A Tool for your Success

Business Succession Planning Sales Kit

Buy-Sell Guide | Key Person Guide
412(e)(3) Defined Benefit Plan Guide
401(k) Look-Alike Plan Guide
Business Strategies Planner

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Business Owner and Executive Review Planning

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Resources Available on PinneyInsurance.com

1. Generate Sales with Informal Business Valuations

What It Is: A downloadable **45-minute webinar** that goes over the basics of informal business valuations. Learn the five valuation methods, which methods work best with particular industries, and companies that are easier vs. harder to provide a valuation for.

What You Get: A roadmap for looking at your book of business and finding suitable clients to approach.

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2. Opening Cases w/Business Valuation & Buy-Sell Review

What It Is: A downloadable **30-minute webinar** that gives you key info on the family business market, and how things like property transfers, cross-purchases, and entity purchase agreements work.

What You Get: Specific talking points to use with clients who own family businesses.

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3. Introducing MetLife's BOSS Strategy

What It Is: A **15-minute podcast** that explains the BOSS strategy and how to approach business owners. You'll get an overview of the 6 major needs and concerns of most business owners, from retirement income to disability protection.

What You Get: Tips for approaching specific types of business owners & a free Business Review Guide

Click to access

4. Business Owner Market Study: A Balancing Act - Priorities vs. Plans

What It Is: A **14-page whitepaper** with the results of a survey of over 500 business owners, conducted by The Principal in conjunction with Harris Interactive. Learn business owners' top 10 priorities and 7 issues they currently face.

What You Get: Your clients' pain points, perfect for getting the conversation started.

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Funding a Buy-Sell Agreement with Life Insurance

Marketing Guide

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BUY-SELL AGREEMENTS

Whether your clients own a large company or a small family-operated business, the success of any business depends on smart strategy and planning. It's important to help your clients protect their hard work. North American Company offers business solutions to help ensure that all the effort and money invested in a business won't disappear when the unexpected happens.

A BUY-SELL AGREEMENT FUNDED WITH LIFE INSURANCE

The death of a business owner or partner can be an uncertain time for the life of a business. A buy-sell agreement can help protect your client's business from the effects of unintended or unwelcome transfers of ownership. It may also help protect their heirs, by providing an opportunity to turn inherited business shares into cash. In addition, many consider it important to develop a plan to help surviving family members or owners fund the transfer of ownership of the business. By purchasing a life insurance policy to fund a buy-sell agreement, your clients can help protect and extend the life of their business.

WHO CAN BENEFIT?

From modest family operations, to multi-billion dollar corporations, the death of an owner can seriously cripple a business. A buy-sell life insurance agreement allows for a smooth transition in ownership to the surviving owners. Without a buy-sell agreement, the heirs of the deceased owner will inherit those shares of the company. They can then sell their shares of the business to anyone—which could force important decisions about how the company is run to be made by people outside of the surviving owners' control.

The heirs of the deceased might not want to be a part of the business. A buy-sell agreement allows the family of the deceased to turn their inherited interest in the business into cash—freeing them from the burden of taking on a role as an owner of the business.

By planning ahead with a buy-sell agreement, clients can avoid unnecessary hardship on both family and colleagues. The business can continue to succeed into the future, and avoid lengthy probate court and lawsuits.

Your clients have worked hard to make their business a successful one. Help them ensure it continues to be successful by planning for the unexpected.

WHY LIFE INSURANCE?

Creating a buy-sell agreement alone only protects a business partially. For complete protection, the surviving owners must have the funds available to buy the deceased's portion of the business back from the heirs. This may mean borrowing the funds at expensive interest rates, which could damage the business. It could mean liquidating business capital still needed by the business, which could also have negative impacts. Sometimes, when neither borrowing from a lender or the business is an option, surviving owners are forced to use their personal property – homes, cars, etc. – as collateral on a private loan. And ultimately, if none of these risky options work, the heirs of the deceased are left with shares in a business they don't want, and no inheritance.

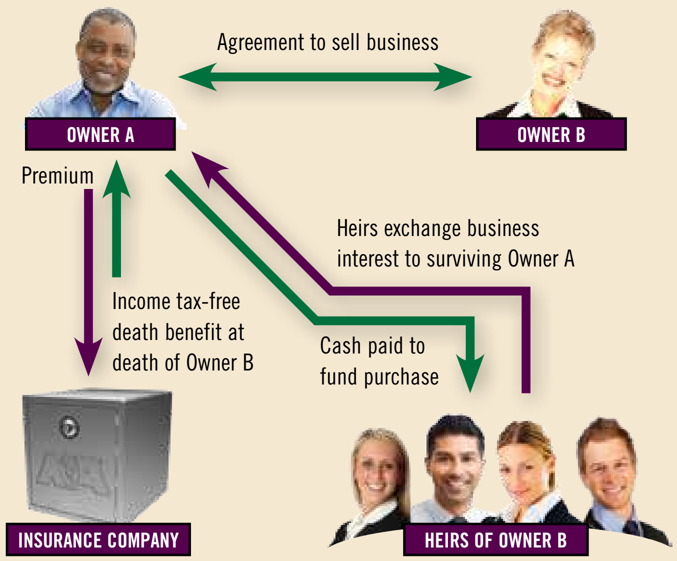
There are several methods to fund a buy-sell agreement, but coming up with the cash may not be possible. Life insurance is a cost-efficient, relatively simple way to do this, and the funding may not only be guaranteed, it's also generally tax-free.

HOW IT WORKS:

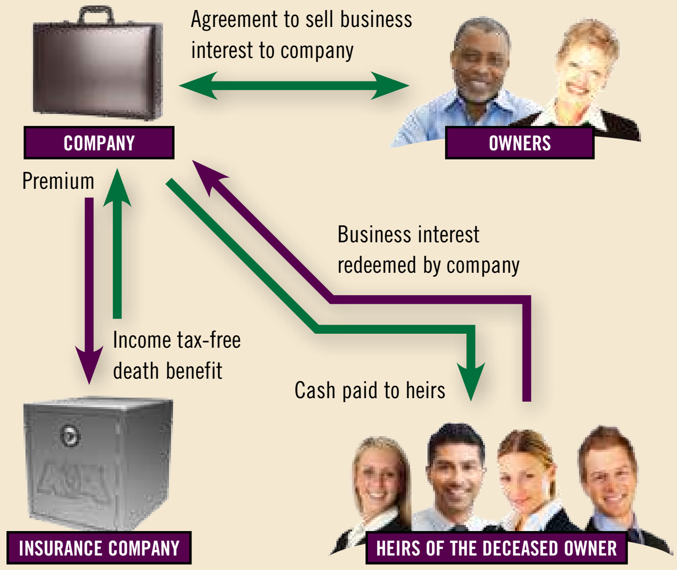
There are two ways a buy-sell agreement can work. The first is a Cross-Purchase Agreement:

First, each owner must sign a legal contract, called the Buy-Sell Agreement. This is a formal document prepared by a lawyer, not an insurance agent, which obligates the surviving owners to buy the shares of the company from the heirs of the owner that passes away—essentially buying any heirs out of the business. Next, each owner pays for, and is the beneficiary of life insurance on the other owners' lives. Finally, upon the death of an owner, the surviving owner receives the life insurance death benefit payment, and uses that money to buy the shares of the business now belonging to the deceased's heirs.

Cross-Purchase Agreement



Entity Purchase Buy-Sell Agreement



Another way buy-sell agreements work is with an Entity Purchase Buy-Sell Agreement:

Again, first, the company and owners must sign a legally drafted Buy-Sell Agreement, which obligates the company to buy the shares of an owner upon death. Next, the company purchases, owns, and pays premium on a life insurance policy on each of the owners. The company is named beneficiary of that life insurance policy. Upon the death of an insured owner, the company receives the death benefit payment, pays the deceased's heirs and transfers the business interest back to the company.

The choice between a Cross-Purchase Agreement and an Equity Purchase Buy-Sell Agreement will depend on the specific situation of the company, as there are advantages and disadvantages of each approach. A lawyer can help determine which arrangement is best for each specific situation.

Provide your clients with a solution to protect their business from the unexpected. Help them fund a buy-sell agreement with one of North American Company's products today.

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Case Study

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MEET ZACH AND ANDY

Zach and Andy are equal part shareholders of Grilling, Inc., a large retail store set up as a C-Corporation that supplies local chefs with high-end grilling gadgets.

Grilling, Inc., has been in business for a little over a decade and Zach and Andy are both very involved in the business' day to day operations. Andy manages the books and buying functions that keep the desired products on the shelves. Zach manages a staff of 10 (25 around the holidays), organizes scheduling, and oversees the promotional activities that the business engages in.

Due to the recent added success of the business, Zach and Andy decide it's time to engage in some business continuation planning in the event that one of them unexpectedly passes away. Both owners are married, have built the company from the ground up and none of their children are interested in the family trade.

They have discussed the desire to keep the ownership interest of Grilling, Inc. closely held and decide to engage in a Cross-Purchase Buy-Sell Agreement.[1] They also agree that they want flexibility in their planning and use the Builder IUL® indexed universal life insurance in the agreement as it's designed to accumulate long term cash value.

Zach, 35

Andy, 53

Scenario 1 – Death Trigger

Building the business for years has been a lot of hard work and Zach decides it's time for a vacation. On his way to a golf trip, Zach's plane experiences technical difficulties and crashes leaving no survivors. Thanks to the Buy-Sell agreement in place, Andy, as named beneficiary, is paid the death benefit from the policy owned on Zach's life and is able to buy out Zach's share of Grilling, Inc. from Zach's family. Despite the great loss to the business Andy is able to keep Grilling, Inc. running, and Zach's family isn't left with shares in a business they don't want.

Scenario 2 – Disability Trigger

Zach leaves early one morning to head into the store as the roads are especially icy due to freezing rain. On his way into work, Zach gets in a car accident that leaves him permanently disabled. Due to the disability, Zach isn't able to perform all of his job responsibilities and needs to step back from his involvement in the business. Any cash value accumulated from the Builder IUL policy helps Andy to partially buy out Zach's shares now, and he can use the policy to continue to make payments to Zach over time.

Scenario 3 – Retirement Trigger

Grilling Inc. has now been in business for 25 years and Andy considers taking an early retirement as the business has produced income beyond his initial expectations. He decides to spend more time with his family and agrees to sell Zach his stake in the business. Zach uses accumulated cash value from the policy on Andy's life to fund a down payment on the purchase, with an agreement to continue to make payments over time. Andy takes the money for retirement, and sells his interest in the business to Zach.

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Buy-Sell Client Worksheet

Business Name: ______________________________

Type of Business: ______________________________

- ☐ C Corporation
- ☐ S Corporation
- ☐ Limited Liability Company (LLC)
- ☐ Partnership
- ☐ Proprietorship
- ☐ Privately-Owned

Address: ______________________________

Phone: ______________ Phone 2: ______________

Fax: ______________ Fax 2: ______________

Email: ______________ Website: ______________

Accountant: ______________________________

Accountant Phone: ______________________________

Attorney: ______________________________

Attorney Phone: ______________________________

Approximate worth of business: ______________

Total assets of business: ______________

How long the buy-sell funding is needed: ______________

Is the business value expected to change? ☐ Yes ☐ No

Details: ______________________________

Conditions upon which buy-sell agreement will become operative:

- ☐ Death
- ☐ Disability
- ☐ Retirement
- ☐ Withdrawal from business
- ☐ Attempted sale or transfer
- ☐ Other ______________

Owner/Shareholder Information

Name: ______________________________

Date of birth: ______________________________

Underwriting class: ______________________________

% of business owned: ______________________________

Planned retirement age: ______________________________

Notes: ______________________________

Owner/Shareholder Information

Name: ______________________________

Date of birth: ______________________________

Underwriting class: ______________________________

% of business owned: ______________________________

Planned retirement age: ______________________________

Notes: ______________________________

Owner/Shareholder Information

Name: ______________________________

Date of birth: ______________________________

Underwriting class: ______________________________

% of business owned: ______________________________

Planned retirement age: ______________________________

Notes: ______________________________

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Buy-Sell Client Checklist

☐ Client has drafted plan with attorney

  ☐ Copy attached

☐ Plan is signed and executed by all parties

Triggers have been discussed and the following are financed:

- ☐ Death
- ☐ Disability
- ☐ Divorce
- ☐ Bankruptcy
- ☐ Retirement
- ☐ Other ________________________________

☐ Discussed changing value of the business and life insurance needs

Notes:

____

____

____

☐ Stock redemption, cross purchase, hybrid, or 3rd party? How many owners? (If more than 3 owners, individual ownership of policies may not be efficient.)

Notes:

____

____

____

☐ Considered a supplemental cash value growth plan along with life coverage

Notes:

____

____

____

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☐ Verified ownership and beneficiary designations of life policies are appropriate

Notes:

☐ Determined need for corresponding key person life insurance

Notes:

☐ Identified the decision maker in the organization

Notes:

☐ Obtained details of the agreement including the valuation formula

Notes:

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Funding a Buy-Sell Agreement with Life Insurance

Consumer Brochure

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HIGHLIGHTS	BUY-SELL AGREEMENT
Who can benefit?	Owner or stockholder in a closely held private company.
Why Life Insurance?	Life insurance guarantees assets will be available to fund the agreement for protection against unintended transfers of ownership, along with an opportunity for heirs to turn shares into a cash inheritance.
How does it work?	Surviving owners can purchase the deceased owner's share of the business – without taking out a loan, or giving up needed capital.

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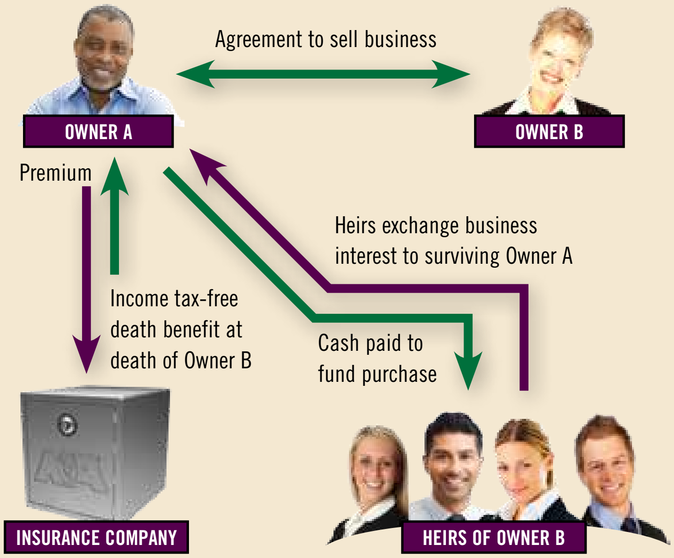
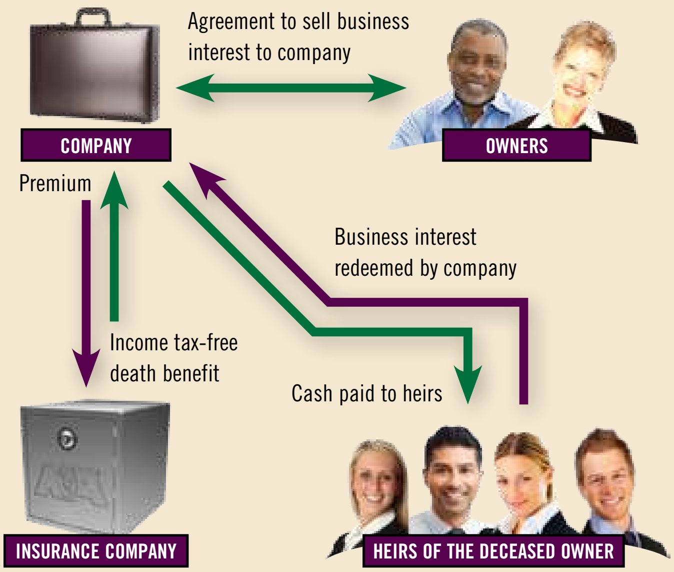


Entity Purchase Buy-Sell Agreement



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You've worked hard to make your business a successful one. Help to make sure it continues to be successful by planning for the unexpected. Contact your North American representative today to learn more about this essential business solution.

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Business Solutions

Key Person

Marketing Guide

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BUSINESS SOLUTIONS

Whether your clients own a large company or a small family-operated business, the success of any business depends on smart strategy and planning. It's important to protect your clients' hard work. North American Company offers business solutions to help ensure that all the effort and money invested in a business won't disappear when the unexpected happens.

KEY PERSON LIFE INSURANCE

Most companies have a person whose position is vital to the success of the business. A key person may be an owner, partner, or employee without whom your clients' business would suffer serious consequences, whether that be a loss of credit, loss of key accounts, diminished earnings, unexpected replacement costs and even the loss of remaining employees' confidence in the future of the company. Ultimately, every business will be in this position sooner or later, due to a death, disability, or if the key employee should decide to leave the company.

WHY LIFE INSURANCE?

From modest family operations, to multi-billion dollar corporations, the death of a key person can seriously cripple the stability of a business. With life insurance, the business can use the death benefit proceeds to cover the expense of hiring and training a replacement. If the key person becomes disabled or leaves the company, the policy's accumulated cash value could provide a source of income or money to find a replacement. Often times a key person is also an owner of the company. If an owner were to die, a life insurance policy can help to protect remaining owners from a forced sale or loss of control of the business. Life insurance can be a cost-efficient, relatively simple solution, and the funding may not only be guaranteed, it's generally tax-free.[1]

WHO CAN BENEFIT?

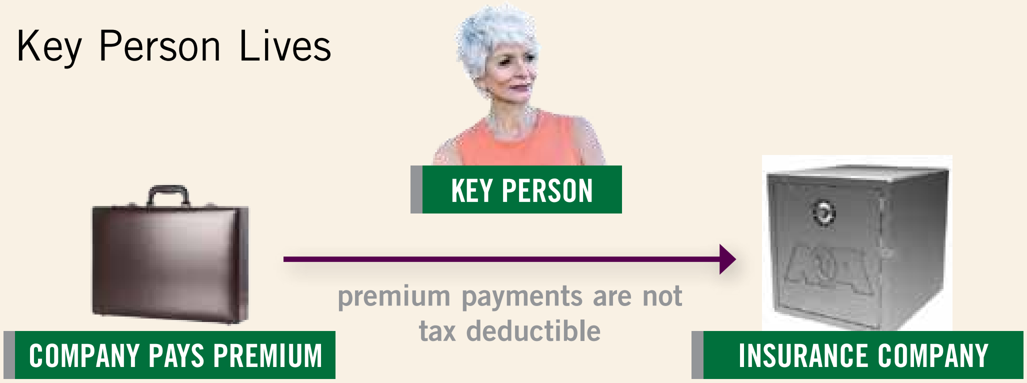
Purchasing key person insurance helps to protect business owners from shouldering the financial burden of replacing the deceased employee. Depending on how much the key person's contribution is worth to the business, it can be expensive and difficult to compensate that kind of loss to company operations. Surviving owners may have to borrow the funds necessary to hire and train a replacement at expensive interest rates, which could damage the business. It could mean liquidating business capital still needed by the business, which could also have negative impacts. Sometimes, borrowing isn't an option at all – especially when the stability of the company is now in question. Surviving owners could be forced to use their personal property – homes, cars, etc. – as collateral on a private loan. And ultimately, if none of these risky options work, the business could lose the confidence of outside investors, customers and employees.

HOW IT WORKS:

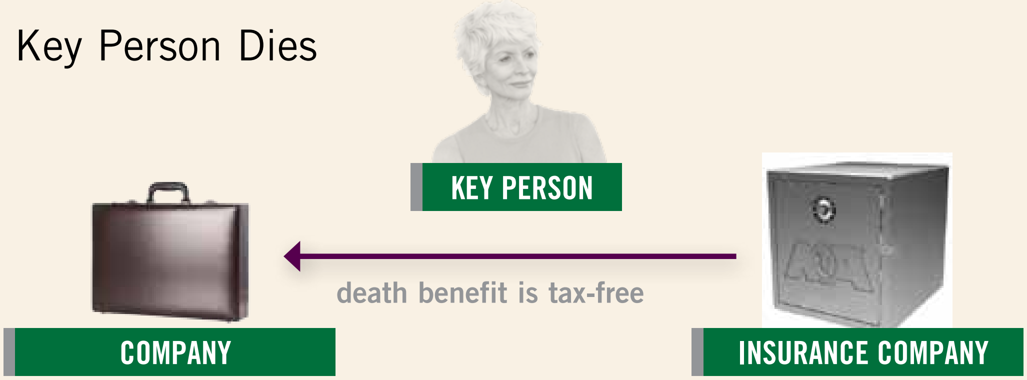
It’s simple. The business purchases a policy on the key employee’s life, pays the premiums, and is the beneficiary of the policy. If the key employee dies while the policy is still in force, the company receives the death benefit proceeds to help cover financial losses resulting from the employee’s death. These financial losses could include:

- Loss of managerial skill and experience
- Decrease in sales
- Adverse effects on production
- Restrictions on credit to the company
- Expense of recruiting and training a replacement

While Key Person Lives



When Key Person Dies



The accumulated cash value of the insurance policy can also be used while the key employee is still alive. If, for example, the employee becomes disabled, is terminated, or leaves the company voluntarily, the owner of the policy (the business) could use the cash value to help with the financial impact of the situation.[2]

Placing a dollar value on a key employee’s worth to a company can be difficult for clients. There are many things to consider, like the employee’s current salary, net business profits directly attributed to the key employee, and the employee’s future value to the company.

Your clients work hard to be successful in business. Help them plan for the unexpected with one of North American Company’s products today.

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Key Person

Case Study

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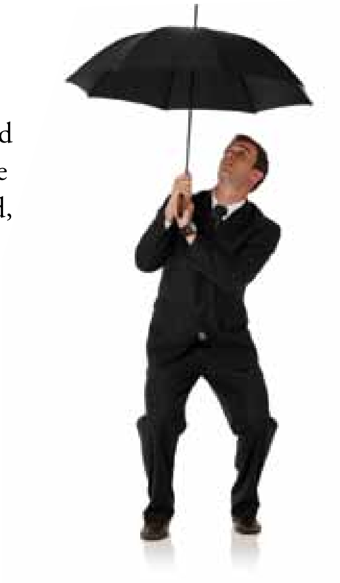
MEET TOM AND HOLLY

Technology Services Plus, Inc. (TSP) is an established company listed as an S-Corporation that provides IT services to small and medium sized businesses. Tom founded the company 15 years ago and has grown the original staff of three employees to over 40, spanning across four states. As the company has grown over the years, additional leadership has emerged to meet the demands of its customers. Holly has been the lead on a number of initiatives that play a big role in the company's future success. Not only has she proven her ability to get new offices running smoothly, but she's also responsible for maintaining TSP's employee training programs.

Aware of the value Holly adds to the company, Tom considers how the business would survive without her. Tom consults his insurance agent about protecting the business by purchasing a Key Person life insurance policy on Holly's life. After weighing his product options, Tom decides to purchase a Rapid Builder IUL® indexed universal life policy with the Waiver of Surrender Charge Option,[1] providing death benefit protection and unlimited access to accumulated cash value. Part of Holly's job entails launching new store locations. In the event of Holly's death, a delayed store launch could cost the company $200,000 - $400,000. A Key Person coverage amount of $400,000 would help mitigate this loss.

Scenario 1 – Death Trigger

Holly is leading the way toward opening the company's 6th store, when tragedy strikes and she is killed in a car accident. The news is devastating to Tom and others at TSP, who have prospered from Holly's friendship and professional guidance. In addition to losing a friend, the opening of the new store is now pushed back three months and ends up costing TSP over $300,000. Tom is able to find some sense of security in the Rapid Builder policy on Holly's life, as the death benefit proceeds can be used to offset recent costs to the business caused by the accident.

Scenario 2 – Holly Leaves the Company

Holly schedules an important meeting to notify Tom that her husband has accepted a new opportunity. The position requires them to relocate and Tom is losing one of his best employees in only two weeks! Holly's skill set is very specialized and TSP loses money for every day the new store isn't open so Tom decides to use a staffing firm to assist in the hunt for her replacement. Thanks to the Waiver of Surrender Charge Option, there's unlimited access to the cash value and TSP can cover the cost of the recruiting firm and any other losses the business may face.

Scenario 3 – Policy Provides Incentive for Holly

Tom is appreciative of all that Holly has done for TSP and approaches her on the value that she provides to the organization and his desire to reward her. He tells her he's setting up a bonus program through which he'll be funding a life insurance policy with significant cash value growth potential. The policy will vest to her after a period of years, which Holly may then use for supplemental retirement income purposes, legacy building, or other needs. Holly will receive this policy as a taxable compensation benefit. This plan gives Holly more incentive to stay with the company for the long term, and shows Tom's appreciation for the value she adds to TSP.

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Key Person Client Worksheet

Business Information

Business Name: ______________________________

Address: ______________________________

Phone: ______________ Fax: ______________

Email: ______________ Website: ______________

Accountant: ______________________________

Accountant Phone: ______________________________

Attorney: ______________________________

Attorney Phone: ______________________________

Total assets of business: ______________________________

Is the business value expected to change? ☐ Yes ☐ No

Details: ______________________________

Key Employee Information

Name: ______________________________

Title/Position within company: ______________________________

Date of birth: ______________________________

Underwriting class: ______________________________

% of business owned: ______________________________

Planned retirement age: ______________________________

Notes: ______________________________

Clients look to key person rather than company: ☐ Yes ☐ No

Explain:______________________________

Key person has high profile in industry and/or with stockholders: ☐ Yes ☐ No

Explain:______________________________

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Key person has important connections: ☐ Yes ☐ No

Explain:____

Sales and Operations

In a sales position, the key person is (check all that apply):

☐ High producer ☐ Leader/motivator of sales team ☐ Personally responsible for key clients

Key person is actively involved in planning/organizing business direction and future initiatives: ☐ Yes ☐ No

Explain:____

Specializations

Key person has rare or specialized skills/talents: ☐ Yes ☐ No

Explain:____

Key person has deep/wide industry experience: ☐ Yes ☐ No

Explain:____

Key person is responsible for research and development: ☐ Yes ☐ No

Explain:____

Replacement

Key person would be difficult to replace quickly: ☐ Yes ☐ No

Explain:____

Key person would be costly to replace: ☐ Yes ☐ No

Explain:____

Position requires a lengthy training period: ☐ Yes ☐ No

Explain:____

Key Person Current Salary (including benefits/incentives):

$______________________________

Key Person Insurance Coverage Required:

____

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Key Person Agent Checklist

Identify all key people. This may include anyone whose loss would have a direct or indirect financial impact on the company.

KEY PERSON ROLE	NAME	SALARY
High-level executives		
Key relationship contacts		
Specialized skills		
Specialized knowledge		
Key sales and marketing		
Managers and directors		
Special project coordinators		
Owners		
Other		

Identify types of potential financial loss. Losses to the organization may include:

TYPE OF LOSS	ESTIMATED COST
Cost of temporary replacement	
Cost of recruiting/training permanent replacement	
Profit losses due to decreased sales	
Profit losses due to delay or cancelation of project	
Replacement/outsourcing of specialized knowledge	
Loss of corporate value to stockholders/share holders	
Loss of guarantee on business loans	
Business continuity (loss of an owner)	

Identify coverage length.

☐ Short-term ______________________________

☐ Long-term ______________________________

☐ Ongoing ______________________________

Identify type of coverage:

☐ Term life insurance

☐ Universal life insurance (without cash value)

☐ Universal life insurance (with cash value)

Discuss planning for future needs of the company.

Notes:

____

____

____

Determine valuation method:

☐ **Multiples of Income Method –** By simply multiplying the key employee's salary by about 5 – 7 years, this method is both common and easy to use.

☐ **Replacement Cost Method –** Based directly on the incurred costs associated with a replacement (i.e. salary, ongoing expenses for hiring, training, as well as costs associated with lost revenue).

☐ **Contributions to Earnings Method –** Calculated based on the amount of profits (%) directly contributed by the key employee. This figure is then multiplied by the number of years needed to train a replacement (e.g. 40% of company profits x 3 years of training = ____________).

Estimate total of coverage needed: ______________________________

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Key Person

Consumer Brochure

KEY PERSON

Whether you own a large company or a small family-operated business, the success of your business depends on smart strategy and planning. It's important to protect your hard work. North American Company offers business solutions to help ensure that all the effort and money invested in a business won't disappear when the unexpected happens.

HIGHLIGHTS	KEY EMPLOYEE PROTECTION
Why life insurance?	Life insurance provides funds to cover the loss of a key employee.
Who can benefit?	Employer, owner, or stockholder in a closely held private company.
How does it work?	The company/employer is named beneficiary of the policy, and collects the death benefit upon key employee's death.

Key Person Life Insurance

Most companies have a person whose position is vital to the success of the business. A key person may be an owner, partner, or employee without whom your business would suffer serious consequences, whether that be a loss of credit, loss of key accounts, diminished earnings, unexpected replacement costs and even the loss of your remaining employees' confidence in the future of the company. Ultimately, every business will be in this position sooner or later, due to a death, disability, or if the key employee should decide to leave the company.

Why Life Insurance?

From modest family operations, to multi-billion dollar corporations, the death of a key person can seriously cripple the stability of a business. With life insurance, the business can use the death benefit proceeds to help cover the expense of hiring and training a replacement. If the key person becomes disabled or leaves the company, the policy's accumulated cash value could provide a source of income or money to find a replacement. Often times a key person is also an owner of the company. If an owner were to die, a life insurance policy can help to protect remaining owners from a forced sale or loss of control of the business. Life insurance can be a cost-efficient, relatively simple solution, and the funding may not only be guaranteed, it's generally tax-free.[1]

Who Can Benefit?

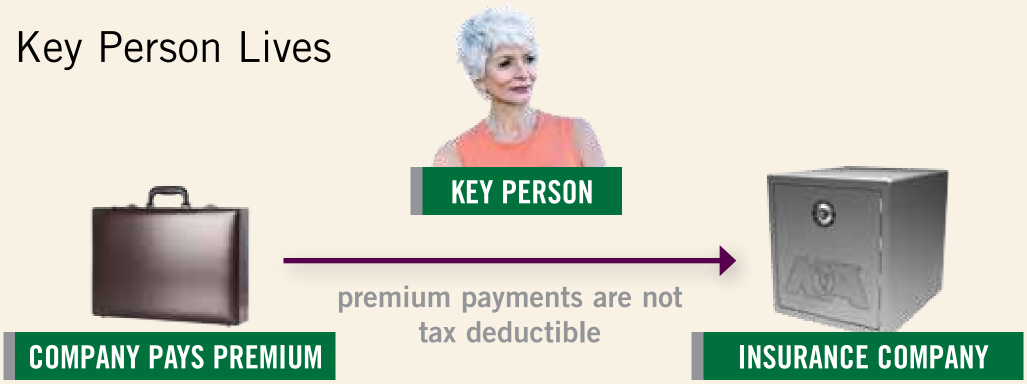
Purchasing key person insurance helps to protect business owners from shouldering the financial burden of replacing the deceased employee. Depending on how much the key person's contribution is worth to the business, it can be expensive and difficult to compensate that kind of loss to company operations. Surviving owners may have to borrow the funds necessary to hire and train a replacement at expensive interest rates, which could damage the business. It could mean liquidating business capital still needed by the business, which could also have negative impacts. Sometimes, borrowing isn't an option at all – especially when the stability of the company is now in question. Surviving owners could be forced to use their personal property – homes, cars, etc. – as collateral on a private loan. And ultimately, if none of these risky options work, the business could lose the confidence of outside investors, customers and employees.

How It Works:

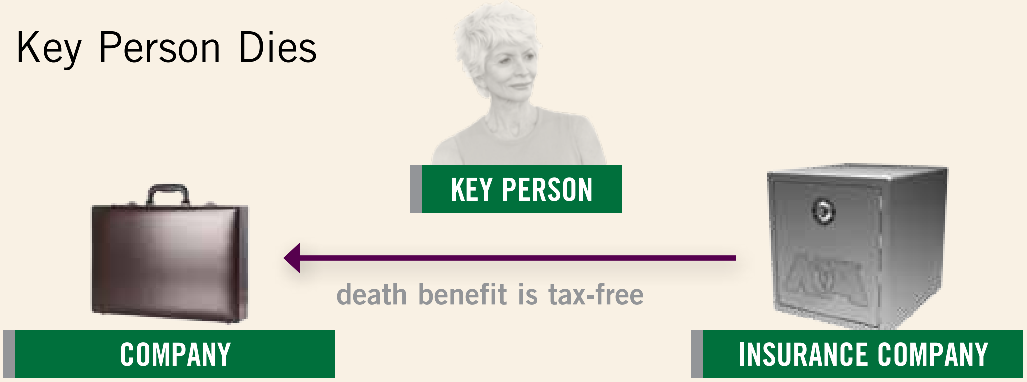
It's simple. The business purchases a policy on the key employee's life, pays the premiums, and is the beneficiary of the policy. If the key employee dies while the policy is still in force, the company receives the death benefit proceeds to help cover financial losses resulting from the employee's death. These financial losses could include:

- Loss of managerial skill and experience
- A decrease in sales
- An adverse effect on production
- A restriction on credit to the company
- Expense of recruiting and training a replacement

While Key Person Lives



When Key Person Dies



The accumulated cash value of the insurance policy can also be used while the key employee is still alive. If, for example, the employee becomes disabled, is terminated, or leaves the company voluntarily, the owner of the policy (the business) could use the cash value to help with the financial impact of the situation.[2]

Placing a dollar value on a key employee's worth to a company can be difficult. There are many things to consider, like the employee's current salary, net business profits directly attributed to the key employee, and the employee's future value to the company. Your North American agent can help you estimate how much life insurance is right for your company's particular needs.

You've worked hard to make your business a successful one. Help ensure it continues to be successful by planning for the unexpected.

Contact your North American representative today to learn more about this essential business solution.

North American Company for Life and Health Insurance has been providing quality life insurance products since 1886. As one of the leading life insurance companies in the U.S., we'll make it as easy as possible for you to become one of our insureds. Please visit our Website at www.NorthAmericanCompany.com to find out more about our company.

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1 Neither North American Company for Life and Health Insurance nor its agents give legal or tax advice. Please consult with and rely on a qualified legal or tax advisor before entering into or paying additional premiums with respect to such arrangements.

2 Income and growth on accumulated cash values is generally taxable only upon withdrawal. Adverse tax consequences may result if withdrawals exceed premiums paid into the policy. Withdrawals or surrenders made during a surrender charge period will be subject to surrender charges and may reduce the ultimate death benefit and cash value. Surrender charges vary by product, issue age, sex, underwriting class, and policy year.

North American Company
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412(e)(3)
DEFINED BENEFIT PLAN

Producer Guide

TRANSAMERICA
INSURANCE & INVESTMENT GROUP

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412(e)(3) Defined Benefit Plans Funded With Transamerica Life Insurance Company and Transamerica Financial Life Insurance Company ("Transamerica") Products Offer a Variety of Planning Opportunities

With guaranteed values, large tax deductions for business owners, and flexible exit strategies at retirement, it's easy to see why Transamerica's approach to 412(e)(3) is such an attractive option.

As a result of market fluctuations, many clients may not meet all of their retirement goals based solely on investments in stocks and bonds. To solve this problem, many clients use an Internal Revenue Code (IRC) Section 412(e)(3) defined benefit plan (412(e)(3) plan) to provide a guaranteed income stream at retirement. Plans may be funded exclusively with an annuity contract such as TransFreedom® II or TransFreedom® II NY or with a combination of an annuity and life insurance.[1] Financially strong life insurance companies such as Transamerica can help guarantee this retirement income.

This type of plan typically offers larger income tax-deductible contributions in the early years than might be available with a traditional defined benefit plan. In addition, because 412(e)(3) plan benefits are based on product guarantees, they are not subject to the same minimum funding requirements that apply to traditional defined benefit plans. This simplifies the cost and administration of 412(e)(3) plans.

For those clients with inadequate life insurance protection, a 412(e)(3) plan can offer life insurance coverage on a pre-tax basis. For this need, Transamerica developed TransSecure® II and TransSecure® II NY, interest-sensitive whole life policies for those in the 412(e)(3) market who want to add life insurance protection to a plan.[2] If life insurance is offered in the plan, the insured participant will recognize the term costs (the economic benefit) as additional income on an annual basis, but his/her beneficiaries can then receive the death benefit in excess of the policy cash surrender value federal income tax-free. The policy cash surrender value would be taxable like other distributions from the plan. The following discussion assumes that both a TransFreedom II or TransFreedom II NY annuity and a TransSecure II or TransSecure II NY life insurance policy will be used in the 412(e)(3) plan.

TransFreedom II and TransFreedom II NY are flexible premium, deferred fixed annuities available for new sales in IRC Section 412(e)(3) defined benefit plans.[1] They offer a guaranteed minimum annual interest rate of 1.5% (1-3%* in New York), have a seven-policy-year surrender charge period, and offer settlement options based on the Annuity 2000 table, with 2% interest. The 412(e)(3) plan trustee also agrees on a fixed, level premium schedule by an agreement between the plan and Transamerica, as required by IRC Section 412(e)(3).

TransSecure II and TransSecure II NY are limited pay, fixed premium, interest-sensitive whole life insurance policies.[2] What sets them apart from most whole life insurance products is the option to select a guaranteed premium pay period to meet the objectives of clients. Premium payment periods include a one-pay period and limited pay periods that may range from a minimum of 5 policy years to a maximum period of payment to age 65 or, if later, 10 policy years. The elected pay period will have a fixed premium and will guarantee coverage for life, subject to policy provisions. The products feature a low minimum face amount and a guaranteed level premium, combining some of the best features of whole life and universal life insurance.

** For New York a new rate is established for policies issued between 10/1 of that year and 9/30 of the next year. The minimum guaranteed interest rate will be at least 1% but not more than 3% and will apply for the life of the policy.*

Using a Section 412(e)(3) Plan to Guarantee a Retirement Income Stream

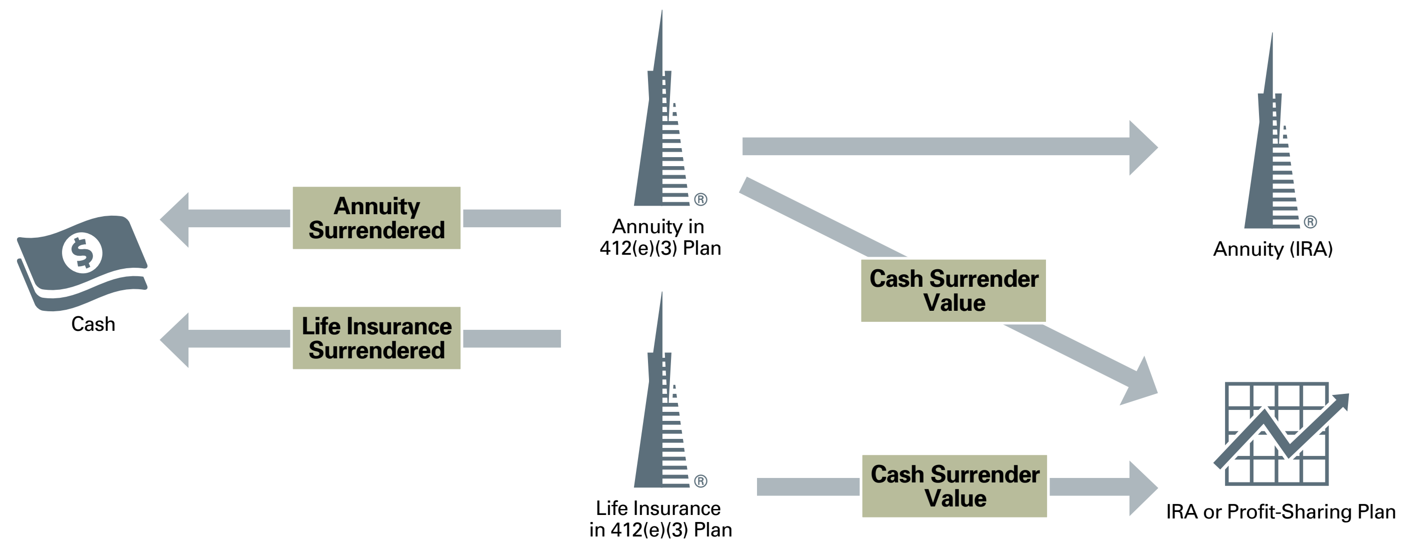
Clients considering a Section 412(e)(3) plan typically would like to guarantee their retirement income. At retirement, the plan participant would receive a monthly income for life or for the lifetimes of the participant and spouse. The contribution needed to fund this monthly income is determined at the inception of the plan using the underlying policy guarantees for interest credits and charges/expenses for TransFreedom II, TransFreedom II NY, TransSecure II, and TransSecure II NY. These guarantees, along with potential interest credits in excess of the guarantee, determine the plan's future annual funding requirements.

If the plan's retirement income option is selected, both the annuity and life insurance applicable cash values will be used to provide the income stream, eliminating the pre-retirement life insurance protection. Depending upon the participant's individual insurance objectives, the participant may have to replace the life insurance protection outside the plan using after-tax dollars. The income stream from the plan may be used to pay the premiums. In most cases, the participant must then undergo underwriting for the desired amount of insurance and pay premiums based on his/her current age.

Section 412(e)(3) Can Offer Other Options

Some plan participants find themselves in the fortunate position of not needing an income stream at retirement or at separation from service. In this case, the plan typically may allow them to select a lump-sum equivalent to the plan's promised income stream. The plan participant can then roll over the lump-sum equivalent to either another qualified plan, such as a profit-sharing plan, or to an Individual Retirement Account/Annuity (IRA). Note that an IRA cannot own a life insurance policy, so if a life insurance policy is involved in the distribution, it cannot be rolled over to an IRA but can generally be rolled over to a profit-sharing plan.

Plan Participant Retires or Separates from Service—Life Insurance Protection No Longer Needed



This scenario might present some unique planning options, depending upon the client's individual situation. Let's review several options that might be available for the plan participant either retiring or separating from service with a fully vested retirement plan benefit. Keep in mind that the plan may require from one to seven years of plan participation or service with the employer before the plan participant will be fully vested. For a 412(e)(3) plan participant, the accrued benefit is equal to the sum of the annuity and the life insurance policy cash surrender values.

Life Insurance Protection No Longer Needed

If, by the time the plan participant retires or separates from service, he/she no longer needs any life insurance protection, the plan trustee can surrender the life insurance policy, recognizing company-imposed surrender charges if applicable. Alternatively, the plan participant could roll over the cash from the life policy into an IRA or a profit-sharing plan, if the plan permits. The annuity contract could be distributed to the plan participant or it could be surrendered, subject to company-imposed surrender charges. In addition, with the consent of Transamerica, the TransFreedom II or TransFreedom II NY annuity can be reclassified as an IRA.

The choice of which rollover arrangement to use will depend on a variety of factors, including whether or not the former plan participant is currently employed and if so, whether the entity then employing the individual offers a profit-sharing plan that accepts rollovers. Assuming an IRA is used, the plan participant may choose to keep the current annuity contract (if we consent to recharacterizing the annuity as an IRA) with its minimum contractual guarantees or may elect to rollover the surrender value of the annuity to a custodial account offered by many financial institutions. This can allow the former plan participant to manage the funds within the IRA in a way that meets his/her risk tolerance and objectives.

When Life Insurance Is Needed

In many cases, former plan participants will still need the life insurance protection that was offered by the 412(e)(3) plan. Upon separation from service and taking the distribution from the plan, the former participant may have several options depending upon the plan document:

1 Receive the Policy as a Plan Distribution

In this scenario, the former plan participant would pay income tax on the policy's fair market value at the time of distribution. If the individual has recognized the economic benefit of the life insurance protection as income, he/she could claim this cost as basis in the policy, thus reducing the recognition of income upon distribution.

- Policy ownership transferred as plan distribution
- Income tax paid by participant on fair market value of policy less cost basis

2 Roll the Life Insurance Policy to a Profit-Sharing Plan

Under this option, the individual must be employed by an entity that sponsors an active profit-sharing plan which permits the purchase of life insurance policies and accepts rollovers. The life insurance policy cannot be the only asset in the participant's plan account, as life insurance must be incidental to the purpose of the plan, which is to provide retirement benefits.

- Policy transferred directly to PSP
- Not a taxable distribution

3 Purchase from the Profit-Sharing Plan

Finally, if the former plan participant is participating in a profit-sharing plan, the policy could be transferred to the profit-sharing plan from the 412(e)(3) plan as a tax-free rollover and then sold by the profit-sharing plan to the plan participant. The purchase is normally a prohibited transaction, but Prohibited Transaction Exemption 92-6 issued by the Department of Labor allows a plan participant and certain other parties to purchase a life insurance policy from a qualified plan for at least its cash surrender value if certain conditions are met.

However, if the party purchasing the policy pays only the cash surrender value for the policy, the difference between the amount paid and the policy's fair market value may be a taxable distribution from the plan to such party or the plan participant. Such taxable distributions may have other effects, including plan disqualification. Thus, the purchase may need to be at the policy's fair market value if that exceeds the cash surrender value. In 2005, the Internal Revenue Service (IRS) issued guidance on the fair market valuation of a policy in a qualified retirement plan.

Revenue Procedure 2005-25

This revenue procedure, issued April 8, 2005, provides guidance on how to determine the fair market value of a life insurance contract for the purposes of applying the rules of IRC §§ 79, 83, and 402. This notice modifies and supersedes Rev. Proc. 2004-16, issued on February 13, 2004, which initially determined the safe harbor formula for fair market value of a life insurance contract to be "premiums paid, plus earnings, and minus reasonable charges."

To determine the fair market value of a life insurance contract, Rev. Proc. 2005-25 provides two safe harbor formulas. Final regulations issued by the IRS allow the use of these safe harbor formulas. The fair market value is the greater of:

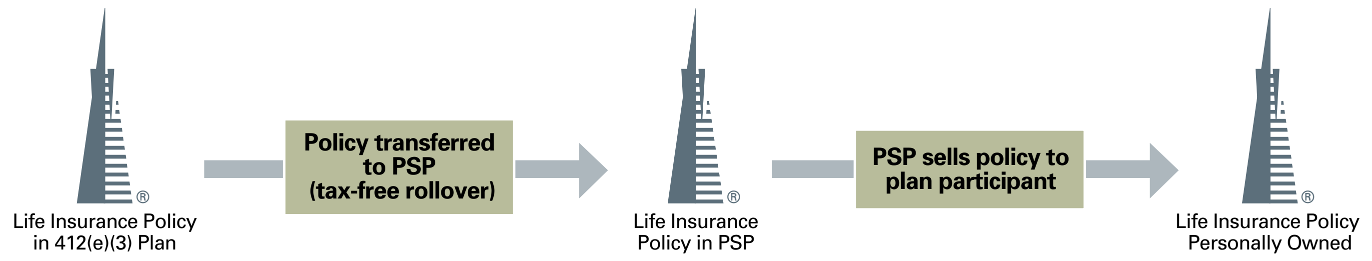
- The sum of the interpolated terminal reserve and any unearned premiums plus a pro rata portion of a reasonable estimate of dividends to be paid for that policy year based on company experience OR
- The product of the PERC amount (premiums and earnings, less reasonable charges) and the applicable Average Surrender Factor described in Rev. Proc. 2005-25.

Please note that there are differences in the definition of PERC between variable and nonvariable contracts.

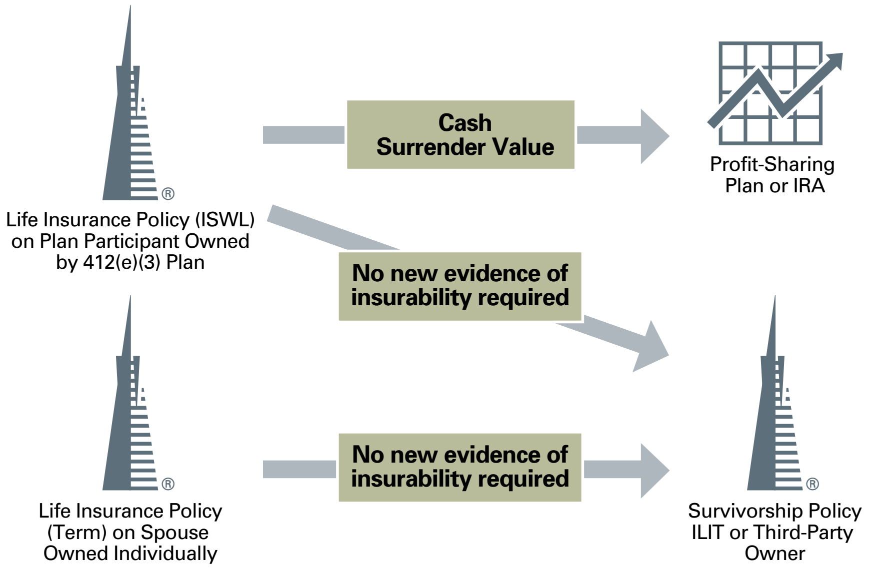
Change of Policy to Meet New Needs

In some situations, where the individual still needs life insurance protection after retirement, the interest-sensitive whole life policy used in the 412(e)(3) plan may no longer be ideal for his/her situation. With TransSecure II or TransSecure II NY, the policy could be surrendered and, under current company practice a new, current-dated survivorship policy could be issued covering both the insured and his/her spouse for the same net amount at risk (the policy's current death benefit minus the current accumulation value immediately before surrender) without new evidence of insurability on the insured, as is typically required for a new life insurance policy. The non-participant spouse would need to provide evidence of insurability. The company practice is not a contract guarantee and may be changed or eliminated by the company at any time.

Plan Participant Retires or Separates from Service—Purchases the Policy from Profit-Sharing Plan (PSP)



Buying Spousal Protection for Estate Planning



Why Change the Life Insurance Policy?

While participating in the 412(e)(3) plan, the life insurance policy will provide a benefit should the insured die before retirement. However, the life insurance goals of the insured may change once he/she has either retired or is no longer participating in the plan, and an individual death benefit may no longer be ideal for his/her situation.

Instead, the focus might now be on estate planning and the need to have life insurance paid at the second death for estate liquidity. Although not provided in the policy, it is current company practice to protect the individual's insurability for a new survivorship policy and to allow the owner of the survivorship policy to be a third party, such as the insured or an irrevocable trust.

Buying Spousal Protection for Estate Planning

When a need for survivorship life insurance exists, one planning option is to purchase a term life insurance policy at some time prior to retirement or termination of employment on the non-participant spouse for the same face amount as the TransSecure II or TransSecure II NY policy.[3] When the survivorship policy is needed, under current company practice, no evidence of insurability will be required on the non-participant spouse if the face amount of the survivorship policy is the same or lower than the existing term coverage on the non-participant spouse, subject to maximum conversion age and current underwriting class on the term policy, if available on the survivorship policy.[3] The new policy will be based on the insured's and spouse's current ages at the time of conversion. Again, a company practice is not guaranteed to continue. The Company may change it or eliminate it at any time.

The new survivorship policy will often be owned by an irrevocable trust or the adult children of the insureds. If owned by one of these third parties, gifting strategies would need to be developed.

In order to issue the new survivorship policy, the TransSecure II or TransSecure II NY policy must be surrendered. Then, the former plan participant/insured can roll over the cash surrender value into a profit-sharing plan or IRA and have it managed for future growth, while knowing he/she has a new survivorship life insurance policy that meets his/her current insurance needs.

Keeping Insurance on the Individual

If a survivor policy does not meet the goals of the former insured plan participant, another option available with TransSecure II or TransSecure II NY is to exchange the policy for a single insured universal life insurance policy under the Coverage Continuation Option endorsement. This new flexible premium policy would provide coverage on the insured without new evidence of insurability.
The new policy will provide insurance with a face amount equal to the face amount of the TransSecure II or TransSecure II NY policy. This election can take place only when the TransSecure II or TransSecure II NY policy is no longer part of a 412(e)(3) plan and beginning in the eighth policy year.

The new policy will have the same policy date as the TransSecure II or TransSecure II NY policy. As a result, the new policy's surrender charges will be "point in scale." Of course, the universal life policy will require new premiums in order to keep it in force.

Flexibility Is Key

Clients' objectives can change over time and it's important that they have options available when planning for their retirement. By providing these flexible options, Transamerica is delivering valuable benefits to 412(e)(3) plan participants that can even help them with their estate planning goals. For a 412(e)(3) proposal or more information about our products, insurance producers can contact their Transamerica representative.

Transamerica's Advanced Marketing department is committed to providing you with the consulting expertise and powerful resources to help you serve the goals of clients and grow your business. To access a wide array of planning tools, resources, and human help, visit our TransACT® portal at www.tatransact.com or call toll-free at 1-877-ADV-MRKT (238-6758) today.

[1] TransFreedom® II (Form #AF715 101 186 104) is a flexible-premium deferred fixed annuity issued by Transamerica Life Insurance Company, Cedar Rapids, IA 52499. Policy form and number may vary, and this policy may not be available in all jurisdictions. TransFreedom® II NY (Form #AF769 101 191 0504) is a flexible-premium, deferred fixed annuity issued by Transamerica Financial Life Insurance Company, Purchase, NY 10577. This policy is available only in New York.

[2] TransSecure® II (Policy Form #s 1-18011108, ICC08-180) and Transecure II® NY (Policy Form # 3-18038108) are nonparticipating, limited payment, fixed premium, interest-sensitive, whole life insurance policies issued by Transamerica Life Insurance Company, Cedar Rapids, IA 52499 or Transamerica Financial Life Insurance Company, Purchase, NY 10577. Policy form and number may vary, and policies may not be available in all jurisdictions.

[3] Term and survivorship life insurance policies are issued by Transamerica Life Insurance Company, Cedar Rapids, IA 52499, or Transamerica Financial Life Insurance Company, Purchase, NY 10577. These products may not be available in all jurisdictions.

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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 take into consideration the general tax and ERISA provisions applicable to qualified defined benefit retirement plans or consider the impact of the applicable state laws of clients and prospects.

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Transamerica Financial Life Insurance Company is authorized to conduct business in New York. Transamerica Life Insurance Company is authorized to conduct business in all other states.

Non-Qualified 401(k) Look-Alike Plan

Start Selling!

ING Corporate VUL

Issued by Security Life of Denver Insurance Company

Do your clients need to be able to attract and retain top performers? Do they need a plan that can be implemented with a qualified plan or stand on its own? Are you working with business owners who need to keep a sharp eye on their balance sheet? A **Non-Qualified 401(k) Look-Alike Plan** funded by an ING Corporate Variable Universal Life (ING CVUL) insurance policy could work for you and your clients.

Client Profile

Client: 20 Executives

Age range: 41 to 62

Underwriting Class: Male and Female, nonsmoker
Select GI Rates assumed

Deferrals range from $6,600 to $36,000

Corporate contributions 50% of deferrals

Retirement at age 65

Benefits paid for 15 years

Benefit rate of 8% assumed

Level death benefit, CVAT

Death Benefits are all base

Death Benefits range from $282,000 to $570,000

Situation: Using an equal premium aggregate funded design the group qualifies for Guaranteed Issue underwriting*

First year premium of $437,760

Assuming Select GI nonsmoker rates, first year cash surrender value of $447,403**

Plus these advantages:

- Potential for strong cash value growth
- No surrender charges
- Zero net cost of policy loans after year 10
- Adjustable Term Rider
- Over 55 variable investment options from leading investment management firms
- Strong asset allocation solutions
- Three death benefit options
- Overloan Lapse Protection Rider

*Guaranteed Issue offers are based on the number of lives, the ages and the amount of funding. Please contact our Executive Benefits Underwriters for more information. This design is based on current assumptions and projections and is not guaranteed.

**Please note that these results are based on current charges and a hypothetical net rate of return of 8% (gross rate of 8.67% net of weighted average charges) and are not guaranteed. Assuming the maximum guaranteed policy costs and a zero gross hypothetical return, the first year cash surrender value is only $354,657. This is for illustrative purposes only.

LIFE

ING

Your future. Made easier.®

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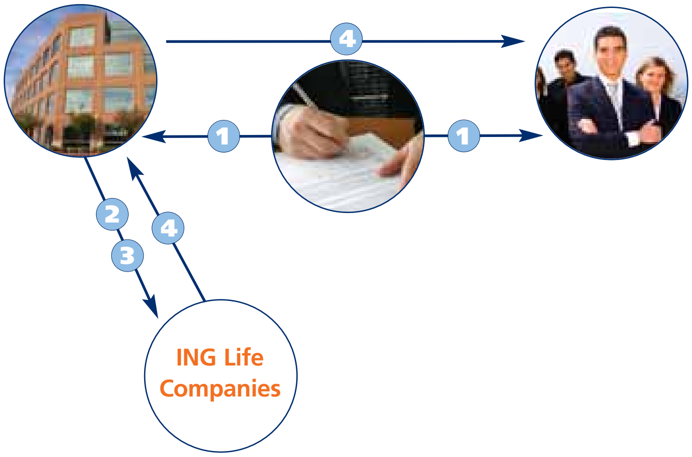
401(k) Look-Alike arrangements can be implemented through the following steps:

How Does It Work?

1. The business and the executive agree that supplemental retirement income is an important component of the executive's total compensation package. The parties execute an agreement that spells out the details of the 401(k) Look-Alike Plan. Each calendar year the executive elects to defer a portion of current compensation prior to the period of service in which the compensation will be earned. The employer has the right to set limits on the deferral amount. This illustration assumes the employer matches the deferral by 50%, but again the employer has the right to choose to make a contribution to the plan or not.
2. The business acquires a life insurance policy on the executive's life. The policy serves as an informal funding vehicle for the benefit liability.
3. The business pays premiums on the life insurance policy. These premium payments are not deductible to the business, nor are they treated as income to the executive (so long as the arrangement complies with IRC § 409(A)). The policy serves as an informal funding vehicle for the benefit liability.
4. At the executive's retirement, the business may use the policy's cash values through policy loans and partial withdrawals to pay the benefit owed to the executive.[1] Alternatively, in the event of a premature death, the death proceeds of the policy can be used to provide benefits to the executive's survivors. The retirement payments will be treated as ordinary income to the executive and as a deductible expense to the company (assuming the benefit is within reasonable compensation limits).



Death benefits paid to the executive's survivors are also treated as ordinary income - Income in Respect of Decedent (I.R.D.) and as a deductible expense to the company (assuming the benefit is within reasonable compensation limits).

Best of all these designs are easy to illustrate using ING Presents!

To learn more about 401(k) Look-Alike Plans call ING Life Sales Support at

1-866-ING-SELL (866-464-7355).

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[1] Policy loans and partial withdrawals may vary by state, reduce available surrender value and death benefit or cause the policy to lapse. Generally, policy loans and partial withdrawals will not be income taxable if there is a withdrawal to the cost basis (usually premiums paid), followed by policy loans (but only if the policy qualifies as life insurance, is not a modified endowment contract and is not lapsed or surrendered).

IRC 101(j) provides that death benefits from an "employer-owned life insurance" policy are income taxable in excess of premiums paid, unless an exception applies and certain notice and consent requirements are met before the policy is issued. Additionally, life insurance owned by a C corporation may result in alternative minimum tax under certain limited circumstances. Clients should consult their tax or legal advisors for more information.

Before investing, your clients should carefully consider their need for life insurance coverage and the charges and expenses of the variable universal life insurance policy. They should also carefully consider the investment objectives, risks, fees and charges of each underlying variable investment option. This and other information is contained in the prospectuses for the variable universal life insurance policy and the underlying variable investment options. Your clients can obtain these prospectuses from you or by calling 877-253-5050 and they should read them carefully before investing.

Variable insurance products are subject to investment risk, are not guaranteed and will fluctuate in value. In addition, there is no guarantee that any variable investment option will meet its stated objective.

Variable insurance products are offered by prospectus only. To solicit variable insurance products you must maintain a variable insurance license and be a registered representative of a broker-dealer that has a current selling agreement with the issuing company.

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All guarantees are based on the financial strength and claims paying ability of Security Life of Denver Insurance Company, who is solely responsible for all obligations under its policies.

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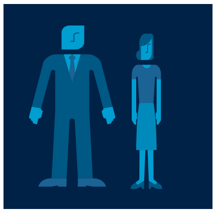

Business Strategies Planner

FACT FINDER

Initial Business Discussion

Important Notes

This Planner is designed by The Prudential Insurance Company of America to help you better identify your potential business life insurance needs. This material is designed to provide general information in regard to the subject matter covered. It should be used with the understanding that it does not constitute legal, accounting or tax advice. Such services should be provided by your own legal, accounting and tax advisors. Accordingly, information in this document cannot be used for purposes of avoiding penalties under the Internal Revenue Code.

Life insurance is issued by The Prudential Insurance Company of America and its affiliates. All are Prudential Financial companies located in Newark, NJ, 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. Your financial professional can provide you with costs and complete details. The availability of other products and services varies by carrier and state.

The financial professional using this material may be an agent operating under his or her own firm, which is not an affiliate of Prudential Financial, or may be an independent broker. The financial professional may sell life insurance products of Prudential Financial's affiliated life insurance companies in addition to other life insurance companies' products. The financial professional is authorized to use this material to sell and service certain life insurance products of Prudential Financial's affiliated life insurance companies.

Prudential
Bring Your Challenges®

Initial Data and Notes

You know the challenge of running a business and attracting and retaining the quality people who can contribute to its success. You also recognize the benefits that your business can provide to both you and your family. To maximize those benefits, you'll need to make some key decisions.

To prepare for the future and keep your company running smoothly, you need practical business strategies that address such questions as:

- **How can I attract** the most highly skilled employees and keep them?
- **What is the best way** to help ensure that my key executives will remain with the company?
- **What must I do now** to help ensure that my family will benefit from my business when I'm gone?
- **How can my business help** me attain a comfortable retirement?

Questions:

ANY QUESTIONS BEFORE WE START?

TELL ME ABOUT YOUR BUSINESS. HOW DID YOU GET STARTED AND WHEN?

Business Data:

Business Name / Address:

NAME:

ADDRESS:

Business Attributes:

[1]TYPE OF ENTITY:

OF OWNERS:

BUSINESS INCOME:

[2]NON OWNER PAYROLL

[3]Key Employees	FAMILY	Salary	M/F	Owner%	Date of Birth	Underwriting	Existing Life Ins.
	☐						Term ☐ Perm ☐
	☐						Term ☐ Perm ☐
	☐						Term ☐ Perm ☐
	☐						Term ☐ Perm ☐
	☐						Term ☐ Perm ☐
	☐						Term ☐ Perm ☐
	☐						Term ☐ Perm ☐

Existing Strategies:

☐ Key Person Insurance?

☐ Funded Buy-Sell Agreement?

☐ Qualified Retirement Plan?

☐ Non Qualified Executive Benefits?

☐ Health / Post Retirement Health?

☐ Group Life, Disability, LTC?

What Keeps You Up at Night?

CONCERNS

1st

2nd

3rd

4th

NOTES

INITIAL DISCUSSION

High Level View

Businesses not only come in all different shapes and sizes, but at different stages of life.

Let's review a few questions to better identify your business status, concerns and priorities.

☐ [4]Do you have management depth? If so, could they take over the ropes?

Describe the business management depth? MANAGEMENT DEPTH

Management depth (key employees) is necessary for business continuation purposes and will increase the business value.

Key People Strategies

What might the impact on the business be if one or more key employees died unexpectantly?

☐ √ If you're concerned? If so, life insurance can protect this risk. 1-5 TIMES SALARY

☐ [5]Are your key employee's value to the business insured?

☐ [6]Can the business provide pre or post retirement death benefits?

☐ Any corporate owned life ins. policies purchased after 8/17/2006? If so, employee consent/IRS 8925? ☐

Qualified Employee Benefit Strategies

ALL EMPLOYEES - NO DISCRIMINATION

Providing qualified retirement benefits to ALL employees is generally the first step in employee benefit planning. Depending on the # and mix of employees, a plan may or may not be worthwhile.

No. of employees?

Type of Employees? TYPE OF EMPLOYEES

Existing Strategies:	SEP ☐	SIMPLE ☐	P. S. ☐	401(k) ☐	D. B. ☐	412(e) ☐

Non Qualified Employee Benefit Strategies

"KEY" EMPLOYEES ONLY - CAN DISCRIMINATE

Providing "incentives" to key employees is a critical aspect of creating and maintaining management depth. Incentives can create a "golden handcuff" and foster key employee passion for your business.

Existing Strategies:	162 Bonus ☐	REBA ☐	Split$ ☐	Def Comp ☐	SERP ☐	Other ☐

☐ [7]Are key employees compensated appropriately to maximize your business's success?

☐ [8]Will the Business <u>not</u> continue after retirement or death of the owner(s)?

☐ [9]Can Benefits be offered to selected key employees?

☐ [10]Can the business provide post retirement supplemental income?

NOTES

HOW IS YOUR BUSINESS GROWING?

WHAT ARE THE "KEYS" TO YOUR COMPANY'S SUCCESS?

WHAT IF ANY OF THE "KEYS" FAILED?

INITIAL DISCUSSION

High Level View

Business Exit Strategies are very different between family and non family businesses.

How can you retire and extract your value? EXTRACT BUSINESS VALUE / BUSINESS TRANSFER

☐ In a **FAMILY BUSINESS**, not all children tend to be involved in the business and generally, business owners want to transfer a family business to only those working closely in the business.

Total Children: Children in the Business:

Strategy: BUSINESS TRANSFER STRATEGIES - FAMILY

☐ Do you have one child of several working with you in the business? If so, is family equalization important? ☐

☐ In a **NON FAMILY BUSINESS**, business owners generally sell to other owner(s); competitors; or select key employees working and having a passion for the business.

Strategy: BUSINESS TRANSFER STRATEGIES - NON FAMILY

☐ *If you have non family owners, is it OK to be in business with a co-owner's surviving spouse?*

NOTES

[7]CAN YOUR BUSINESS SURVIVE IF YOU RETIRE OR DIE PREMATURELY?

DO YOU HAVE OTHER SOURCES OF RETIREMENT INCOME THAN THE BUSINESS?

WHEN DO YOU PLAN TO RETIRE?

HOW DO YOU PRECEIVE YOUR RETIREMENT BEING FUNDED? HOW MUCH DO YOU NEED?

Which 3 Things Are Most Important to You to Work on Immediately?

PRIORITIES

1st

2nd

3rd

PLANNING STATUS

Defining Points® - Balance Check

There are certain crucial moments that all closely held businesses face as part of their life cycle from start-up to maturity. Whether it's raising finances, recruiting and retaining key people, or planning for the transfer of the business, how these moments are negotiated makes the difference between survival and closure. We call these critical moments *Defining Points* ®.

Defining Point #1: Unexpected Departure of an Owner

Do you have a written buy-sell plan for your business in the event something unexpected happens?	5	☐	0
Has the buy-sell plan been reviewed in the last three years by specialized business advisors?	4	☐	0
Has the business been valued by a certified appraiser in the last three years?	4	☐	0
Are there enough funds or financial resources to carry out the terms of the buy-sell plan?	4	☐	0
Are there safeguards in place to protect your interest during the transfer of the business?	4	☐	0

Defining Point #2: Loss of a Key Person

Do you have key employees that are capable of managing the business in your absence?	5	☐	0
Do you have performance-based incentive plans for retaining your key employees?	4	☐	0
Have the incentive plans been recently reviewed to determine if they are competitive?	3	☐	0
Do you have strategies in place that protect your business in the event a key employee leaves?	3	☐	0
Have provisions been made to offset the loss to the business caused by death or disability of your self or other key employees?	5	☐	0

Defining Point #3: Retirement of an Owner

Do you have a business succession plan in place?	5	☐	0
Do you have successors or key managers in place that are capable of running the business?	5	☐	0
Have you determined your retirement income goal, and do you know how many dollars it will take?	5	☐	0
Will less than one-half of your retirement income be dependent on the business?	5	☐	0
Have you started to create retirement assets from sources not dependent on the business?	3	☐	0
Do you review your financial goals with your financial advisor(s) at least annually?	3	☐	0

Defining Point #4: Not Doing Long-Term Planning

Do you have a team of specialized business advisors/	5	☐	0
Have you involved your family, advisors and key employees in your plans for the business?	4	☐	0
Do you regularly meet with your advisors so they understand your business activities and coordinate it with your personal goals?	4	☐	0
Do you discuss business financial results, marketing plans, and operations with your family and key employees?	4	☐	0
Do your have strategies in place for growing and protecting the value of your business?	5	☐	0

Defining Point #5: Death of an Owner

Have your estate plans been reviewed in the last three years by legal advisors who are specialized in estate and business planning?	5	☐	0
Do you know if your business plans provide for the same distribution provided by your estate docs?	5	☐	0
Do you have strategies in place that provide for the equitable (not necessarily equal) distribution of your assets to all family members while giving business control to your selected individual(s)?	5	☐	0
Do you know if the estate strategies in place minimize tax consequences?	4	☐	0
Will there be enough cash to pay your debt and tax obligations and provide your family sufficient income without affecting the financial health of the business?	5	☐	0

Score: (Max = 113) **0**

Below 80 = We suggest you call your advisors today; **80-98** = You have a good start; **98-113** = Your preparation is well underway.

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Business Strategies

Executive Benefit Strategies

Attracting and retaining key employees is a critical component of growing your business. Golden handcuffs come from maintaining policy ownership or creating policy restrictions. Tax deductibility is not available, if the business continues to own the policy. Executive benefits are generally not efficient for owners of pass-through entities. Also, deferred compensation and SERPs require a larger financial commitment, because of the setup and administrative costs associated with new 409A regulations. Split dollar arrangements are generally used for owners and the 162 bonus and REBA arrangements are simplest and most popular.

162 Bonus

- EE Ownership
- ER Deductible Now
- EE Taxable Now
- No Handcuff / Control
- Non Taxable at Retirement

REBA

- EE Ownership
- ER Deductible Now
- EE Taxable Now
- ER "Limited" Handcuff / Control
- Non Taxable at Retirement

Split Dollar

- EE or ER Ownership
- ER Non Deductible
- EE NonTaxable
- Generally for Owners
- ER Handcuff / Control
- Non Taxable at Retirement

Deferred Comp

- ER Ownership
- EE Deferrals
- ER NonDeductible
- ER Handcuff / Control
- EE Taxable at Retirement
- ER Tax Deductible at Retirement

SERP

- ER Ownership
- ER Non Deductible Contributions Only
- ER Handcuff / Control
- EE Taxable at Retirement
- ER Deductible at Retirement

Exit Strategies at Death and During Life

Exit strategies vary greatly if a business interest is to be transferred to a family member or non family member. Also significant differences exist if transfer at death or during life.

Strategies at death

- Beqst to Family + Equalize
- Cross Purchase Buy-Sell
- Entity Purchase Buy-Sell
- Trusteed Cross Purchase
- Wait & See Buy-Sell
- Wait & See Buy-Sell with Partnership Insurance
- Unilateral Buy-Sell
- 303 Redemption/6166
- Recap, B/S on Voting Shrs
- Forced Liquidation
- Installment Sale

Strategies during life

- Forced Liquidation
- Installment Sale
- Private Annuity
- Transfer with FLP
- Transfer with GRAT
- Sale to IDGT
- Transfer with CRT
- Transfer with CLT

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.
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