurance company

This material is being provided for informational or educational purposes only and does not take into account the investment objectives or financial situation of any client or prospective clients. The information is not intended as investment advice and is not a recommendation about managing or investing your retirement savings. If you would like information about your particular investment needs, please contact a financial professional.

Life insurance is issued by The Prudential Insurance Company of America, Newark, NJ, and its affiliates. All are Prudential Financial companies and each is solely responsible for its own financial condition and contractual obligations. Life insurance policies contain exclusions, limitations, reductions of benefits, and terms for keeping them in force. A financial professional can provide you with costs and complete details.

Investment and Insurance Products:
Not Insured by FDIC, NCUSIF, or Any Federal Government Agency. May Lose Value. Not a Deposit of or Guaranteed by Any Bank, Credit Union, Bank Affiliate, or Credit Union Affiliate.

1012403-00002-00 Ed. 01/2020

PINNEY INSURANCE

Providing All the Tools for Your Success[sm]

Pinney Insurance

Founded in 1972 as a Transamerica branch office and later incorporated as Pinney Insurance Center, Inc., we are headquartered in our own building in Roseville, California. We provide a small local agency feel with the power of a major national firm.

Pinney has expanded into a national distributor with thousands of contracted agents and offices in California, Illinois, Maryland, North Carolina, Oklahoma, Pennsylvania, Texas, Washington, and Mississippi. Pinney represents over 100 life, annuity, disability, and long-term care companies with the intent of providing our clients & partners with the best possible product solutions at the lowest possible costs. Email Brokerage Sales Support or contact one of our Brokerage Directors today at 800-823-4852.

Quick Links

- Pinney Insurance
- Insureio
- Case Status
- Get a Quote
- Forms
- Contracting

Most Popular Tools

- **Full-Service Brokerage**
  PinneyInsurance.com
  Access to carrier forms, quote tools, and 24/7 case status.
- **Insureio**
  Insureio.com - Insurance marketing evolved!
  Innovative Features
  Plans & Pricing
- **Policy Assessment**
  Learn about our hassle-free Policy Assessment Kit.
- **Ask the Underwriter**
  Introducing Our In-House Agency Underwriter
  Click here for a Basic Underwriting Questionnaire