Business Planning

SALES KIT

In this kit:

Social media images & text | Producer guides | Sales ideas | Ideal profiles | Questionnaire

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Business Planning

Social Media Posts & Sharable Graphics

Text for Posts

Post this text with any of the images linked on the following pages.

Strengthen and protect the future of your business. Contact me today to learn how insurance solutions can help you succeed.

Nearly 70% of family businesses fail or are sold before the second generation takes over. Contact me today to learn about business succession planning!

Loss of a key employee could have devastating effects on a business. Contact me today to safeguard your business.

Life insurance can provide liquidity, ensure continuity of your business, equalize the estate for your loved ones, and provide flexibility with the use of cash values as a source of funds. Contact me today for a free quote.

You put maximum effort into establishing and running your business, but are you taking the right steps to ensure your business can survive the retirement, disability or death of an owner or key employee? Contact me today to protect your business.

Take the next step to protect your business investment. Contact me today to plan strategies to help you succeed.

Protect your business investment – insure against the unexpected loss of a key employee. Contact me today for a free quote.

You carry insurance coverage to protect yourself from the loss of property and equipment, but what about your most valuable asset – your key employees? Contact me today for a free key person life insurance quote.

As a successful business owner, you know it takes more than hard work to ensure prosperity for your business. You need ways to protect your company, compete for top talent, reward your employees, and plan for a financially secure future. Contact me today to learn how insurance can help you accomplish these goals so you can focus on growing your enterprise.

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Social Media Images

Click any image to view in a browser, then right-click and save to your device.

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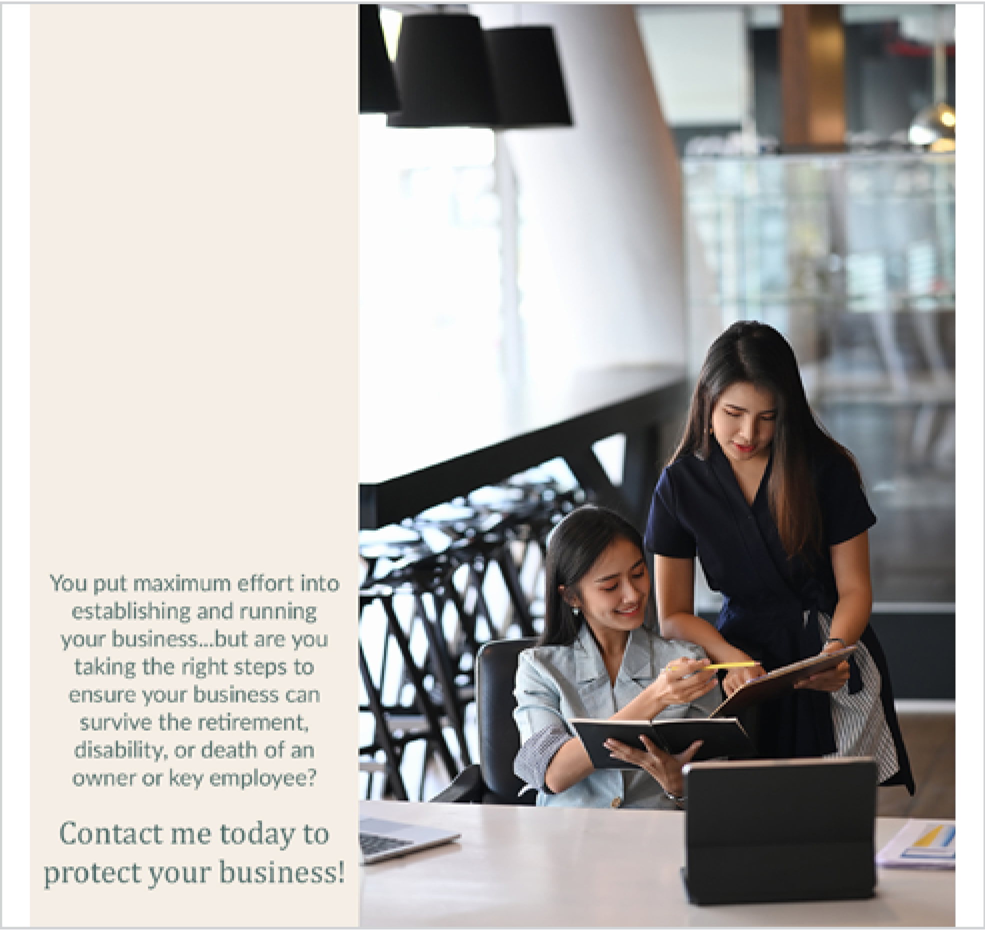
Click any image to view in a browser, then right-click and save to your device.



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Social Media Images

Click any image to view in a browser, then right-click and save to your device.

Business solutions

A profile of customer opportunities

Who are your best sales prospects?

	Key person life insurance	Key Person Replacement and Overhead Expense disability insurance	Business succession cases (life insurance)	Disability Buy-Out insurance
Top five industries	1. Professional, scientific, & technical services 2. Construction 3. Manufacturing 4. Finance & insurance 5. Healthcare & social assistance	1. Healthcare & social assistance 2. Professional, scientific, & technical services 3. Finance & insurance 4. Construction 5. Other services (except public administration)	1. Professional, scientific, & technical services 2. Construction 3. Manufacturing 4. Wholesale trade 5. Healthcare & social assistance	1. Professional, scientific, & technical services 2. Healthcare & social assistance 3. Construction 4. Wholesale trade 5. Manufacturing
Employee size	• 1-99 employees: 80% › 1-4 employees: 14% › 5-24 employees: 41% › 25-49 employees: 15% › 50-99 employees: 10% • 100-1,000+ employees: 11%	• 1-99 employees: 87% › 1-4 employees: 17% › 5-24 employees: 47% › 25-49 employees: 14% › 50-99 employees: 9% • 100-1,000+ employees: 5%	• 1-99 employees: 85% › 1-4 employees: 17% › 5-24 employees: 45% › 25-49 employees: 15% › 50-99 employees: 8% • 100-1,000+ employees: 9%	• 1-99 employees: 92% › 1-4 employees: 9% › 5-24 employees: 46% › 25-49 employees: 23% › 50-99 employees: 14% • 100-1,000+ employees: 6%
Years in business	• 25+ years: 39% • 11-24 years: 24% • 6-10 years: 12% • 1-5 years: 12%	• 25+ years: 32% • 11-24 years: 33% • 6-10 years: 12% • 1-5 years: 11%	• 25+ years: 41% • 11-24 years: 27% • 6-10 years: 10% • 1-5 years: 9%	• 25+ years: 48% • 11-24 years: 31% • 6-10 years: 8% • 1-5 years: 8%
Annual sales volume	• < $3 million: 48% • $3.1 to $10 million: 20% • $10.1 to $50 million: 16% • $50.1 to $500+ million: 4%	• < $3 million: 59% • $3.1 to $10 million: 19% • $10.1 to $50 million: 7% • $50.1 to $500+ million: 2%	• < $3 million: 54% • $3.1 to $10 million: 19% • $10.1 to $50 million: 13% • $50.1 to $500+ million: 3%	• < $3 million: 50% • $3.1 to $10 million: 29% • $10.1 to $50 million: 16% • $50.1 to $500+ million: 2%

Source: Principal® business market analysis of over 118,000 employer customers appended with Dun & Bradstreet (D&B) data. The data is current as of December 2022. Statistics shown only include those customers with appended data. The overall match rate is 90%, and not all categories will add up to 100%.

Business solutions

Who are your best sales prospects?

	Workplace benefits (group insurance)	Key employee retention and retirement plans	Nonqualified deferred compensation plans	Tax-exempt plans
Top five industries	1. Professional, scientific, & technical services 2. Construction 3. Manufacturing 4. Healthcare & social assistance 5. Wholesale trade	1. Professional, scientific, & technical services 2. Construction 3. Manufacturing 4. Wholesale trade 5. Healthcare & social assistance	1. Manufacturing 2. Professional, scientific, & technical services 3. Finance & insurance 4. Wholesale trade 5. Construction	1. Healthcare & social assistance 2. Other services (except public administration) 3. Finance & insurance 4. Educational services 5. Professional, scientific, & technical services
Employee size	• 1-99 employees: 91% › 1-4 employees: 9% › 5-24 employees: 46% › 25-49 employees: 22% › 50-99 employees: 14% • 100-1,000+ employees: 1%	• 1-99 employees: 77% › 1-4 employees: 15% › 5-24 employees: 37% › 25-49 employees: 14% › 50-99 employees: 11% • 100-1,000+ employees: 18%	• 1-99 employees: 32% › 1-4 employees: 3% › 5-24 employees: 11% › 25-49 employees: 8% › 50-99 employees: 10% • 100-1,000+ employees: 62%	• 1-99 employees: 31% › 1-4 employees: 2% › 5-24 employees: 10% › 25-49 employees: 7% › 50-99 employees: 12% • 100-1,000+ employees: 66%
Years in business	• 25+ years: 45% • 11-24 years: 24% • 6-10 years: 11% • 1-5 years: 12%	• 25+ years: 54% • 11-24 years: 22% • 6-10 years: 8% • 1-5 years: 6%	• 25+ years: 61% • 11-24 years: 20% • 6-10 years: 5% • 1-5 years: 4%	• 25+ years: 77% • 11-24 years: 13% • 6-10 years: 2% • 1-5 years: 3%
Annual sales volume	• < $3 million: 52% • $3.1 to $10 million: 25% • $10.1 to $50 million: 13% • $50.1 to $500+ million: 2%	• < $3 million: 45% • $3.1 to $10 million: 18% • $10.1 to $50 million: 17% • $50.1 to $500+ million: 9%	• < $3 million: 14% • $3.1 to $10 million: 9% • $10.1 to $50 million: 24% • $50.1 to $500+ million: 14%	• < $3 million: 10% • $3.1 to $10 million: 15% • $10.1 to $50 million: 43% • $50.1 to $500+ million: 25%

Entity type: Based on tax returns filed with the IRS for 2021 (1065, 1120 & 1120S), 18% of companies are C Corporations, 44% are S Corporations, and 38% are Partnerships.

www.principal.com

SPLIT DOLLAR LIFE INSURANCE FOR EXECUTIVES

Split dollar life insurance is a contract between a company and their executive to own a policy on the executive where the benefits offered are split between the employer and executive.

Upon the death of the executive, the company receives the total premiums or cash surrender value, whichever is greater.

The IRS has approved two ways to structure the split dollar agreement.

Economic Benefit Method

With the economic benefit method, the company owns the life insurance policy, has full control of the policy, and uses an endorsement on the policy to reflect the interest of the executive or the irrevocable life insurance trust created for the benefit of the executive.

If a corporation or LLC advances the premium, the executive must recognize the economic benefit each year as income. The executive does have the ability to make a premium payment equal to the economic benefit which is the annual term cost and avoid taxable income.

Rates are contained in IRS Table 2001 and go up each year as the executive gets older. This can add up to a lot of money when considering term rates on a large policy when the executive is in their 60's.

Collateral Assignment Method

The more frequently used method is the Collateral Assignment method where the executive owns the policy and has full control of the policy. The executive collaterally assigns the policy to the company to secure the company's interest in the policy.

Under collateral assignment split dollar arrangements, the employer typically will fund the majority or all of the premium payments. The executive may or may not have access to cash value. The executive will receive the net proceeds from the life insurance after the employer receives the greater of the cash value or premiums paid.

The executive can pay or accrue the loan interest which, if accrued, is then deducted from the death benefit. The Applicable Federal Rate under IRC 7872 provides the minimum interest rate that can be used.

With loan based split dollar, interest on the loan is based upon cumulative premiums paid so you avoid an ever-increasing economic benefit as the insured ages.

Keep in Mind

An attorney experienced in creating split dollar agreement should be used when creating the split dollar arrangement. Split dollar plans are terminated at either the executive's death or a future date included in the agreement. The employer can bonus out the cash value when the employee retires as an additional benefit.

The economic benefit method can get very expensive as the executive gets into their 50's and 60's as the term cost is used to compute the economic benefit. For this reason, the economic benefit method is not looked on as favorably as the collateral assignment method.

Benefits of Split Dollar

- Minimize income and gift taxes when funding large premium payments
- Reduce cash flow to fund large premium payments
- Provide key executives an executive benefit that encourages them to stay with the company as a golden handcuff. They can leave but the employer is protected and receives the cash value in the policy
- Retirement income benefit as well as death benefit that is self-completing
- The cash value of the policy can assist the employer in finding and training a replacement with cash

Risks of Split Dollar

- With life insurance, someone must commit to paying premiums
- If premiums are not paid, the policy could crater and there would be not benefits to split up.
- Life insurance is a long-term commitment for both parties to the agreement

Final Note

Split dollar also works for very high net worth families who need large amounts of insurance and may have other commitments for gifting. By using this "private split dollar method" families who have already utilized their gifting maximums can fund additional insurance as needed in an irrevocable life insurance trust.

For questions and more information, contact the Advanced Sales Department at 888-504-2550 ext. 5767. Neither American National Insurance Company nor its agents offer tax or legal advice. Clients should consult their tax and legal advisors.

QUICK TIP
on Case Design

Protecting the Business & Balance Sheet

The Cash Value Advantage for Key-Person Insurance Planning: MassMutual Whole Life HECV

Behind highly successful companies are select key contributors who drive company growth. A major risk to the business is the loss of a key person. To manage the risk, a business can purchase life insurance on the life of a key employee to ensure the company has sufficient liquidity to keep the business running in the event of premature death. The liquidity can help offset lost profits, provide assurances to creditors of financial viability, and help fund a replacement.

What type of policy is best?

- **Cash value policies that offset the premium expense.** Often companies will use Term Insurance to cover the risk of loss and while the up front premium payment may be lower with term, the annual premiums payments are an ongoing expense that will have a negative impact on the balance sheet over time.
- **Policy cash value that serves as an asset on balance sheet.** Although the premiums of a permanent life insurance policy will be higher than term up front, the cash values are an asset on the corporate balance sheet that can help offset the impact of the premium expense. The difference between the premiums and cash value of the policy will have a negative impact on the balance sheet early on, but the key is to close the gap between those two as soon as possible.
- **Policies whose values do not fluctuate based on financial markets.** Permanent Insurance policies that are correlated to equity markets can also impact the balance sheet if policy values drop due to market conditions.

Protecting the Business & Balance Sheet

A SOLUTION

MassMutual's High Early Cash Value (HECV) is particularly suited for a Key-Person Insurance Plan.
Take a look at how HECV, uncorrelated to equity markets, can earn cash values early, minimizing the impact to a company's balance sheet, even when compared to a 20-year Term policy. The HECV example illustrated below includes the LISR rider.[1] The HECV premiums are due annually until age 85. In this example it is assumed that non-guaranteed dividends are used annually to pay the ongoing premiums. Dividends are not guaranteed. It is possible that out of pocket premium payments may be required until age 85 if dividends are lower than the current schedule.

	MALE, AGE 45 SELECT PREFERRED NON-TOBACCO	
	WHOLE LIFE HECV WITH LISR **$2,000,000 Death Benefit** **$40,000 Annual Premium** **15 Years**	**VANTAGE TERM 20 ECP** **$2,000,000 Death Benefit** **$3,295 Annual Premium** **20 Years**
	Initial Death Benefit $2M	**Initial Death Benefit** $2M
YEAR 5		
Cumulative Premium	($200,000)	($16,475)
Net Cash Value	$187,503[2]	-
YEAR 10		
Cumulative Premium	($400,000)	($32,995)
Net Cash Value (Non-guaranteed)	$419,000[2]	-
YEAR 15		
Cumulative Premium	($600,000)	($49,424)
Net Cash Value (Non-guaranteed)	$700,099[2]	-
YEAR 20		
Cumulative Premium	($600,000)	($65,900)
Net Cash Value (Non-guaranteed)	$850,171[2]	-

[1] The LISR rider blends in one-year term coverage with the base coverage to lower the annual premium cost. Over time, the term amount is converted to paid-up additional whole life insurance using annual dividends, which are not guaranteed.

[2] The illustrated amounts are not guaranteed. They include dividends, which are neither estimates nor guarantees, that have been applied to purchase paid-up additions based on the 2023 dividend schedule. The dividend schedule is reviewed annually, and it is likely that dividends in future years will be lower or higher depending on the Company's actual experience. For this reason, we strongly recommend that you look at a lower dividend schedule illustration. Refer to the Basic Illustration for guaranteed elements, assumptions, explanations and other important information. **Basic IllustrationHECV1** **Basic Illustration Term2**

Protecting the Business & Balance Sheet

How HECV Fits Into a Key-Person Plan and Minimizes the Impact to the Balance Sheet.

The below chart illustrates the mechanics of a Key-Person Insurance plan and how MassMutual's HECV helps minimize the impact of the plan on the corporate balance sheet:

- Employer pays the **$40,000 annual premium** on a **$2M death benefit** on the life of a key employee, **Male, Age 45, Select Preferred Non-Tobacco** risk class. The employee consents to the coverage.[3]
- The employer endorses $1M of the $2M death benefit to the employee for which the employee pays tax on the economic benefit (term cost) on the benefit. Meanwhile, the cash values remain with the employer as cost recovery and — after year 8 — a boost to the balance sheet in the form of a gain.
- At beginning of year 21, the employer bonuses the policy to the employee and benefits from an income tax deduction. Assuming the company is a pass-thru with a **30% income tax rate**, the tax savings is **$255,051**.
- The employee pays income taxes at an assumed tax rate of 28% on the cash value of the policy at end of year 20 , which is $850,171. The **tax due of $238,048** is paid by taking a distribution from the policy.[4]
- The employee owns the policy in full following the transfer.

		COMPANY				EMPLOYEE						
			Non-guaranteed Policy Values			POLICY TRANSFER					Non-guaranteed Policy Values	
Year	Age	Employer's After-Tax Outlay Begin Year	Employer's Net Cash Value End Year	Employer's Net Death Benefit End Year	Income Tax Savings On Transfer @30%	Cash Value Distrubuted to employee	Tax on transfer (28.00%)	Policy Distribution to Pay Taxes	Economic Benefit[5]	Employee Net Outlay[6]	Employee's Net Cash Value End Year	Employee's Net Death Benefit End Year
1	46	40,000	33,829	1,000,000		-	-	-	540	151	-	1,000,000
5	50	40,000	187,503	1,000,000		-	-	-	700	196	-	1,000,000
10	55	40,000	419,448	1,000,000		-	-	-	980	274	-	1,000,000
15	60	40,000	700,099	1,000,000		-	-	-	1,310	367	-	1,000,000
20	65	-	850,171	1,000,000		-	-	-	1,920	538	-	1,000,000
21	66	-	-	-	$255,051	850,171	238,047	238,047	-	-	637,477	1,593,825
TOTAL		600,000							21,350	5,978		

To view the full Key-Person client presentation from MassMutual's *Simplify* tool, **click here**.
Refer to the following page for additional information.

Contact your Managing Director or Advanced Sales at
1-800-601-9983 Option #2
or email **MMSDAdvanced Sales@MassMutual.com**

FOR FINANCIAL PROFESSIONALS. NOT FOR USE WITH THE PUBLIC.

[3] When a company owns a policy on the life of one of its employees, notice and consent rules governed by IRC Section 101(j) and 409A must be followed or the death benefit proceeds will be taxed when paid.

[4] Distributions under the policy (including cash dividends and partial/full surrenders) are not subject to taxation up to the amount paid into the policy (cost basis). If the policy is a Modified Endowment Contract, policy loans and/or distributions are taxable to the extent of gain and are subject to a 10 percent tax penalty if the policy owner is under age 59 1/2. Access to cash values through borrowing or partial surrenders will reduce the policy's cash value and death benefit, increase the chance the policy will lapse, and may result in a tax liability if the policy terminates before the death of the insured.

[5] Economic Benefit is based on MassMutual's Non-Convertible Term Rates, which may not qualify to be used in the future. If not, the government Table 2001 must be used.

[6] The Economic Benefit cost in this example is assumed to be paid by the employer. This payment is considered imputed income to the executive, who is then taxed on this amount.

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Life

North American Company for Life and Health Insurance®

Funding an executive bonus arrangement with life insurance

Case study

Problem

Your client owns a tech support company and is concerned about how dependent he is on his dynamic VP of Sales. His VP of Sales is well known in the industry for his success and is frequently approached by recruiters from competitors.

The company wants to provide an extra incentive to ensure that the sales executive remains with the company until his planned retirement in 20 years.

A solution

Your client decides to offer the VP of Sales an executive bonus using life insurance. With this solution, the employee receives death benefit protection, tax-deferred cash value accumulation potential, and a generally tax-free income stream.[1]

A double bonus arrangement is used so the employee doesn't have out-of-pocket costs. This means the company pays for both the life insurance premium and an extra amount to help cover income tax that would ordinarily be paid by the employee in a single bonus arrangement.

Benefits for business owners:

- Incentivizes employee retention with an attractive benefit
- Premiums paid by the business are tax-deductible
- Can be offered to select employees
- No IRS approval required
- Easy to implement and administer

Benefits for employees:

- Death benefit protection
- Attractive compensation package
- Cash value of the policy is tax-deferred[2]
- Build a generally tax-free retirement income stream
- Employee retains control of the policy as the owner

Case study

The company pays a $20,000 premium (a 5% bonus) through age 65 (20 years) on an indexed universal life (IUL) insurance policy.

Death benefit protection

Year one: $282,682

Year five: $362,682

Year ten: $462,682

Annualized distributions through age 120 starting at age 65: $63,024

Total potential income from retirement to age 90: $1,638,624

The information presented is hypothetical and not intended to project or predict investment results. Illustrations are not complete unless all pages are included. (May 1, 2023, North American Web-Based Illustrations). Male, 45, preferred non-tobacco, Builder Plus IUL® 3 with its default index, return of premium death benefit option[3], non-guaranteed assumed, illustrated at 5.91%.

Builder Plus IUL 3 was chosen in this example for its potential long-term cash value accumulation. North American offers several indexed universal life insurance products.

Case design tips

- **Be sure the specified amount is enough** to meet the client's pre-retirement life insurance needs.
- **A minimum death benefit solve with Return of Premium death benefit option[3]** can help control policy charges which can reduce the cash value of the policy.
- For cases with a short period until distributions begin, **consider taking loans rather than withdrawals[1]** during the surrender charge period to avoid a surrender charge.
- **Combining a term and IUL policy may be a more affordable way** to reach total death benefit needs.

Be sure to discuss with clients that performance is not guaranteed and depending on funding, life insurance may not guarantee avoiding the loss of premium.

NEXT STEPS

1. Make a list of clients that own businesses or hold leadership positions within their organization
2. Reach out to them to see if they are looking for ideas to help with employee retention
3. Share how executive bonus arrangements funded by life insurance offer a unique way to reward and retain key employees

1. In some situations loans and withdrawals may be subject to federal taxes. North American does not give tax or legal advice. Clients should be instructed to consult with and rely on their own tax advisor or attorney for advice on their specific situation. 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 withdrawal charges, processing fees, or 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.

2. The tax-deferred feature of the indexed universal life policy is not necessary for a tax-qualified plan. In such instances, your client should consider whether other features, such as the death benefit and optional riders make the policy appropriate for their needs. Before purchasing this policy, your client should obtain competent tax advice both as to the tax treatment of the policy and the suitability of the product. North American and its agents do not give tax advice. Please advise your customers to consult with and rely on a qualified legal or tax advisor before entering into or paying additional premiums with respect to such arrangements.

3. Return of premium death benefit option is subject to eligibility requirements

Indexed universal life insurance products are not an investment in the "market" or in the applicable index and are subject to all policy fees and charges normally associated with most universal life insurance.

Builder Plus IUL 3 is issued on policy form series LS191, or state variation, including all applicable endorsements and riders, by North American Company for Life and Health Insurance®, West Des Moines, IA. Products, features, riders, endorsements, or issues ages may not be available in all jurisdictions. Limitations or restrictions may apply.

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CASE STUDY

The “cost” of a key employee

Meet Jim

He would like to protect his business against the unexpected loss of one of its key employees.

Key Person Life Insurance

Situation

Jim is the sole owner of a profitable, closely held business. His long-term employee, Janice, makes substantial contributions toward the company’s success. Jim is concerned that losing Janice would negatively and significantly affect the company’s future prosperity. Janice, age 47, earns a current salary of $300,000 plus annual bonuses based on the company’s performance.

Solution

Working with his financial professional, Jim determines that the loss of earnings and the additional cost of hiring a qualified replacement for Janice would amount to $3 million. He wants a simple plan over the next 15-20 years to compensate the business in the event of Janice’s untimely death. In addition, the company has substantially increased its cash flow and Jim wants to offer more rewards for his key employee.

Jim’s financial professional recommends a plan using **key person life insurance.**

Here’s how it works

Business purchases and owns a Symetra Protector IUL policy on Janice’s life.

Pays annual premiums (non-deductible) ↓ **$21,064** (Guaranteed to age 81)[1]

Insurance policy for **$3 million**

Pays death benefit ↓

Business receives a **$3 million** death benefit free of federal income tax upon Janice’s death.[2]

Focus

Business protection in the event of a key employee's untimely death.

Age
47

Gender
Female

Product
Symetra Protector Indexed Universal Life (IUL)

Rate Class
Preferred Non-Nicotine

Death Benefit
$3 million

Annual Premium
$21,064 for 20 years

Lapse Protection Benefit[3]
Guaranteed to age 81

The Result

- Through a key person life insurance policy, Jim has protected the business against an unexpected and untimely loss of Janice. The company owns and pays the premiums on the policy and is named as the beneficiary. If Janice dies while the policy is in force, the business receives a death benefit that can be used to help replace lost profits; protect credit position; provide financial cushion; recruit a qualified replacement, and offset lost business value.

- In addition to protecting the business, Symetra's Protector IUL offers the potential for policy cash value growth. This provides Jim the opportunity to help retain his top talent with a plan designed to provide Janice needed life insurance protection and also have the option to fund supplemental employee retirement benefits.

Symetra Protector IUL is a flexible-premium adjustable life insurance policy with index-linked interest options issued by Symetra Life Insurance Company, located at 777 108th Avenue NE, Suite 1200, Bellevue, WA 98004-5135. This policy is not available in all U.S. states or any U.S. territory. Where available, it is usually issued under policy form number ICC18_LC2.

Policy endorsements are not available in all U.S. states or any U.S. territory, and terms and conditions may vary by state in which they are available. Where available, the Putnam Dynamic Low Volatility Excess Return Index with Bonus Index Account is usually issued under endorsement form number ICC22_LE2.

Symetra Protector IUL has fixed and indexed accounts. Interest credited to the indexed accounts is affected by the value of outside indexes. Values based on the performance of any index are not guaranteed.

The policy does not directly participate in any outside investment or index.

Symetra reserves the right to add or remove any index or indexed interest crediting method options. If any index is discontinued or if the calculation of any index is changed substantially, Symetra reserves the right to substitute a comparable index.

The Putnam Dynamic Low Volatility Excess Return Index (the "Index") is the property of Putnam Investments, LLC, which has contracted with S&P Opco, LLC (a subsidiary of S&P Dow Jones Indices LLC) to calculate and maintain the Index. The Index is not sponsored by S&P Dow Jones Indices or its affiliates or its third-party licensors (collectively, "S&P Dow Jones Indices"). Neither Putnam Investments, LLC nor S&P Dow Jones Indices will be liable for any errors or omissions in calculating the Index. Putnam Dynamic Low Volatility Excess Return Index™ is a trademark of Putnam Investments, LLC. "Calculated by S&P Dow Jones Indices" and the related stylized mark(s) are service marks of S&P Dow Jones Indices and have been licensed for use by Putnam Investments, LLC. S&P® is a registered trademark of Standard & Poor's Financial Services LLC ("SPFS"), and Dow Jones® is a registered trademark of Dow Jones Trademark Holdings LLC ("Dow Jones").

Election of a Putnam Index Strategy does not guarantee a greater index credit for any other index segment term.

Guarantees and benefits are subject to the claims-paying ability of Symetra Life Insurance Company.

Life insurance policies contain exclusions, limitations, reductions of benefits and terms for keeping them in force. Please refer to the policy for complete details.

This material is not intended to provide investment, tax or legal advice. Clients should consult with their attorney or tax professional for more information.

[1] The life insurance and death benefit are based on a Symetra Protector IUL policy for a 47 year old female in a Preferred Non-Nicotine rate class. The annual premium of $21,064 for 20 years provides a Lapse Protection Benefit to age 81. The hypothetical Net Surrender Value at the end of year 20 is $609,685 based on an initial crediting rate of 5.97% using the Putnam Dynamic Low Volatility Excess Return Index with Bonus Strategy, current policy charges and death benefit option A (Level).

[2] Although proceeds of life insurance are generally received income-tax-free by beneficiaries, estate and local taxes may apply. Your client should consult a tax attorney or tax professional for more information.

[3] The Lapse Protection Benefit prevents the policy from entering the Grace Period when the policy is in a Lapse Protection Benefit Period. Coverage will remain in effect as long as the Lapse Protection Value is greater than or equal to zero and the surrender value of your policy is greater than the sum of all outstanding policy loans and loan interest. Loans, withdrawals, and late or delayed premium payments may affect the duration of the Lapse Protection Benefit.

Contact us for more information.

Symetra Life Sales Desk
1-877-737-3611
Weekdays, 8 a.m. to 6 p.m. ET
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Case Study

Symetra MultiLife Business Program

Simplified protection for businesses covering multiple lives

Meet Joanna and John

PROFILE

Client: Business owners

Goal: Reward and retain key employees

Number of Employees: 10

Business Planning Strategy: Executive Bonus

Bonus Amount: $8,000 per employee

Solution: Bonus plan using Symetra's MultiLife Business Program providing qualifying businesses life insurance protection to multiple key employees through a streamlined guaranteed-issue underwriting process designed specially for them.

Situation

Joanna and John own an interior design and remodeling firm and wanted to reward their key employees for contributing to the company's success. Their insurance professional suggested the benefits of an executive bonus plan (sometimes referred to as a "section 162" plan) in which the company would take out individually owned indexed universal life (IUL) insurance policies on their key employees and fund the premiums in the form of tax-deductible bonuses paid to the employees to make the payments.

Using Symetra's Accumulator Ascent IUL product for the plan would provide protection for the employees' beneficiaries plus policy cash-value growth potential to supplement the employees' income in retirement. Joanna and John liked what they heard and also wanted to participate in the bonus plan.

Solution

Based on the makeup of the group, the producer's case design team recommended submitting the case for review through Symetra's MultiLife Business Program. The program's streamlined, guaranteed-issue (GI) underwriting process only requires answering three simple questions about the employees' work and tobacco status and qualified applicant employees have no need for medical exams.

With ten lives in the census, the case satisfied the minimum case-size requirement, and it was reviewed and approved for Symetra's MultiLife Business Program.

Case summary and composite: Case size: 10 key employees; Average insured's age: 42; Premium (Bonus): $8,000; Face amount: Minimum non-MEC to age 65 or 10 years

Insured's Job Title	Age	Gender	Total Annual Salary	MultiLife Rate Class	First Year Premium	Total Death Benefit
Owner	42	Male	$228,512	Standard Non-Nicotine	$8,000	$137,168
Owner	42	Female	$228,512	Standard Non-Nicotine	$8,000	$161,372
CFO	35	Female	$184,000	Standard Non-Nicotine	$8,000	$194,730
Office Manager	39	Female	$78,222	Standard Non-Nicotine	$8,000	$175,060
Project Manger	37	Male	$116,247	Standard Non-Nicotine	$8,000	$156,790
Project Manager	48	Male	$116,247	Standard Non-Nicotine	$8,000	$115,970
Lead Designer	36	Female	$96,510	Standard Non-Nicotine	$8,000	$189,656
Project Manager	51	Male	$111,857	Standard Non-Nicotine	$8,000	$106,297
Senior Lead Designer	56	Male	$124,486	Standard Non-Nicotine	$8,000	$105,963
Project Foreman	35	Male	$108,107	Standard Nicotine	$8,000	$164,813
Total					**$80,000**	**$1,507,820**

Result

Joanna and John were pleased to be eligible for Symetra's MultiLife Business Program and with the simplicity of the case review and invitation process. They selected a maximum-funded IUL design, with $8,000 bonuses for themselves and each key employee. Through the use of the program's Accumulator Ascent IUL product, the group received access to flexible, cost-effective coverage with a variety of index options selected by their employer and a built-in chronic illness rider. Once Symetra approved the group, individual illustrations, a composite illustration and one-page applications completed by the key employees were submitted. The policies were put in-force within a matter of days.

The BGA was happy with the entire process and continues to promote Symetra's MultiLife Business Program as a valuable benefit business owners can use to reward and retain key employees.

Give your business cases an underwriting edge with Symetra's MultiLife Business Program.

Symetra Life Sales Desk
1-877-737-3611
Weekdays, 8 a.m. to 6 p.m. ET
lifesales@symetra.com

Important information

Life insurance is issued by Symetra Life Insurance Company, 777 108th Ave NE, Suite 1200, Bellevue, WA 98004. Products, riders, features, terms and conditions may vary by state and may not be available in all U.S. states or any U.S. territory.

Symetra Accumulator Ascent IUL is a flexible-premium adjustable life insurance policy with index-linked interest options. Policy form number is ICC17_LC1 in most states.

The Accelerated Death Benefit for Chronic Illness Rider form number is ICC16_LE6 in most states.

Receipt of an accelerated death benefit may be taxable, especially if the insured does not have a prescribed plan of care. Clients should consult with their personal tax or legal professional before applying for this benefit. They may also lose their right to receive certain public funds such as Medicare, Medicaid, Social Security, Supplemental Security Income (SSI), and possibly others. The accelerated death benefit is intended to qualify under section 101(g) (26 U.S.C. 101(g)) of the Internal Revenue Code. The death benefit, policy value and loan value will be reduced if an accelerated death benefit is paid. There is no restriction on the use of proceeds of these accelerated death benefits.

Guarantees and benefits are subject to the claims-paying ability of Symetra Life Insurance Company.

Symetra Accumulator Ascent IUL has fixed and indexed accounts. Interest credited to the indexed accounts is affected by the value of outside indexes. Values based on the performance of any index are not guaranteed. The policy does not directly participate in any outside investment or index.

Symetra reserves the right to add, modify or remove any index strategy or crediting method. If any index is discontinued or if the calculation of any index is changed substantially, Symetra reserves the right to substitute a comparable index.

It is not possible to invest in an index.

This is not a complete description of the Symetra Accumulator Ascent IUL product. For more complete descriptions, please refer to the policy.

Certain product features, benefits, rate classes, riders, terms and conditions may vary or may be unavailable through the MultiLife Business Program.

This material is not intended to provide investment, tax or legal advice. Clients should consult with their attorney or tax professional for more information.

Restrictions may apply to the Symetra MultiLife Business Program, and it's subject to change without notice.

Our MultiLife Business Program does not guarantee employee eligibility and that a policy will be issued. Refer to the MultiLife Business Program Guide (LIM-1640) for eligibility requirements.

This hypothetical Symetra MultiLife Business Program case study is based on ten qualifying key employees. Individual Symetra Accumulator Ascent IUL policies, with MultiLife Standard Non-Nicotine / Standard Nicotine rate classes, face amount solves based on $8,000 premium, minimum non-MEC to age 65 or 10 years. Actual results may vary on an individual case basis.

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Business Solutions Playbook

Uncover Missed Planning and Life Insurance Opportunities With Your Business Clients

PACIFIC LIFE

Pacific Life Insurance Company

PAGE	SECTIONS

As a result of offering products and services such as 401(k)s, employee benefits, or commercial property and casualty coverage, businesses may comprise a significant portion of your book of business. One of the primary benefits of working with businesses is that they have multiple needs, and thus, there are a multitude of potential planning opportunities available. Are you properly servicing your existing business clients and addressing all of their various needs?

Too many financial, insurance, and benefits advisors leave opportunities on the table when it comes to their business clients. When considering that it is far easier to cross-sell an existing client than to constantly have to find a pipeline of new clients, doesn't it make sense to broaden your planning services to better address the needs of your existing business clients? These potential planning needs may include:

- Supplemental retirement planning for the business owner and/or key executives
- Business succession planning
- Estate planning for the business owner
- Key person protection for the business

This Business Solutions Playbook is designed to help you uncover these missed potential planning opportunities with your existing business clients with whom you have done or are doing 401(k), employee benefits, commercial property and casualty, or other business. This Playbook will provide you with relevant and thought-provoking questions to ask the business owner or other decision maker in the business to uncover concerns and needs, and present potential planning opportunities that would have otherwise been left on the table, based on the client's concerns and business industry considerations. While its primary purpose is death benefit protection, life insurance may be able to play an important role in helping to address the planning needs of the client.

Do you know if your client has considered and answered the crucial business planning questions?

- How can I ensure that my business will continue to thrive when I'm not around?
- How do I successfully transition the ownership of the business?
- How do I ensure that I retain my valuable employees who are key to maintaining and growing the value of my business? How do I protect the business should something happen to him or her?
- How can I enjoy a comfortable retirement?
- How will the business provide for my family if something should happen to me?
- How do I treat my children fairly?

How to Begin the Conversation With Your Business Clients:

Some preliminary points and questions to get the conversation of potential additional planning needs started:

- While we have already completed some planning for you by establishing a 401(k), I want to be sure to provide a holistic approach to your planning and make sure to address all of your planning needs as a business owner.
- There are many planning aspects that we have not yet discussed and I want to address all of your needs to ensure that we are not missing any areas that could cause potential issues/planning concerns down the line if not addressed early on.
- As a business owner, there are many planning needs that are often missed and can have unforeseen and potentially catastrophic consequences if not planned for appropriately.
- As your financial/insurance/benefits advisor, I want to make sure that I am able to identify and address your potential planning concerns.

Client Needs Analysis

Where to Start: Pertinent Questions for Every Business Owner:

I. General Business Information *(You may skip the questions in this section if the client has previously provided you with this information.)*

A. How is your business classified for federal tax purposes?

◯ C-Corporation ◯ S-Corporation ◯ Partnership ◯ Disregarded Entity / Sole Proprietorship

B. What is the nature of the activity of your business (i.e. manufacturing, professional services, technology, etc.)? ____________________

____

C. What percentage of the business do you own? ____

- If less than 100%, how many other owners are there and what percentage of the business do each of them own? ______________

____

D. How many employees does your business have? ____

II. Protecting the Business Against the Loss of Key Employees

A. Are there any individuals, including yourself, whose loss (if the individual voluntarily left or died) would pose a significant financial hardship to the business? ◯ Yes ◯ No

- If yes, has your business taken any steps to protect itself financially in the event of the death of one of these key employees? ◯ Yes ◯ No
- If yes, has your business implemented strategies that are having a meaningful impact on retaining your key employee(s)? ◯ Yes ◯ No

III. Business Succession Planning

A. Do you currently have a formal plan in place? ◯ Yes ◯ No

- If yes, does it reflect your current goals regarding how you would ideally like to exit your business? ◯ Yes ◯ No

IV. Retirement Planning

A. Do you have adequate retirement assets other than the business so that you're not so reliant on the business as your source of retirement income? ◯ Yes ◯ No

B. If you currently participate in a qualified plan, have you accounted for the income tax impact upon the distribution of your qualified plan retirement income and the potential retirement shortfall this may create? ◯ Yes ◯ No

V. Estate Planning

A. Is your estate large enough that you may be subject to federal or state estate taxes upon your death? ◯ Yes ◯ No

- If yes, do you have adequate liquidity so that estate taxes would not adversely impact your ability to pass on your business to your heirs? ◯ Yes ◯ No

B. Do you have non-business heirs that you want to ensure are treated fairly as part of your estate plan? ◯ Yes ◯ No

- If yes, do you have adequate non-business assets to accomplish your goal of treating them fairly? ◯ Yes ◯ No

C. Is your business the primary source of financial support for your family? ◯ Yes ◯ No

- If yes, if something were to unexpectedly happen to you, do you feel confident that your family will be provided for? ◯ Yes ◯ No

Listed below are the potential planning concerns covered in the questions above. Using the chart below, you can identify your client's areas of top planning concerns. In column 1, please check which areas of concerns the client indicated "No." In column 2, check the one(s) the client has identified as his/her primary need(s).

Potential Areas of Concern	Check if a "No" Response	Top Concern(s)?
I. Business is Protected Against the Loss of Key Employees ● Business is protected against the death of a key employee		
● Business has implemented a plan to retain key employee(s)		
II. Business Succession Planning ● Client has a plan in place that reflects current goals to transfer or transition the business		
III. Retirement Planning ● Client has adequate retirement assets		
IV. Estate Planning ● Client has adequate liquidity to pay for estate taxes		
● Client has non-business assets to treat non-business heirs fairly		
● Client's family will be adequately provided for in the event of his/her death		

Client Profiles & Potential Planning Strategies

Once you have identified a Planning Area of Concern for your client, it is important to then understand which facts are applicable to your client to help narrow down which type of strategy may be the most appropriate. On the following pages, use the Business Owner Characteristics in the left column to identify those which reflect your client. For each Business Owner Characteristic which is applicable to your client, consider the corresponding Strategies in the right column. Some of these strategies are illustrated in the Case Studies in this Playbook. For additional details on each these strategies, please see Pacific Life's additional marketing materials, such as our It's All About the Business brochure.

Primary Area of Concern(s) Is Business Succession

Business Owner Characteristics	Strategies to Consider
The client's business has multiple owners, and the owners would like to sell their interests to each other.	*Entity Purchase Buy-Sell* *Cross-Purchase Buy-Sell*
The client's business has multiple owners, the owners are partners in any partnership or limited liability company taxed as a partnership, and the owners would like to sell their interests to each other, but they also have a need for supplemental retirement income.	*Insured Controlled Cross-Purchase*
The client's business has multiple owners, and the owners would like to sell their interests to each other, but want flexibility as to how the purchase is ultimately handled.	*Wait-and-See Buy-Sell*
The client's business has multiple owners and the client wants to sell his or her interest to one or more co-owners, but there is no mutual intent to sell on their part.	*One-Way Buy-Sell* *Entity Redemption Buy-Sell*
The client's business has multiple owners and one owner would like to sell his or her interest to one or more co-owners, but there is no mutual intent to sell on their part. The client would like flexibility as to how the purchase is ultimately handled.	*Wait-and-See Buy-Sell*
The client would like to sell his or her business interest to a non-owner, such as a key employee, family member or third party.	*Supplemental Executive Retirement Plan (SERP) Buy-Out* *One-Way Buy-Sell*

Primary Area of Concern(s) Is Protecting the Business Against the Loss of a Key Employee

Business Owner Characteristics	Strategies to Consider
The client would like to preserve the value of his or her business and keep it thriving for many years by incentivizing his or her key employees to remain with the business.	*Executive Bonus* *Split Premium Bonus* *Restricted Executive Bonus* *Nonqualified Deferred Compensation Plan* *Split Dollar (Endorsement)* *Split Dollar (Loan Regime))*
The client would like to protect his or her business in the event of the premature death of one or more key executives.	*Key Person Life Insurance*

Primary Area of Concern(s) Is Retirement Planning

Business Owner Characteristics	Strategies to Consider
The client's business currently has an existing qualified retirement plan with matching contributions. The client's business does not currently offer a qualified retirement plan, but the client has a small business with relatively few non-owner employees.	*Split-Funded Defined Benefit Plan* *Life Insurance for Supplemental Retirement Income*
My business employs more than a few employees and does not currently offer a qualified retirement plan.	*Life Insurance for Supplemental Retirement Income*

Primary Area of Concern(s) Is Estate Planning

Business Owner Characteristics	Strategies to Consider
The client would like his or her estate to have sufficient liquidity so that estate taxes[6] and other costs do not adversely impact the business or his or her succession or exit plan.	*Estate Liquidity Planning Using an Entity Redemption* *Irrevocable Life Insurance Trust*
The client would like his or her family to be taken care of upon his or her death without being dependent upon the continued success or disposition of the business.	*Irrevocable Life Insurance Trust* *Personally-Owned Life Insurance*
The client would like to ensure that any non-business heirs are treated fairly.	*Irrevocable Life Insurance Trust* *Personally-Owned Life Insurance* *Estate Liquidity Planning Using an Entity Redemption*

What Are the Business Owner's Concerns?	How Life Insurance Can Help
The client wants to sell his or her business eventually. • How can the client successfully sell his or her interest in the business during his or her lifetime or at death to a family member, co-owner, third party or employee(s)?	• *Death benefit provides funds to purchase the client's business interest at death. Cash value acts as a tax-deferred sinking fund for purposes of purchasing the client's business interest during lifetime.*
The client's business is highly dependent upon one or more key employees. • How can the client ensure the continued success of his or her business throughout the transition process? • How can the client make sure his or her business continues to succeed if the business loses a key employee?	• *Cash value can be used to informally fund an executive benefit plan to help the client retain key employees essential to the continued success of his or her business.* • *Death benefit provides funds to help the client's business recover from the death of a key employee.* • *Death benefit provides funds to pay off business debt that may otherwise be called, and to ensure that the business is more financially secure.*
The client wants to make sure that he or she has a comfortable retirement. • How can the client secure a retirement that is less dependent on the continued success of the business and/or the disposition of his or her interest in the business?	• *Cash value can provide a potential source of supplemental retirement income so that the client and his or her family are not as dependent upon the business for retirement income.* • *Death benefit can address a short-fall in retirement income for a surviving spouse should the client die prematurely.*
The client wants to provide financially for his or her family and protect the business in the event of his or her death. • How can the client provide for his or her family independent of the continued success of the business? • How does the client treat his or her non-business heirs fairly? • How does the client make sure that estate taxes do not adversely impact the business?	• *Death benefit provides funds for the client's family so that they aren't dependent upon the continued success of the business after his or her death.* • *Death benefit provides funds to treat children not involved in the family business fairly.* • *Death benefit provides funds to pay estate taxes[1] to make sure the client's business doesn't need to be sold and that it passes intact to his or her children.*

1 According to the Tax Cuts and Jobs Act of 2017, the federal estate, gift and generation-skipping transfer (GST) tax exemption amounts are all $10,000,000 per person (indexed for inflation effective for tax years after 2011); the maximum estate, gift and GST tax rates are 40%. In 2026, the federal estate, gift and generation-skipping transfer (GST) tax exemption amounts are scheduled to revert to $5,000,000 per person (indexed for inflation for tax years after 2011).

Life insurance is subject to underwriting and approval of the application and will incur monthly policy charges.

Industry Considerations

Depending on the type of industry that your client's business is in, there may be additional considerations that may help emphasize and identify some potential planning concerns and needs. While many of the planning strategies discussed in this Playbook are applicable across all industries, the nature of certain industries may make specific strategies more applicable to those industries than others.

PROFESSIONAL SERVICES

Common Types of Professional Services:

- Healthcare/Physicians
- Certified Public Accountants (CPAs)
- Attorneys
- Financial Services
- Consultants
- Architecture Firms
- Real Estate Brokers

Common Considerations & Potential Opportunities:

- Does the client have a plan for funding retirement outside of the value of the business?
  - *Potential Life Insurance for Supplemental Retirement Income Opportunity*
- Does the client have any partners in their business to whom they would sell their interest when they retire or pass away?
  - *Potential Buy-Sell Opportunity*
- Is the client's business structured as a pass-through entity (partnership, S-corporation, LLC, sole proprietorship)?
  - *Potential 199A Deduction/Split-Funded Defined Benefit Plan Opportunity*

Since many professional services are based on the reputation or skill of the business owner, unless they are selling their book of business to a co-partner or successor in the business practicing the same profession, many times those in professional services may have a more difficult time selling their businesses to an outside individual if they are the sole owner of the business. This may be problematic if the owner is counting on the proceeds from the sale of the business being the primary source of retirement funds.

Additionally, many professional service businesses are organized as pass-through entities. With the creation of Internal Revenue Code Section 199A ("199A"), there is a potential deduction for business owners of pass-through entities. However, if the business is deemed to be a "Specified Service Trade or Business" ("SSTB"), which most of the above listed professional service business are classified as (with the exception of real estate brokers and architecture firms), then in order to qualified for the deduction, the business owner's total taxable income must fall under a certain amount.[2] Implementing a Split-Funded Defined Benefit Plan may create a large tax deduction, which may help the business owner to qualify for this deduction.

See Supplemental Retirement Income Case Study (pg. 14)

2 IRC Sec. 199A

TECHNOLOGY

Common Types of Technology Companies:

- E-Commerce/Marketplace
- Technology Hardware
- Technology Software
- Application Development

Common Considerations & Potential Opportunities:

- Does the client's business have an employee that plays a crucial role in the success of the business, such that the business would suffer financial loss or hardship should it lose that employee?
  - *Potential Key Person Opportunity*
- Does the client's business offer competitive and incentivizing executive benefits to the employee(s) that are key to the success of the business?
  - *Potential Executive Bonus or Non-Qualified Deferred Compensation Plan Opportunity*

With the technology industry growing faster than most other industries, there is a constant demand for capable engineers, programmers and coders in technology companies. Recruiting and maintaining key employees in the technology industry is critical for those companies to stay competitive. For this reason, executive benefits and key person protection are extremely important in this industry. Additionally, since many in the technology industry are young and owners often move from start-up to start-up, buy-sell planning funded with cash value life insurance is necessary for a lifetime buy-out.

See Key Person Protection Case Study (pg. 19) &
Executive Benefits Case Study (pg. 17)

MANUFACTURING

Common Subsectors of Manufacturing:

- Transportation Equipment
- Food
- Fabricated Metal Products
- Machinery
- Chemical
- Plastics and Rubber
- Printing and related support activities

Common Considerations & Potential Opportunities:

- Does the client's business offer competitive and incentivizing executive benefits to its key executives?
    - *Potential Executive Bonus or Non-Qualified Deferred Compensation Plan Opportunity*
- Does the client have an identified successor and a plan in place for the transition of the business to that individual?
    - *Potential Buy-Sell Opportunity*

Businesses in the manufacturing industry usually have a large number of rank-and-file employees, but the success of the company is based on a select few that have the operational and managerial skills. As such, retaining the key executives can be crucial, either through a Non-Qualified Deferred Compensation Plan or another type of Executive Benefit plan, such as an Executive Bonus arrangement.

Additionally, since manufacturing companies may survive for generations, proper succession planning can be a key concern.

See Business Succession Case Study (pg. 17)
& Executive Benefits Case Study (pg. 21)

NON-PROFIT

Common Types of Non-Profits:

- Public Charities
- Community Foundations
- Religious Organizations & Institutions
- Educational Organizations & Institutions
- Donor-Advised Funds
- Private Foundations

Common Considerations & Potential Opportunities:

- Would the non-profit be able to continue to run successfully and maintain and/or grow its level of fundraising should it lose a key employee that serves in such a role?
    - *Potential Key Person Opportunity*
- Does the non-profit offer competitive and incentivizing executive benefits to the employee(s) that are key to the fundraising and/or running of the non-profit?
    - *Potential Executive Bonus or Loan Regime Split-Dollar Opportunity*

Non-Profits are tax-exempt entities under federal and state law. Since they are tax-exempt, potential tax deductions for the business will not play a factor in planning considerations as it may with a for-profit business. However, non-profits have many of the same goals and concerns as other types of businesses when it comes to key person protection and providing executive benefits to protect against the loss of important employees.

While there are certain types of Non-Qualified Deferred Compensation (NQDC) plans that can be offered by non-profits, known as 457(f) plans, as a result of Section 4960 of the Internal Revenue Code created by the 2017 Tax Cuts and Jobs Act, for any of the non-profit's five highest-paid employees, should they receive compensation of more than $1 million from the non-profit in a year,[3] which could happen upon the "vesting" of a 457(f) plan at an event such as that employee's retirement, a 21% excise would be imposed upon the non-profit on the amount of compensation in excess of $1 million.

As such, to avoid this potential 21% excise tax, an Executive Bonus Arrangement, whereby the executive benefit is provided to the employee each year, rather than all in one lump sum at an event such as retirement, may be a more favorable and administratively simpler option to reward and retain key employees. An additional, but slightly more complex, option may be to put a Loan Regime Split-Dollar arrangement in place.

See Key Person Protection Case Study (pg. 19)
& Executive Benefits Case Study (pg. 17)

3 IRC Sec. 4960

Case Studies – Popular Business Owner Strategies

The following hypothetical case studies illustrate some of the most common fact patterns involving business owners and the more popular strategies that may be fitting for your business clients.

CASE STUDY: SUPPLEMENTAL RETIREMENT INCOME

SITUATION:

Larry, age 50, is the owner of Pages Consulting, a consulting firm that specializes in working with bookstores. Larry enjoys his work, but he has always envisioned selling the business and retiring at 65 to travel the world with his wife. Throughout the years, Larry was able to take on more and more clients and grow Pages Consulting each year. However, in the past few years, many of Larry's current and potential clients without online retail have sadly gone out of business due to the popularity of online bookstores and electronic books. Although Pages Consulting has been able to broaden its services somewhat to prevent significant financial losses up to this point, the business is no longer growing at the rate it once was and the profit margin has decreased each year over the past few years.

CHALLENGE:

Larry worries that due to Pages Consulting not doing as well the past few years, the value of the business likely will not be as much as he had originally expected it would be ten years from now, when he plans to sell it and retire. As a result, he fears he will not have as much for he and his wife to live off and be able to travel during retirement as he originally expected. Although Larry was smart to establish a 401(k) for himself and his several employees, he has already maximized his contributions to his qualified plan and does not have any additional retirement assets. Additionally, Larry recognizes that he will be taxed on the distributions he receives from his 401(k) at retirement, which means that he will ultimately have less to spend for his retirement needs than the amount that appears on his plan statement balance and he would like to make up for this retirement shortfall.

STRATEGY:

Life Insurance for Supplemental Retirement Income

Larry purchases and owns a cash value life insurance policy on his own life, and names his wife as the beneficiary. In the event of his premature death, his wife will receive the policy's death benefit income tax-free[4] to help protect his family's financial security and all of the dreams they shared. Since Larry properly funds his cash value policy, the policy cash value grows tax-deferred and is available for Larry to access as the owner of the policy. In order to provide supplement retirement income, Larry is able to take tax-free[5] loans and withdrawals from the available cash value in the policy.

4 For federal income tax purposes, life insurance death benefits generally pay income tax-free to beneficiaries pursuant to IRC Sec. 101(a)(1). In certain situations, however, life insurance death benefits may be partially or wholly taxable. Situations include, but are not limited to: the transfer of a life insurance policy for valuable consideration unless the transfer qualifies for an exception under IRC Sec. 101(a)(2) (i.e., the "transfer-for-value rule"); arrangements that lack an insurable interest based on state law; and an employer-owned policy unless the policy qualifies for an exception under IRC Sec. 101(j).

5 For federal income tax purposes, tax-free income assumes, among other things: (1) withdrawals do not exceed tax basis (generally, premiums paid less prior withdrawals); (2) policy remains in force until death; (3) withdrawals taken during the first 15 policy years do not occur at the time of, or during the two years prior to, any reduction in benefits; and (4) the policy does not become a modified endowment contract. See IRC Secs. 72, 7702(f)(7)(B), 7702A. Any policy withdrawals, loans and loan interest will reduce policy values and may reduce benefits.

LIFE INSURANCE FOR SUPPLEMENTAL RETIREMENT INCOME PROFILE:

- Individual with a need for death benefit protection for his or her family.
- At least 10 years away from retirement and has a need for supplemental retirement income.
- Your client is comfortable with the policy's death benefit proceeds being includable in his or her taxable estate at death.

1

Client purchases a personally owned cash value life insurance policy on his or her life.

2

Any growth in the policy's cash value is tax-deferred.

3

During his or her lifetime, the client may take tax-free[5] loans or withdrawals from the policy's available cash value to supplement his/her income.

4

At the client's death, his or her policy beneficiaries are paid the policy's death benefit income tax-free.[4]

Financial Tool	Annual Limits on Contributions	Tax-Deductible Contributions	Tax-Deferred Accumulation	Income Tax-Free Distributions/ Withdrawals	Penalty Tax for Early Withdrawal	Income Tax-Free Death Proceeds
Traditional IRA	Yes	Yes**	Yes	No	Yes	No
Roth IRA	Yes	No	Yes	Yes††	Yes††	Yes††
Qualified Plan	Yes	Yes	Yes	No	Yes	No
CD*	No	No	No	No	No	No
Mutual Fund†	No	No	No	No	No	No
Municipal Bond‡	No	No	Yes	Yes	No	No
Individual Owned Deferred Annuity	No	No	Yes	No	Yes	No
Life Insurance	**No§**	**No**	**Yes**	**Yes‡‡**	**No‡‡**	**Yes§§**

Income tax treatment includes the treatment of Capital Gains and Dividends. This chart excludes Estate Tax treatment. There are ways to structure your estate to help protect against this impact. Consult with your life insurance producer and independent tax advisor before purchasing any financial products.

* A Certificate of Deposit (CD) is FDIC insured.

† Mutual funds may be subject to income tax and/or capital gains tax. Consult your tax advisor for more information.

‡ Municipal bonds: Generally, interest paid on municipal bonds is tax-free, but not all municipal bonds are exempt from federal and/or state income tax. Some bonds may be subject to capital gains tax at sale. Consult your tax advisor for more information.

§ Life Insurance: There is not a specific limit on dollars allocated to purchase life insurance; however, there are maximum premium limits determined by a specified policy face amount. A policy will qualify as life insurance if it meets the requirements of IRC Sec. 7702, which includes limits on the amount of premium that may be paid into a specific face amount and still qualify as life insurance.

** Traditional IRA: If you are covered by a qualified retirement plan at work, traditional IRA contributions are fully deductible only if your adjusted gross income falls under the following amounts (for 2022): single up to $68,000; married filing jointly $109,000. Source: https://www.irs.gov/newsroom/irs-announces-changes-to-retirement-plans-for-2022.

†† Roth IRA: A distribution from a Roth IRA generally is income tax-free and penalty-free if (a) it meets all the requirements for a qualified distribution (which include a 5-year waiting period and one of several additional requirements, one being that the distribution is made to a beneficiary on or after the death of the individual), or (b) it is a nonqualified distribution to the extent of after-tax contributions (basis) see IRC Sec. 408A.

‡‡ Life Insurance: For federal income tax purposes, tax-free income assumes, among other things: (1) withdrawals do not exceed tax basis (generally, premiums paid less prior withdrawals); (2) policy remains in force until death (any outstanding policy debt at time of lapse or surrender that exceeds the tax basis will be subject to tax); (3) withdrawals taken during the first 15 policy years do not cause, occur at the time of, or during the two years prior to, any reduction in benefits; and (4) the policy does not become a modified endowment contract. Any policy withdrawals, loans, and loan interest will reduce policy values and may reduce benefits.

§§ Life Insurance: For federal income tax purposes, life insurance death benefits generally pay income tax-free to beneficiaries pursuant to IRC Sec. 101(a)(1). In certain situations, however, life insurance death benefits may be partially or wholly taxable. Situations include, but are not limited to: the transfer of a life insurance policy for valuable consideration unless the transfer qualifies for an exception under IRC Sec. 101(a)(2)(i.e. the transfer-for-value rule); arrangements that lack an insurable interest based on state law; and an employer-owned policy unless the policy qualifies for an exception under IRC Sec. 101(j).

POTENTIAL ADVANTAGES:

- The life insurance policy's death benefit provides Larry's wife and family with financial protection should he die prematurely.
- The life insurance policy cash value grows tax-deferred.
- Larry does not have to comply with the funding requirements and non-discrimination rules for qualified plans.
- Larry may access the life insurance policy's cash value to supplement his retirement income.

CONSIDERATIONS:

- The life insurance policy's death benefit proceeds will be includable in Larry's taxable estate.[6]
- Cash value life insurance has various charges that are deducted from the cash value in order to provide the death benefit protection, so there should be a need for additional death benefit protection by the insured.

POTENTIAL ADD-ON STRATEGY:

Split-Funded Defined Benefit (SFDB) Plan

Because Larry is an owner of a pass-through entity (Pages Consulting is taxed as an S-Corporation), he could potentially qualify for a 20% deduction on the Qualified Business Income (QBI) of the business under Internal Revenue Code section 199A ("199A").[2] Since Pages Consulting provides consulting services, the business would be considered to be a "Specified Service Trade or Business" (SSTB) under 199A. As an SSTB, in order to qualify for the deduction, his total taxable income (including any income of his wife, as they file jointly) must be under a certain amount ($340.100 for 2022) to receive the full 20% deduction. Larry makes $500,000 per year and although his wife has no income, they only need $300,000 a year to live off. In order to lower his taxable income to qualify for the deduction, Larry can implement and contribute to a Split-Funded Defined Benefit Plan for the next several years.

A Split-Funded Defined Benefit (SFDB) plan is a type of a defined benefit plan. A defined benefit plan is a qualified plan designed to provide the participant with a stated benefit at retirement,[7] which in the case of older participants, generally will allow a business to make much larger contributions to the plan than it could make to a defined contribution plan (e.g., a 401(k)-profit-sharing plan). Split-Funded means that is funded with both securities and life insurance. Including an incidental amount of life insurance in the plan not only allows the participant to meet his or her life insurance needs using pre-tax dollars, but also increases the annual deductible contribution without reducing the retirement income benefit.[8]

Since contributions to the SFDB plan are deductible to the business, if Larry is able to contribute $200,000 per year to the SFDB plan[9], he would be able to reduce his taxable income to $300,000 in order to qualify for the deduction under 199A. In addition to the benefit of having an additional retirement vehicle, by qualifying for the 199A deduction, Larry also now has additional cash flow, which would have otherwise been paid in income taxes, that he can use to make the premium payments[10] on his personally-owned policy for supplemental retirement income purposes.

SFDB PLAN PROFILE:

- Business owner of a pass-through entity (S-Corporation, Partnership, LLC, Sole Proprietorship).
- Is significantly closer to retirement age than his/her employees.
- Has relatively few employees or already has a defined contribution plan in place for the employees, such as a 401(k) plan.

6 According to the Tax Cuts and Jobs Act of 2017, the federal estate, gift and generation-skipping transfer (GST) tax exemption amounts are all $10,000,000 per person (indexed for inflation effective for tax years after 2011); the maximum estate, gift and GST tax rates are 40%. In 2026, the federal estate, gift and generation-skipping transfer (GST) tax exemption amounts are scheduled to revert to $5,000,000 per person (indexed for inflation for tax years after 2011).
7 In 2022, the maximum benefit that may be provided by a defined benefit plan is $245,000 per year.
8 It is important to emphasize that the amount of plan contribution that can be allocated to the life insurance premium and the amount of death benefit proceeds that can be paid out in the event of death are limited under the "incidental death benefit" rules for qualified plans. Additionally, the use of life insurance in a qualified plan must meet certain nondiscrimination rules. Participants are urged to discuss these limitations and rules with a qualified plan third-party administrator (TPA) before placing life insurance inside a qualified plan. Experienced qualified plan TPAs can assist participants in selecting an appropriate plan design, as well as offer help, together with the plan's legal and tax advisors, in navigating the myriad qualified plan rules and regulations to achieve specific objectives.
9 The amount that can be contributed to the qualified plan for each participant must be calculated by a qualified TPA.
10 Cash Value Life Insurance generally requires additional premium payments after the initial premium. If either no premiums are paid, or subsequent premiums are insufficient to continue coverage, it is possible that coverage will expire.

CASE STUDY: EXECUTIVE BENEFITS

SITUATION:

Suzanne owns a business that designs and creates product display stands in stores. Suzanne has a good number of employees that all have different roles and there is not a clear "rank-and-file" vs. select group of management grouping of employees. Suzanne has several of her key employees that always put in extra effort to make sure the clients are happy, one of whom is Jackson.

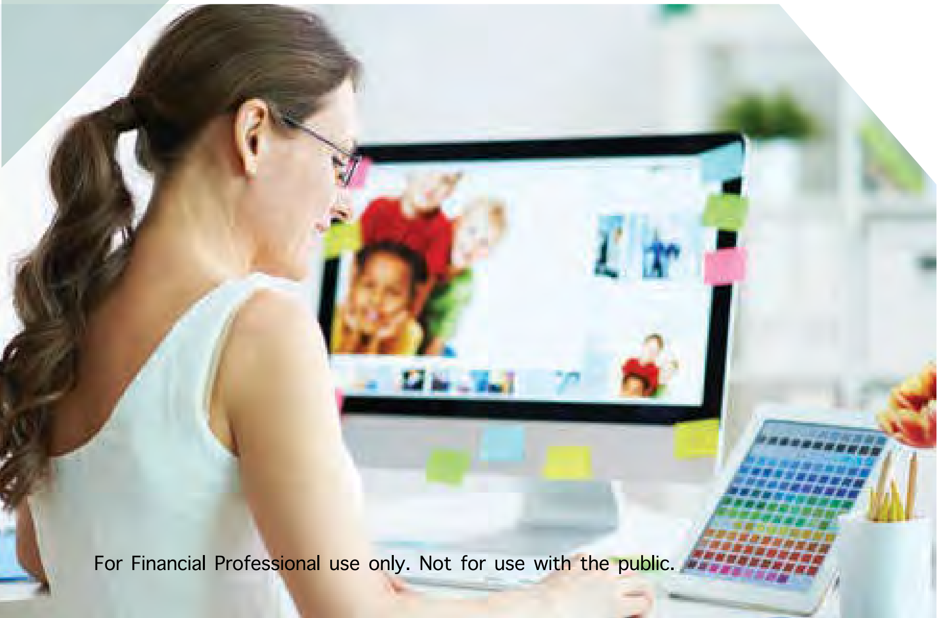
CHALLENGE:

Suzanne wants to reward Jackson for his hard work and the extra effort that she notices he puts in. Because he has such a good work ethic, she wants to make sure she does not lose him as an employee either. Even though Suzanne wants to reward Jackson, she isn't able to put a Non-Qualified Deferred Compensation Plan in place for him due to ERISA (Employee Retirement Income Security Act of 1974) requirements, and for the same reason, doesn't want to establish a qualified plan that she would have to offer to all employees.

STRATEGY:

Executive Bonus Arrangement

Suzanne establishes an Executive Bonus Arrangement for Jackson. Suzanne agrees to assist Jackson with the purchase of a cash value life insurance policy through a series of taxable bonuses. The bonuses are potentially tax-deductible to Suzanne's business, so she chooses to "gross-up" the bonuses to Jackson to help reimburse him for the income taxes generated as a result of the additional compensation. Jackson uses the bonuses to purchase a personally-owned life insurance policy and maintains complete ownership of the policy. As an additional benefit, Jackson will be able to access any available cash value in his policy. However, if Jackson were to leave the company while the policy is still in the premium paying stage, he would have to then come up with the funds for the premiums himself or risk the policy potentially lapsing. This aspect incentivizes Jackson to stay with the company and accomplishes the retention that Suzanne wanted.



CASE STUDY: EXECUTIVE BENEFITS *(continued)*

EXECUTIVE BONUS PROFILE:

- Owner and non-owner executives of C-Corporations.
- Non-owner executives of pass-through entities.
- Employers who want to recruit, reward and retain key employees.
- Employers who want to offer benefits in excess of those offered by the qualified retirement plans they offer or do not want to be limited by the same non-discrimination rules.

POTENTIAL ADVANTAGES:

- Tax deductible bonuses[11] are used to provide the benefit.
- Little to no administration cost since a TPA is not required.
- There are no minimum participation requirements, such as with a qualified plan.
- Executive is able to access any available cash value for potential supplemental income.
- The policy is portable should the insured employee cease working for the employer.

CONSIDERATIONS:

- The executive must recognize the bonus payments as taxable income.
- The employer may not recapture the bonuses already paid to the executive should the executive decide to leave.
- If the executive separates from service, or the arrangement is terminated, the executive will have to personally pay any future premiums or the policy may lapse.

ALTERNATIVE EXECUTIVE BENEFITS OPTIONS:

- Restricted Executive Bonus Arrangement
- Split-Premium Bonus Arrangement
- NQDC Plan
- Split-Dollar (loan regime or economic benefit regime)

CASE STUDY: KEY PERSON PROTECTION

SITUATION:

Beth owns a successful technology start-up company, Alta, Inc., which has been growing rapidly since she started it ten years ago. The success of the company has been due largely to the cutting-edge programing and innovative algorithms created by Beth's lead engineer, Kevin, who has worked for Alta since Beth started the company. Kevin is extremely intelligent and gifted, but he was not always as skilled of an engineer as he is now – he has grown with the company and increased his knowledge and skillset over the years.

CHALLENGE:

Beth relies heavily upon Kevin's skills and abilities in creating and updating new technology solutions. Beth fears that if something were to unexpectedly happen to Kevin, or if he were to be hired away by another technology company, that loss would cause a disruption in production and would be financially devastating to Alta. To hire someone new to replace Kevin would require finding someone who is already at the experience level of Kevin, which in the competitive tech industry, would mean offering a significantly higher salary than what she is paying Kevin. Further, time and resources may need to be invested in additional training for a new employee to get them up to speed with Kevin's knowledge of the company's programming.

STRATEGY:

Business-Owned Key Person Policy

To protect Alta against the unexpected loss of Kevin, Alta provides Kevin with the proper notice and consent and takes out a life insurance policy on Kevin's life, of which Alta is the owner and beneficiary. Should something unexpectedly happen to Kevin and he were to die prematurely, Alta will receive the policy death benefit proceeds tax-free[12] to be able to use to hire and train an adequate replacement for Kevin. Should Kevin be poached by another tech company and leave, Alta, as the owner of the policy, can access any available cash value in the policy to take out potentially tax-free[13] loans or withdrawals to assist with the cost of securing the replacement for Kevin.

11 The deductibility of the bonus is subject to the reasonable compensation limits established by IRC Sec. 162(a).

12 For federal income tax purposes, life insurance death benefits generally pay income tax-free to beneficiaries pursuant to IRC Sec. 101(a)(1). In certain situations, however, life insurance death benefits may be partially or wholly taxable. Situations include, but are not limited to: the transfer of a life insurance policy for valuable consideration unless the transfer qualifies for an exception under IRC Sec. 101(a)(2) (i.e., the "transfer-for-value rule"); arrangements that lack an insurable interest based on state law; and an employer-owned policy unless the policy qualifies for an exception under IRC Sec. 101(j).

13 For federal income tax purposes, tax-free income assumes, among other things: (1) withdrawals do not exceed tax basis (generally, premiums paid less prior withdrawals); (2) policy remains in force until death; (3) withdrawals taken during the first 15 policy years do not occur at the time of, or during the two years prior to, any reduction in benefits; and (4) the policy does not become a modified endowment contract. See IRC Secs. 72, 7702(f)(7)(B), 7702A. Any policy withdrawals, loans and loan interest will reduce policy values and may reduce benefits.

CASE STUDY:
KEY PERSON PROTECTION *(continued)*

Key Person

1

Notice and Consent

Business

2

Premium

3

Death Benefit

Life Insurance Policy

1 **Notice and Consent:** The business provides written notice to the key executive that it intends to buy and be the beneficiary of life insurance on the key executive's life and may choose to continue the coverage beyond the executive's employment. The business must also notify the key executive as to the maximum amount of life insurance that could be placed on the key executive's life. The key executive then provides the business with written consent to purchase the life insurance.

2 **Premium:** The business buys life insurance on the key executive's life and retains all ownership rights. The business pays the life insurance policy premiums and is the beneficiary of the policy's death benefit.

3 **Death Benefit:** At the executive's death, the business will receive the life insurance death benefit income tax-free.[12]

POTENTIAL ADVANTAGES:

- Alta will be provided with financial protection against the premature death of Kevin.
- Alta will have the liquidity needed at the loss of Kevin to recruit and train a suitable replacement.
- If cash value life insurance is utilized:
  - The cash value of the policy will grow on a tax-deferred basis.
  - Alta may book the cash value of the policy as an asset on its balance sheet.
  - Alta may access any available cash value for emergencies or other financial needs.
- A cash value key person life insurance policy could be utilized as the informal funding vehicle for a Non-Qualified Deferred Compensation plan.

CONSIDERATIONS:

- As an asset of the business, the policy may be subject to any creditors of Alta.
- Since Alta is both the owner and the beneficiary of the policy, Alta may not deduct the cost of the life insurance policy premiums[14].

14 IRC Sec. 264(a)(1)

CASE STUDY: BUSINESS SUCCESSION

SITUATION:

Benjamin is 60 and owns Parts-4-U, an automotive manufacturing company, which he started 30 years ago and built from the ground up. Benjamin is married with three daughters, but none of them are active in the business or have any desire to take over the business when Benjamin retires or passes away. Although he has many employees that work in the manufacturing facility, only a select few of his employees are key executives or hold an officer position. One of those few employees is Benjamin's Vice President, Ethan. Ethan is Benjamin's most trusted executive and has been with the company for many years. He has worked his way up to the prominent position he now holds within the company and knows the ins and outs of the company just as well as Benjamin.

CHALLENGE:

While Benjamin loves his company and what he does, as he gets older, he does not have the energy that he used to and may decide to retire in ten years. After putting so many years in to build Parts-4-U into the successful manufacturing company it is today, Benjamin wants to ensure that the company continues successfully beyond his working years. Benjamin has always invested back into the company and has no outside retirement assets. In order to retire comfortably, Benjamin needs to sell the business, but does not feel comfortable handing his business off to an outside buyer that he does not know and trust will run things the way he has. Since none of his daughters have any desire to take over the business, Benjamin must find another buyer that he knows will be able to purchase the company from him when he wants to retire.

STRATEGY:

One-Way Buy-Sell

Benjamin knows that Parts-4-U would continue to thrive with Ethan in charge and decides that he would like for Ethan to take over the business from him. Ethan agrees, and they enter into a One-Way Buy-Sell agreement, the terms of which obligate Ethan to purchase Parts-4-U from Benjamin upon Benjamin's retirement or death. To fund the buy-sell, Ethan purchases a cash value life insurance policy on Benjamin's life, of which Ethan is the owner and beneficiary. Should Benjamin die prematurely, Ethan will receive the policy death benefit proceeds income tax-free[15] to use to purchase the business from Benjamin's estate. If Benjamin survives until his retirement date, Ethan can access the available cash value within the policy for tax-free[16] loans or withdrawals to help purchase Parts-4-U from Benjamin.

15 For federal income tax purposes, life insurance death benefits generally pay income tax-free to beneficiaries pursuant to IRC Sec. 101(a)(1). In certain situations, however, life insurance death benefits may be partially or wholly taxable. Situations include, but are not limited to: the transfer of a life insurance policy for valuable consideration unless the transfer qualifies for an exception under IRC Sec. 101(a)(2) (i.e., the "transfer-for-value rule"); arrangements that lack an insurable interest based on state law; and an employer-owned policy unless the policy qualifies for an exception under IRC Sec. 101(j).

16 For federal income tax purposes, tax-free income assumes, among other things: (1) withdrawals do not exceed tax basis (generally, premiums paid less prior withdrawals); (2) policy remains in force until death; (3) withdrawals taken during the first 15 policy years do not occur at the time of, or during the two years prior to, any reduction in benefits; and (4) the policy does not become a modified endowment contract. See IRC Secs. 72, 7702(f)(7)(B), 7702A. Any policy withdrawals, loans and loan interest will reduce policy values and may reduce benefits.

CASE STUDY:
Business Succession *(continued)*

ONE-WAY BUY-SELL PROFILE:

- Sole business owner.
- Key executive or family member that is active in the business, to whom the business owner would like to sell his or her interest in the business.

Business Owner/Insured

Key Executive

1 Agreement

4 Purchase of Business Interest

2 Premium

3 Death Benefit

Business Owner's Estate

Life Insurance Policy

1 **Agreement:** Working with their tax, legal, and financial advisors, the business owner and the key executive enter into a one-way buy-sell agreement. The agreement will require the key executive to purchase the business owner's interest in the business for an agreed upon price upon the business owner's death or retirement.

2 **Premium:** To fund his or her purchase obligation, the key executive, working with a life insurance producer, will purchase a life insurance policy on the life of the business owner. The key executive will pay the policy premiums and will be the policy beneficiary. To assist with the premium payments, the business may provide the key executive with a taxable bonus or a series of taxable bonuses.

3 **Death Benefit:** At the business owner's death, the key executive will receive the life insurance death benefit proceeds income tax-free.[15] Or, if the owner retires, the key executive may access the available cash value via tax-free loans and withdrawals.

4 **Purchase of Business Interest:** The key executive may apply the death benefit proceeds towards the purchase of the business owner's interest in the business from his or her estate.

POTENTIAL ADVANTAGES:

- Benjamin will have a willing buyer for the business at his death or retirement.
- Benjamin will know that Ethan will be the person managing the company after Benjamin's death or retirement.
- The proceeds from the sale may provide a source of income for Benjamin's wife after his death.
- Ethan will receive basis in the business equal to the purchase price.

CONSIDERATIONS:

- Benjamin must rely on Ethan to actually purchase the business upon Benjamin's death or retirement.
- Ethan must pay the premiums for the life insurance policy, unless an Executive Bonus or SERP Buy-Out arrangement is implemented as well.
- The life insurance policy's cash value would be includable in Ethan's estate if he were to predecease Benjamin.
- Benjamin's family would no longer own the portion of the business sold to Ethan.

POTENTIAL ADD-ON STRATEGIES:

EXECUTIVE BONUS ARRANGEMENT

To assist Ethan with making the premium payments for the policy that Ethan owns on Benjamin's life for the purpose of the buy-sell, the company could establish an Executive Bonus arrangement to provide a series of taxable bonuses to Ethan, which are deductible to the business within reasonable compensation limits.

SERP FOR A "SERP BUY-OUT"

If Benjamin has a set date that he plans to retire, an alternative option to assist Ethan with the buy-out, is to establish a Supplemental Executive Retirement Plan (SERP), which is a type of Non-Qualified Deferred Compensation plan that consists solely of employer contributions. These types of plans may only be offered to "top-hat" employees, such as Ethan. Typically, a SERP pays a benefit at the executive's retirement, but here the SERP agreement can provide for a specified time distribution trigger and a 10 year cliff-vesting schedule, at which time a lump sum benefit can be paid to Ethan when Benjamin retires. The SERP can serve as both an executive retention strategy and as a sinking fund to help ensure that the funds for the buy-out will be there when Benjamin retires.

For a SERP, the employer may informally fund the promised benefit with any asset it deems appropriate, such as life insurance, which is usually in the form of a key person policy. Accordingly, the business can purchase a cash value policy on Ethan's life as informal funding for the SERP. To provide interim funding for the buy-sell prior to Benjamin's set retirement date, should Benjamin die prematurely, Ethan could also purchase a term policy on Benjamin's life to cover this period.

ALTERNATIVE BUSINESS SUCCESSION OPTIONS:

CROSS-PURCHASE BUY-SELL

- 2 or 3 business owners.
- Business owners own policies on each other's lives to be able to purchase the exiting business owner's interest.

ENTITY REDEMPTION BUY-SELL

- 3+ business owners.
- The business owns policies on the business owners' lives to be able to purchase/redeem the exiting business owner's interest.

INSURED CONTROLLED CROSS-PURCHASE BUY-SELL

- Owners are partners in a partnership or a limited liability company (LLC) that is taxed as a partnership. A partnership is a required in order for the arrangement to qualify for an exception to the "transfer-for-value" rule, but that partnership does not need to be the business that is subject to the buy-sell.
- 2 or more business owners.
- Each business owner owns a policy on his or her own life and has an endorsement split-dollar arrangement in place to endorse the death benefit out to the other business owner(s).
  - Each business owner must pay the Reportable Economic Benefit (REB) cost annually to the business owner(s) from whom they are receiving the endorsement.

Conclusion

Small businesses account for an overwhelming majority of the businesses in the United States, creating a large market of business owners. Business owners often have multiple planning needs across various planning areas. It is important to ask the right questions, which may include industry-specific considerations, to identify your client's planning needs in order to uncover potential planning opportunities that would have otherwise been left on the table and not addressed for your client. Pacific Life can help you help your client by assisting you to identify these opportunities.

For more information on the planning opportunities in the Playbook, visit Lifeline.com for additional materials or contact Pacific Life's Advanced Designs Unit at 800.800.7681 ext. 3690.

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Prudential

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Big opportunities in small businesses

32.5 million small businesses in the United States[1]

5.4 million new business applications were filed in 2021, breaking the record previously set in 2020[2]

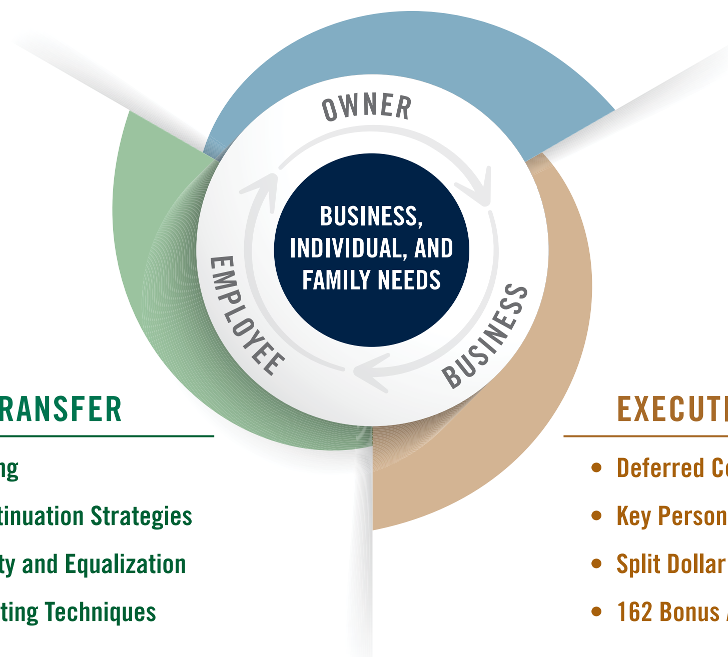
Almost two-thirds of small businesses are currently profitable[3]

CLIENT OPPORTUNITIES

There are exponential opportunities by initiating just one conversation with a business owner. When working with a business owner, it is not only the varied needs of the business itself that presents an opportunity. Don't forget about the personal planning needs of the business owner and employees, as well as family members involved in the business and those who are not.

RETIREMENT PLANNING

- Income Tax Diversification Strategies
- Life Insurance and Benefits for Chronic Illness
- Life Insurance in Retirement Planning (LIRP)
- Qualified Plan Strategies



WEALTH TRANSFER

- Estate Planning
- Business Continuation Strategies
- Estate Liquidity and Equalization
- Leveraged Gifting Techniques

EXECUTIVE BENEFITS

- Deferred Compensation
- Key Person
- Split Dollar
- 162 Bonus Arrangements

Consider a business in terms of its stage

DETERMINING THE STAGE

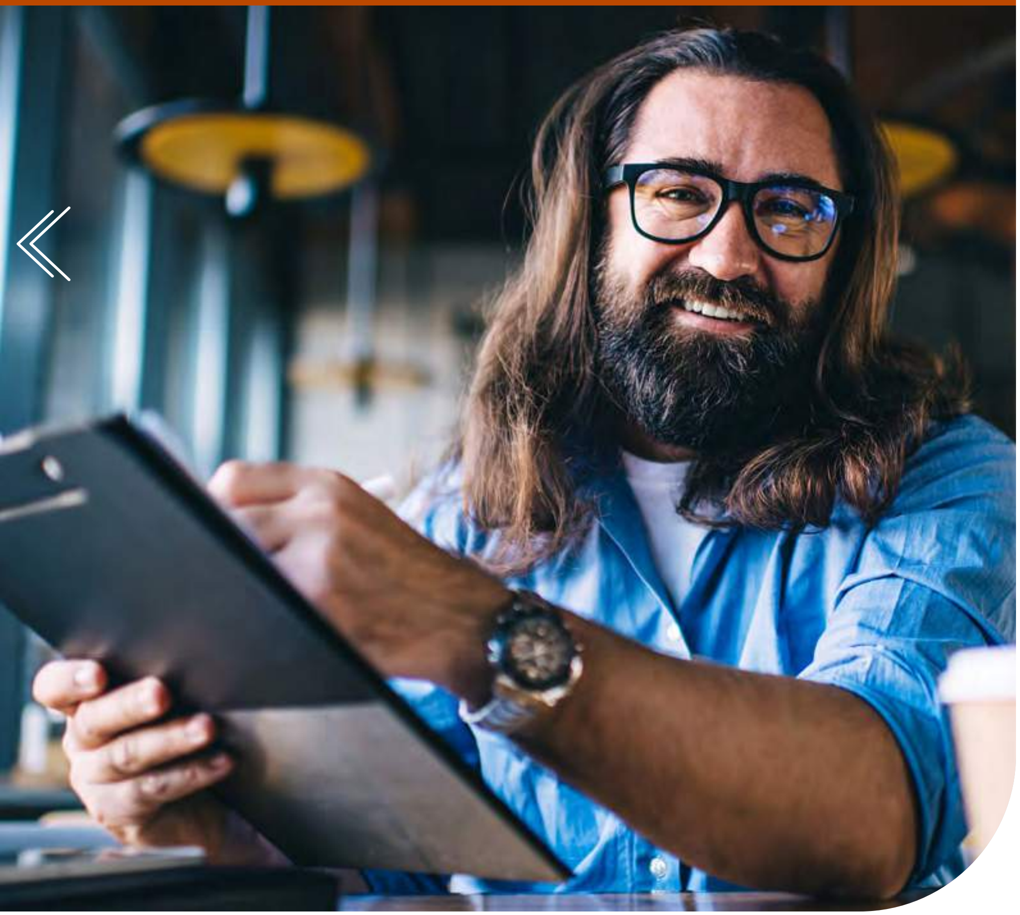
Get the conversation started to determine the stage with the owner:

1. How many years have you been in business?
2. Is your business growing or is it fairly stable in size and volume?
3. Is your cash flow stable?
4. When are you thinking of retiring?
5. What are your plans for expansion?

CONCERN	START-UP	GROWTH	MATURE	TRANSITION
Death or disability of an owner	●	●	●	●
Creditor protection	●	●	●	●
Death of a key employee		●	●	●
Employee retention		●	●	●
Succession planning		●	●	●
Retirement planning		●	●	●
Estate planning for owner(s)			●	●
Estate equalization				●
Selling to next owner				●

Start-up stage

- Typically has short-term outlook
- Often cash poor
- Fluctuating cash flow and may not be generating profit
- Tend to have unrealistic expectations of time and sacrifice to build the business



THE OPPORTUNITY

- Long relationship ahead of you
- Growth phase is coming in the years ahead
- Contacts and referrals from other business owners and employees

START-UP'S RISKS

Owner becomes disabled or dies

A Start-up's business is almost always completely dependent upon the owner. If that owner is gone, for either reason, the value of the business could be significantly reduced, a family may lose control of the business, and ownership transfers could become tricky if the beneficiary isn't ready or doesn't want to assume control. A financial loss could be significant.

Personal property as collateral for a business loan

Many times, a Start-up will be funded with a business loan … using personal property as collateral. A family could stand to lose so much if the business should encounter rough times. Many times, banks will require individual life insurance as collateral.

CONTINUED ON NEXT PAGE

Start-up stage

Why a life insurance policy for a Start-up stage

The right life insurance policy and strategy can help protect the business and an owner's family.

Protection if an owner dies or is disabled

If the owner dies, the death benefit could help the family or estate continue with the business or pay off debt the business may have incurred. In the case of a qualifying chronic or terminal illness, a policy with a rider for chronic or terminal illness can allow the death benefit to be accelerated to provide money for anything that might be needed.

Protection to pay back business loans

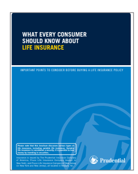
A life insurance policy could be used to repay a business loan, if needed. Many times, a bank may require the business owner to buy a life insurance policy as collateral against the loan. The death benefit from a life insurance policy could give the family enough liquidity to keep a business afloat as they work through their loss.

CONVERSATION STARTERS

1. You have obviously put a lot of time and energy into your business. Have you taken any steps to help protect it if something happens to you?
2. Do you have a family who might have to change their lifestyle if you should die and, as a result, your business fails?
3. Does your family rely on your business as its primary source of support?
4. Are you concerned about being in business with your partner's (co-owner's) spouse or family members if your partner were to pass away?

Concepts to consider and applicable materials

- **Basic Life Insurance** What Every Consumer Should Know About Life Insurance
- **Buy-Sell Agreement** A Buy-Sell Agreement Solution to Protect the Future of Your Business



Growth stage

- Increased demand for goods and services
- Cash flow fluctuating but may be generating profit
- Looking for leaders and/or employees
- Looking for credit relationships and quality suppliers
- Looking for diversity from core business

THE OPPORTUNITY

- Long relationship ahead of you
- With growth comes great potential
- Time to lay the groundwork for retirement and business transition
- Contacts and referrals from other business owners, employees, and family members

GROWTH'S RISKS

Business assets as collateral for a business loan

A Growth's situation may still have the original business loan that is being repaid, and if they are expanding, they may have additional loans. Personal property and the business itself could be lost if financial protection isn't in place.

Death or loss of a key employee

There are some employees who are critical to a business' success. If any of those employee should die or leave, there are impacts to many areas of the business. The business could experience disruption to management, operations, or product development. Some customers could leave, credit could become impaired, and it could take significant time and money to replace them.

CONTINUED ON NEXT PAGE

Growth stage

Why a life insurance policy for a Growth stage

Protection if a key employee should die

A death benefit from a life insurance policy, used in a **key person strategy**, could help the business get through a potentially difficult time if an employee who is critical to the business passes away. It can potentially help a business access credit, which may be needed more than ever. These proceeds could assist with a search for new talent that could provide the skills and expertise needed by the business.

Protection to pay back business loans

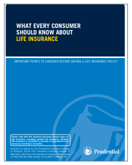
The death benefit of a policy, used for **creditor protection**, could be used to repay business loans or other debt so the business assets don't need to be touched. The death benefit from a life insurance policy could give the family enough liquidity to keep a business afloat as they work through their loss. It could also help pay back a bank loan that required a life policy as collateral.

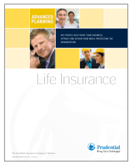
CONVERSATION STARTERS

1. You have obviously put a lot of time and energy into your business. What have you done to ensure the continuation of your business after your death?
2. Do you have a family who might have to change their lifestyle if you should die and, as a result, your business goes under?
3. Do you have key employees who are capable of managing the business in your absence?
4. Is there an employee whose departure to a competitor would devastate your business?
5. Are you concerned about being in business with your partner's (co-owner's) spouse or family members if your partner were to pass away?

Concepts to consider and applicable materials

- **Basic Life Insurance** What Every Consumer Should Know About Life Insurance
- **Buy-Sell Agreement** A Buy-Sell Agreement Solution to Protect the Future of Your Business
- **Key Person Insurance** Key People Help Drive Your Business Client Brochure





Mature stage

- Developing a strong management team
- Cash flow is generally stable and profitable
- Looking to manage employee retention costs
- Exploring exit strategies

THE OPPORTUNITY

- The future of the business—next generation is a whole new opportunity
- Transition is coming
- Retirement around the corner
- Contacts and referrals from other business owners, employees, and family members

MATURE'S RISKS

No succession plan

As a business matures, the business' value may grow. There may be interest in the business lasting beyond the original generation. There is potential for liquidity and tax issues, parents may have difficulty in equalizing an inheritance for children who aren't in the business, and loved ones may be dependent on the business for income with nowhere else to turn.

No retirement plan

Owners many times create plans for their business to live on without them, but they fail to create a plan for them to live on without their business. If they don't adequately plan, they may find it hard to maintain their lifestyle in retirement. Also, if they haven't taken an active interest in diversifying their assets, they may find themselves with "all of their eggs in one basket" … and they may have an unrealistic expectation of their business' value, too.

A key executive is being wooed by other companies

There are certain executives who are so valuable to a business that they need to be protected and kept secure. If these executives should be wooed away to a competitor, it could have a major effect on a business.

CONTINUED ON NEXT PAGE

Mature stage

Why a life insurance policy for a Mature stage

Facilitate a succession plan

A life insurance policy used in a **Buy-Sell Agreement** can help ensure that business owners have an established plan for transferring the business to those whom the owners agree upon when one passes away. This type of plan can help ensure that the business continues smoothly, and that the remaining owners aren't forced to work with family members of the deceased owner if they don't want to, and can help establish boundaries for other family or interested party involvement.

Supplements a retirement strategy

A life insurance policy, used in a **Life Insurance for Retirement Planning (LIRP) strategy**, can be used to supplement income in retirement for the retired owner. This can help fill in any income gaps that might exist through gaps in planning.

Create an incentive for executives

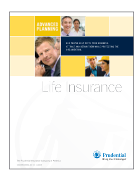
A life insurance policy, used in an **Executive Compensation** arrangement, could be used to create a financial incentive for a critical employee to remain with the business or to attract new talent. This can help that employee to "pass" on offers from competitors and remain satisfied in that decision.

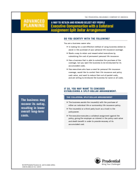
CONVERSATION STARTERS

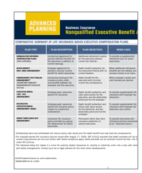
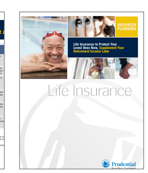
1. Who keeps your business' doors open?
2. Do you have key employees who are capable of managing the business in your absence?
3. Is there an employee whose departure for a competitor would devastate your business?
4. Are you concerned about being in business with your co-owner's spouse or family members if your co-owner were to pass away?
5. Do you know the value of your business? Have you had a formal business valuation?

Concepts to consider and applicable materials

- **Key Person Insurance** Key People Help Drive Your Business Client Brochure
- **Split Dollar** Collateral Assignment Arrangement Split Dollar Flyer
- **Executive Bonus (Section 162 Bonus)** Executive Compensation Plans Brochure
- **Non-Qualified Deferred Compensation Plans** Comparison of Non-Qualified Executive Benefit
- **Life Insurance in Retirement Planning (LIRP)** LIRP Consumer Brochure





Transition stage

- Executing a business transition and succession strategy
- Cash flow generally stable and profitable
- Taking care of employees
- Planning for next phase in life

THE OPPORTUNITY

- Long relationship with family taking over or subsequent owners
- Potential shift to individual needs
- Contacts and referrals from other business owners, employees, and family

TRANSITION'S RISKS

No business 'exit' strategy

It's important for a business to have an owner "exit" plan. If there is no plan in place, it leaves the business, the owners, and the families at risk. Many times a thriving business will falter when an owner wants to retire because there was never a clear plan in place to transition it.

Unequal distribution of assets among children

If an owner's children and family members are not equally involved in the business, there may be an inequitable distribution of wealth when the owner passes away. Having a great difference in inheritances can cause messy estate issues, not to mention hard feelings among family members.

CONTINUED ON NEXT PAGE

Transition stage

Why a life insurance policy for a Transition stage

Establish a road map for the sale of the business or business share

In a family-owned business or business with co-owners, when the time comes and an owner is no longer part of that business, what happens to their share? It is important that a plan be created so there is nothing left to chance. A **buy-sell strategy** using life insurance is a way to make that happen.

Ensure an equitable division of assets

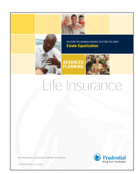
In situations where there are family members who want to be part of the business and others who don't, a life insurance policy, in an **estate equalization strategy**, can help equalize the inheritance. Using a life insurance strategy can provide a death benefit to the family members who will not be getting an ownership interest in the business. This type of strategy can also help structure the details of when to equalize, how it will be done, who will get it, etc.

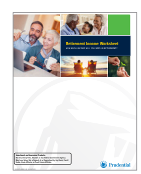
CONVERSATION STARTERS

1. Are you concerned about being in business with your co-owner's spouse or family members if your co-owner were to pass away?
2. What is your walk-away number?
3. What is your business worth? Where did this number come from? Was a valuation done? If so, by whom and how long ago?
4. Will less than one-half of your retirement income be dependent on your business?

Concepts to consider and applicable materials

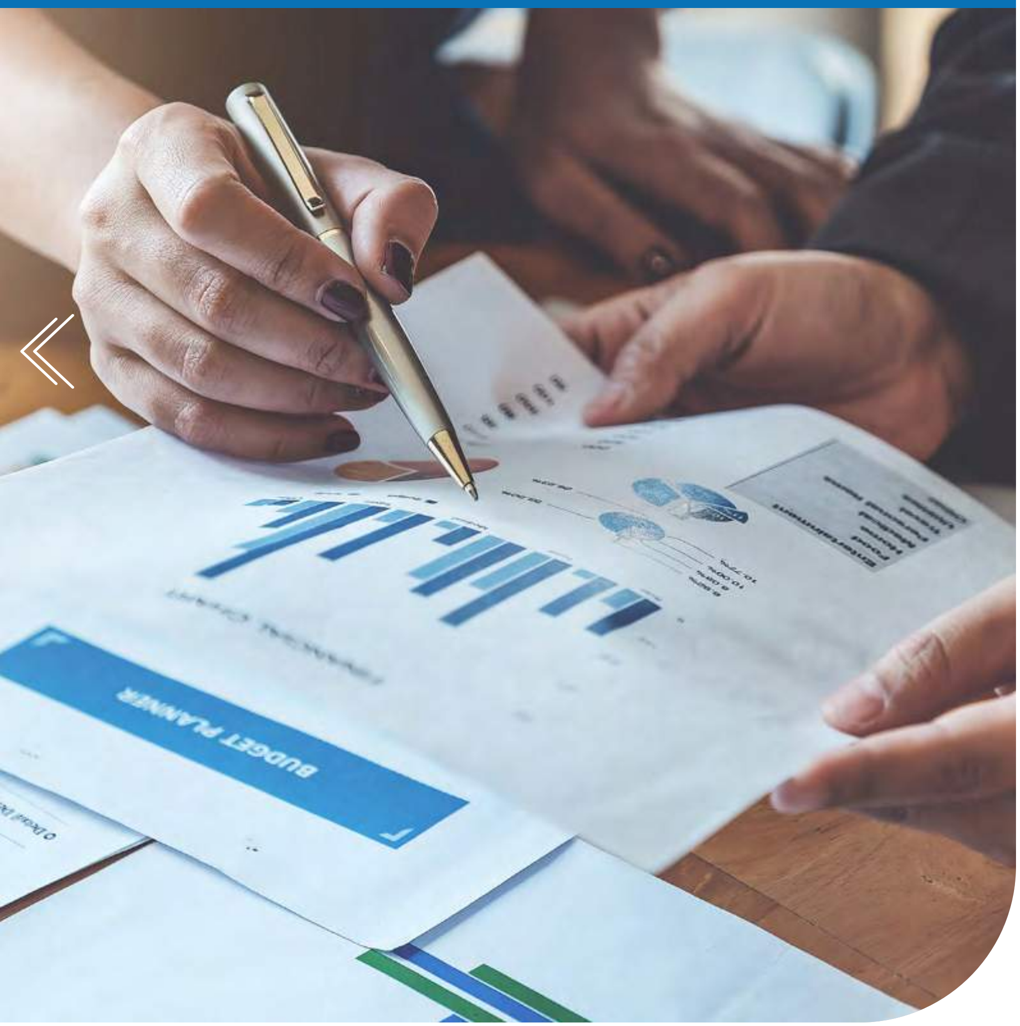
- **Estate Equalization** Estate Equalization Consumer Brochure
- **Buy-Sell Agreement** A Buy-Sell Agreement Solution to Protect The Future...
- **Retirement Planning for an Owner** Retirement Income Worksheet
- **Personal Policy Including Chronic Illness Rider** LI with BenefitAccess Rider Brochure






Action steps

Put your knowledge to work.



TAKE ACTION

1. Review your book of business and identify clients who have or are part of a small business.
2. Try to group them by: Start-up, Growth, Mature, Transition.
3. Reach out and utilize the Conversation Starters from the chapters.
4. Set up a time you can meet to talk about their business. Use the Confidential Business Fact Finder.
5. Be prepared to give them information about business strategies.
6. Schedule a follow-up appointment.

ADDITIONAL OPPORTUNITY

Work with centers of influence

Building a relationship with Certified Public Accountants (CPAs) and attorneys can put you in a position to get referrals to help their business clients. Your Prudential representative together with Prudential's Advanced Planning team regularly conducts CE Events that discuss strategies relevant to the small business market. Reach out to your Prudential representative to learn how to schedule a CE event.

THE PRUDENTIAL ADVANTAGE

Prudential offers you strong support in every part of the sales process. Take the first step and identify the opportunity that's waiting in your own book of business. Learn more about the Prudential Advantage.

REACH OUT

to your Prudential Wholesaler with questions and for case discussions.

[1] 2021 Small Business Profile, U.S. Small Business Administration Office of Advocacy
[2] Hsu, A., New businesses soared to record highs in 2021. Here's a taste of one of them, NPR.org, Jan. 12, 2022, https://www.npr.org/2022/01/12/1072057249/new-business-applications-record-high-great-resignation-pandemic-entrepreneur, accessed Oct. 5, 2022.
[3] Small Business Trends 2022, Guidant, https://www.guidantfinancial.com/small-business-trends/, accessed Oct. 5, 2022.

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Prudential

Business & Life Insurance Needs Analysis Questionnaire for

____
(Business)

____
(Owner/Client)

I. Introduction

A. Some things to keep in mind and share with your business owner clients:

- You specialize in working with business owners creating customized plans to address retirement, business and estate planning goals.
- As a planner,* you need to get a better understanding of them, their role and their company.
- The primary goal of this initial meeting is to identify on a very high level their top planning concerns and to determine if your firm may be the right fit to provide some options for them to consider.

Note: Recommend researching the company/owner before you go to the client needs analysis interview using resources such as the company's website, Google, LinkedIn, Social Media, etc.

B. Suggested introductory questions:

i. Please tell me about your business. ______________________________

ii. What are some of your primary business goals over the next two to five years? ______________________________

iii. What are your top challenges that you or your business may be facing? ______________________________

Now I'd like to address some common business issues to learn more about your specific planning needs…

II. Protecting the Business Against the Loss of Key Employees

a. Which individuals, including yourself, are most key to the success of the business? ______________________________

b. Of the individuals you identified as key to the success of the business, if any of them voluntarily left or died, would that pose a significant financial hardship to the business? ______________________________

PACIFIC LIFE

*In order to sell life insurance, a financial advisor must be a properly licensed and appointed life insurance producer.

c. Can you quantify how big of a financial hardship it would pose? What would it cost to replace this individual? What would be the impact on company sales and revenue? ______________________________

d. To the extent that you haven't taken steps to fully protect your business from the loss of a key employee, are either of the following concerns that you would like to address as part of your planning?
   - Key employee death benefit protection ☐ Yes ☐ No #1
   - Key employee retention plans ☐ Yes ☐ No #2

III. Business Succession

a. Do you currently have a formal plan in place providing for the transition of your business interest in the event of death, disability, retirement, etc.? ☐ Yes ☐ No
   - If yes, does it reflect your current goals regarding how you would ideally like to exit your business? ☐ Yes ☐ No
   - If you are planning on selling your interest, is there a plan in place for how the buyer will pay for it? ☐ Yes ☐ No

b. (Optional) If you don't have a plan in place and if something were to unexpectedly happen to you, how would your co-owners, key employees, and clients/customers react to your spouse/heirs taking over your interest in the business? ______________________________

c. (Optional) If you don't have a plan in place and if something were to unexpectedly happen to you, do you feel confident that your family will be provided for (either via receiving fair value for the business or continuing to receive income from the business)? ______________________________

d. (Optional) If you don't have plan in place, is there someone that you can envision taking over your interest (e.g., key employee, family member, co-owner)?
   - If so, do you feel that they are currently capable of taking over for you? ______________________________
   - If they are not currently capable of taking over, have you given any thought as to how the business will survive until they are ready? ______________________________

e. To the extent that you don't have a properly funded plan in place that reflects your current goals regarding exiting the business, is this a top concern that you would like to address as part of your planning? ☐ Yes ☐ No #3

IV. Retirement Planning

a. What do you envision will be the primary source of your retirement income?

b. Have you determined how much retirement income you need to retire comfortably?

c. If so, are you confident that you're saving enough to meet your retirement goal?

d. If you could save more money for retirement, how much would you ideally like to put away?

e. To the extent that you haven't taken steps to quantify your retirement goal or you're behind on your retirement savings, is this something that you would like to address as part of your planning? ☐ Yes ☐ No #4

f. Do you have a plan in place to protect your retirement assets against the risk of long term health care expenses? ☐ Yes ☐ No
   - If not, is this something you would like to explore? ☐ Yes ☐ No #5

g. Do you currently offer a retirement plan for your *employees* (e.g., SEP, 401(k), defined benefit plan)? ☐ Yes ☐ No
   - If not, is this something you would like to explore? ☐ Yes ☐ No #6

V. Summarize and Prioritize Needs

Listed below are the planning needs covered in this business needs analysis questionnaire. In the middle column, please indicate the planning needs for which the client indicated "yes" that they would like to explore as part of their planning. Once you've done that, rank the "yes" responses.

Potential Planning Needs	Check if a "Yes" Response	Rank "Yes" Responses
#1 Key employee death benefit protection		
#2 Key employee retention planning		
#3 Funded exit plan		
#4 Personal retirement planning		
#5 Long term care planning		
#6 Employee retirement plan		

VI. Next Steps

Now that you have identified and prioritized their potential planning needs, let your clients know the next step will be to conduct more detailed fact finding. Schedule a follow-up meeting focused on their top planning priority.

Principal®

2024 Principal Business Owner Insights

Insights to help you plan for the future

We asked **what's on the minds of business owners** like you.

Small businesses are an important part of communities and can help strengthen the U.S. economy. While business and financial planning may not always make it to the top of your busy to-do list, putting plans in place may be easier than you think.

See what other business owners said in the survey. These insights can give you an inside look at what your peers are doing and provide some benchmarks to consider as you create your own priorities and action plan.

Using this guide

Snapshot of top priorities and realities

We asked business owners to rank their top priorities and whether they had a plan in place today. Even though business owners rank these as important, many still need help protecting what matters most.

1. Business protection — **52%** have a plan
2. Health and wellness solutions — **76%** offer benefits
3. Income protection — **44%** have a plan
4. Business succession planning — **60%** have a plan
5. Non-medical benefits — **69%** offer benefits
6. Voluntary benefits — **62%** offer benefits
7. Key employee benefits — **39%** have a plan
8. Qualified retirement plans — **59%** have a plan
9. Survivor income — **64%** have a plan
10. Legacy and estate planning — **63%** have a plan

Are your priorities **similar** to or **different** from your peers?

Solutions for your **employees.** Stay competitive by offering benefits.

Health and wellness solutions (#2 priority)

These are employer-sponsored programs that provide health-related benefits and organized activities to help employees maintain or improve their health.

What we heard — Comprehensive health insurance remains the most common solution (60%) while employee assistance programs (EAP) and emotional/ mental wellness programs are at a record high.

Planning tip: These solutions work together to keep employees healthy and working, and can be a valuable part of the benefits you offer to attract and retain employees.

Qualified retirement plans (#8 priority)

These are retirement solutions, including 401(k) plans and traditional defined benefit plans that are generally available to all eligible employees.

What we heard — The 401(k) plan continues to be the most popular option offered. ESOP and money purchase plans are at a record high compared to responses over the last 10 surveys (2008-2024).

Planning tip: Principal offers expertise in the major plan types, as well as service—to make it easier on you to maintain the plan. Talk to your financial professional to help you choose retirement benefits that work for your employees and business.

Non-medical (#5 priority) and voluntary benefits (#6 priority)

Offered at the worksite, they can be employer-paid or employee-paid (voluntary) and typically include benefit options like dental, disability, life, and vision insurance.

What we heard — Owners are offering employee benefits at record levels compared to the last 8 surveys (2010 - 2023). And seven out of ten say benefits improve employee retention, recruiting, and productivity.

Planning tip: These solutions can be designed to fit your needs and budget. See what similarly sized organizations in your industry and region offer for these types of benefits: benefitdesigntool.principal.com

Key employee benefits (#7 priority)

These nonqualified benefits are generally only offered to owners and select employees who are critical to the success of the business.

What we heard — Life insurance is the most common benefit offered (46%) followed by disability income insurance, retirement protection disability coverage, and deferred comp. When looking at what benefits to offer these employees, affordability and ability to attract/retain key employees are top considerations.

Planning tip: Principal can help find a plan to fit your business type and overall goals with funding options tailored to your needs.

Solutions for your **business.** Protect the future of your business.

Business protection (#1 priority)

Helps safeguard the integrity, cash flow, and value of the business if unexpected events like death and disability occur to a key person or business owner.

What we heard — Among business owners who have a plan in place to protect their business, key person life and disability insurance are the most popular. A record high, 45%, have disability overhead expense insurance, as compared to 2010 when only 15% did.

Planning tip: Principal can help calculate the value of a key employee and then offer insurance solutions to protect the business in the event of a death or disability.

Business succession planning (#4 priority)

Formal agreements help ensure everyone involved is on the same page when it comes time to transition the business.

What we heard — The most popular succession strategy is to sell and/or gift the business to family members (48%). Having a good plan is why 43% said they're very confident in their business succession strategy.

Planning tip: Consider having the proper funding vehicles—like savings or insurance—to help exercise the plan. Don't forget planning for retirement income sources if your strategy is to gift the business to family. The Business Owner Retirement Analysis from Principal can help.

Solutions for your **lifestyle.** Protect yourself and your family.

Income protection (#3 priority)

Helps replace a portion of income and provides continuous cash flow if you're too sick or hurt to work.

What we heard — A record number of owners have individual disability income insurance (47%).

Planning tip: Individual disability income insurance can provide you with monthly payments when you're too sick or hurt to work. Find out what you need to protect your income and how much it might cost using this simple calculator: principal.com/dicalc.

Legacy and estate planning (#10 priority)

When properly funded, these plans and/or agreements can help ensure there are assets— both personal and business—to meet your lifetime objectives.

What we heard — Wills remain the most common wealth transfer strategy (54%), but family trusts, family limited partnerships and irrevocable life insurance trusts are at a record high since 2008.

Planning tip: Review your will and other plans annually to make sure they still accurately reflect how you want your assets distributed.

Survivor income (#9 priority)

Life insurance helps provide for your family in the event of death, and can be used to help you achieve other financial objectives.

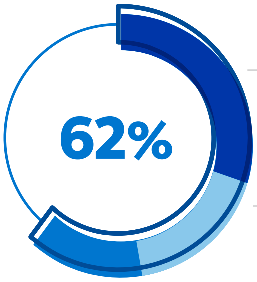
What we heard — Almost two-thirds of owners have individual life insurance to help protect their family. And, a record high 41% use business assets to help pay for it.

Planning tip: Contemplate the type of life insurance you buy—both term and permanent insurance can be helpful to meet your objectives. Find out how much life insurance you need and how much it might cost using this simple calculator: principal.com/lifecalc.

Do you have the right team helping you?

62% of business owners use a financial professional.

Working with a trusted financial professional, CPA, and attorney can provide the complete support you need to move your business forward. Their background and insights can work together to give you a more holistic perspective. Is your team complete? If not, ask one of them for a recommendation.



29% look to their financial professional for both business and personal needs.

19% go to them for personal needs only.

14% go to them for business needs only.

Your goals, our purpose

No matter what's important to you, Principal® is here to help you identify and implement solutions that are right for your business needs.

What are the next steps?

STEP 1 | **Determine your priorities**

Solutions for your employees

- ◯ Health and wellness solutions
- ◯ Non-medical and voluntary benefits
- ◯ Qualified retirement plans
- ◯ Key employee benefits

Solutions for your business

- ◯ Business protection
- ◯ Business succession planning

Solutions for your lifestyle

- ◯ Income protection (disability insurance)
- ◯ Survivor income (life insurance)
- ◯ Legacy and estate planning

STEP 2 | **Connect with your team**

Financial professional: ____

CPA: ____

Attorney: ____

Other: ____

Online tools for business and benefit planning

Assess your business needs

Use the Principal® Business Needs Assessment to get your personalized report to explore best practices for helping protect your business, your employees, and your lifestyle.
principal.com/businessneedsassessment

Compare your benefits

See how your group insurance and retirement benefits compare to what other organizations of your size, industry, and region offer their employees with the Principal® Benefit Design Tool. Are you competitive?
benefitdesigntool.principal.com

About the survey

Dynata conducted 1,020 online interviews from January 8-18, 2024.

Respondents qualified to take the survey if they met the following criteria:

- United States resident age 21 or older
- Currently employed, either full time, part time or self-employed
- Business owner of at least 5 percent of the company
- Actively manage their business
- Own a company with between two and less than 500 employees

Results are weighted based on the number of employees and annual sales. Potential respondents were selected from those who agreed to participate in Dynata surveys. Because the sample is based on those who agreed to be invited to participate, no estimates of theoretical sampling error can be calculated.

Let's connect

Contact your financial professional or go to principal.com/ownerinsights.

Principal®

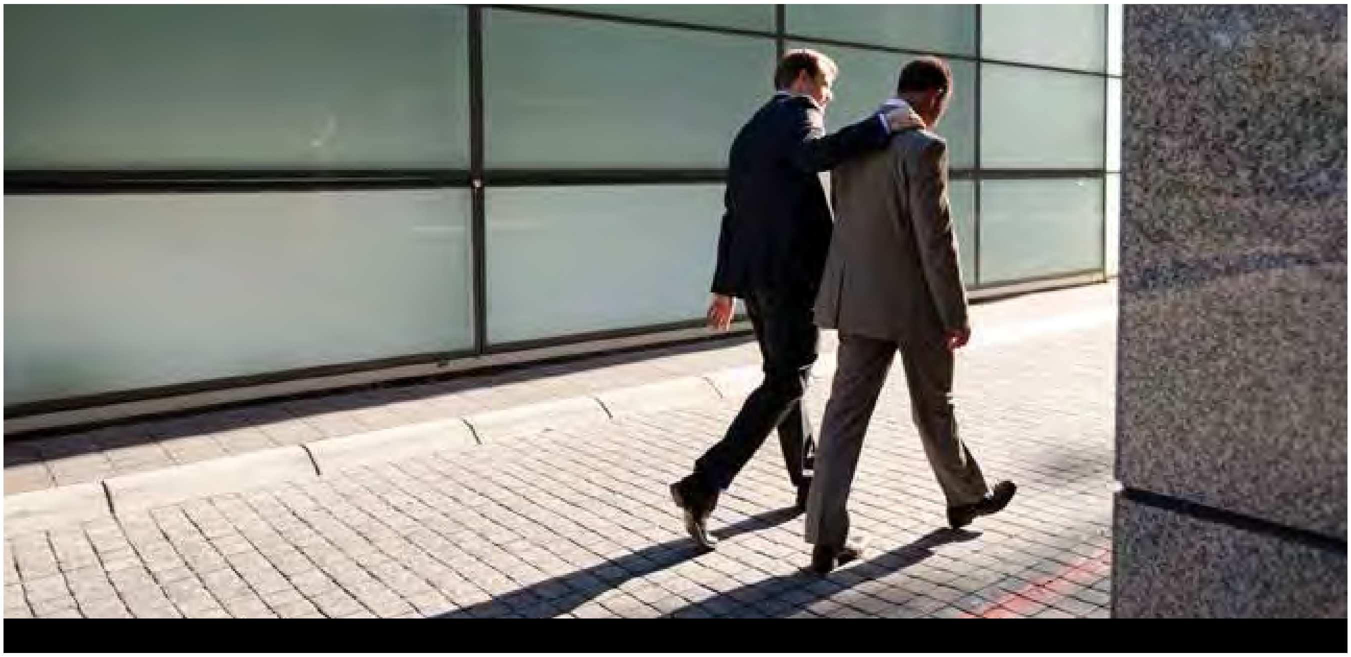
principal.com

Business Strategies

MANAGING RISK IN A PRIVATELY HELD BUSINESS

AMERICAN NATIONAL®

RISK PROTECTION IN A PRIVATELY HELD BUSINESS



One thing in business that is always guaranteed is no guarantees.

An oversight in risk management can result in a halt of productivity at best and a catastrophe at worst. The company's finances, reputation, and the business itself all hang in the balance.

Since there is an amount of risk to nearly everything a business owner must handle, it is important not to leave things up to chance. Have a solid plan in place to provide a proper safety net.

FOUR CRITICAL MANAGEMENT CONSIDERATIONS

Businesses like yours must consider four critical areas to protect the business and provide supplemental retirement funds for you and your key employees.

01

KEY EMPLOYEE INSURANCE

02

EXECUTIVE COMPENSATION

03

SUCCESSION PLANS

04

ESTATE PLANNING

01 KEY EMPLOYEE INSURANCE

The most valuable assets a business has are its employees. The success or failure of virtually all businesses hinges entirely on the experience and talents of the men and women who keep the organization running.

When a key employee dies, trouble may be ahead:

- Productivity and profits could decline
- Customers may look elsewhere for services
- Overhead expenses continue
- Expenses rise
- Credit may shrink or dry up completely

The financial loss could be staggering. The exact dollar amount of the potential loss is difficult to estimate. It could total tens of thousands of dollars, perhaps even hundreds of thousands. Fortunately, there are simple, direct steps business owners like you can take to protect the organization against the loss of a key employee.

How Key Employee Insurance Works

With the employee's approval, the company purchases a life insurance policy on the individual's life. The business owns the policy, pays all premiums, and is the beneficiary of the policy. If the employee dies, the proceeds are available to help offset the financial loss and buy the company time to find and hire a replacement.

Key Employee Insurance in Action

Charles and David started Flat World Imports 15 years ago importing and distributing retail merchandise from Thailand and China. Their company has 190 employees and grosses $150 million a year.

Juliet worked her way up from merchandise buyer to Vice President. She maintains a wealth of contacts in Asia that are crucial to the business and has been a major factor in the company's expansion.

Charles and David recognize Juliet's contributions; consequently, she is well-compensated. All three know that if Juliet died prematurely, the loss to the business would be catastrophic. So, with Juliet's consent, FWI purchased a $500,000 life insurance policy on her life with the company as owner and beneficiary of the policy.

If Juliet were to pass away, the proceeds would provide Flat World Imports with the funds to absorb immediate losses while searching for someone to fill Juliet 's very big shoes.*

*This is an illustrative example and not based on actual events.

02 EXECUTIVE COMPENSATION

Executive compensation can play an important role in helping small businesses attract and maintain the human capital the organization needs to succeed.

When employees do not feel fairly compensated, it reflects in their work and in the office culture. Decreased morale. Wasted time. Expensive recruitment efforts. These are just a few symptoms of high employee turnover and low employee retention.

Long-term effects of poor retention can spell disaster for a business by skewing the main focus of the organization.

A strong executive compensation program can help remedy these potential issues by retaining top talent and attracting accomplished employees.

Thankfully, there are several executive compensation strategies to utilize that can fit many different situations. A common approach to ensuring each top earner is well taken care of is a Section 162 Executive Bonus Plan.

Section 162 Executive Bonus Plan

An Executive Bonus Plan is a way to provide additional benefits to key employees while being able to deduct the amount of money used to fund the plan.

The company pays either the employee or the insurance company directly a bonus amount in the form of a premium for a life insurance or annuity policy.

The company also determines who can be a part of the plan, how much to contribute and whether they prefer a life insurance policy or a deferred annuity.

Retaining Key Employees

Payback Agreement
The employer may stipulate that if the employee leaves the company prior to a specified date, the employee will be required to pay the bonuses received back.

Vesting Schedule
The employer can provide a vesting schedule whereby if the employee leaves the company prior to full vesting, the employee will be required to pay back the non-vested amount.

Tax Impact

The employer adds the amount paid into the life insurance policy or annuity to the employee's W2 thereby allowing the employer to deduct the funding so long as the total is deemed reasonable by the IRS.

Double Bonus
The employer can also provide a double bonus where a second amount is paid directly to the IRS to cover withholding taxes on both bonuses, with both being deductible for the employer.

In this way, the employee benefits because the second bonus goes toward the employee's withholding tax, and the company breaks even because they can fully deduct the bonuses provided on behalf of the employee.

03 SUCCESSION PLANS

When a business owner dies, a succession plan is needed to assure that heirs, co-owners, and employees are protected.

Consequences of not having a plan in place:

- Loss of critical information integral to the business
- Naming an inadequate successor
- Wasted time training an appropriate successor

One of the best tools when succession planning is a Buy-Sell Agreement. This is a legally binding contract drafted by an attorney which can be as simple or as complex as needed.

Buy-Sell Agreements and Succession Planning

These agreements call for the survivors to buy the deceased owner's share in the business at an agreed-upon price, or at the fair market value of the business interest when the owner dies.

This will require that a significant amount of money be available in a limited amount of time. Funding with a life insurance policy can help alleviate this burden.

Funding Buy-Sell Agreements with Life Insurance

Historically, life insurance has proven to be an effective buy-sell funding choice. The benefits of cash value life insurance as a buy-sell funding vehicle are numerous.

The proceeds can be delivered tax-free. Knowing the funding will be there provides peace of mind for all parties and it assures that the agreement can be executed to the benefit of everyone.

The cost can be minimal compared to other methods. The policy owner buys future funds with discounted dollars in the form of scheduled premium payments.

Cash values accumulate and grow on a tax-advantaged basis. Should all parties live to retirement, these cash values can be used tax-free (through loans and withdrawals) to buy out a retiring owner.

04 ESTATE PLANNING

For many, their business is the largest single asset in their estate. That is only one reason estate planning should be a primary priority. If continuation of the business is a priority after the owner dies, proper planning is necessary.

A typical estate faces three major sources of depletion:

1. **Probate costs**
   Court costs, attorneys' fees, and executors' commissions can amount to 8% or 9% of a typical estate valued at $100,000 or less and may average 4% or 5% of a $1,000,000 estate. If the estate is complex or ambiguous, costs can be substantially higher.

2. **Inheritance tax**
   For highly valued estates, the inheritance tax can be a major source of depletion.

3. **Estate tax**
   Several states levy an estate tax on property passing from a decedent. The severity and nature of estate taxes vary from state to state.

The Role of Life Insurance When Estate Planning

Life insurance can help provide liquidity by assuring that the estate has sufficient cash to satisfy creditor claims, pay taxes, and settle all of the additional expenses associated with transferring estate assets to heirs.

When an estate owner dies, expenses must be paid promptly and in cash. The estate liquidity crunch that may result can pose serious problems for executors.

Life insurance can help assure that assets can be held or disposed of in a careful, orderly, and timely fashion.

Additionally, when a closely held business is involved, the need to pay estate taxes could force a partial or full sale of the business the owner has worked so hard to build. Life insurance can be used to:

- Pay estate and inheritance taxes
- Provide an inheritance to children not working in the business
- Provide working capital until the company can overcome the loss of the owner

What's the Next Step?

Although business owners cannot completely avoid risk, American National can help manage it and ensure each business is set up for success. With several life and annuity products to choose from, the freedom and flexibility is there to tailor the best plan for a secure future.

To learn more about how to help clients with their insurance needs contact American National's Advanced Sales Department at 888-504-2550 ext. 5767.

AMERICAN NATIONAL INSURANCE COMPANY
AMERICAN NATIONAL LIFE INSURANCE COMPANY OF NEW YORK

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LIVING BENEFIT BUY-SELL AGREEMENT

Protect the Future of Your Business

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You've worked hard to build your business. How can you ensure that your business lasts well into the future?

Owning a business can be one of the most rewarding experiences in our lives. To build something from the ground up with hard work and passion that can be passed from one generation to the next can be a dream come true for many entrepreneurs. But if you own that business with a partner, it's vital that you consider what will happen to that business when one of you passes away.

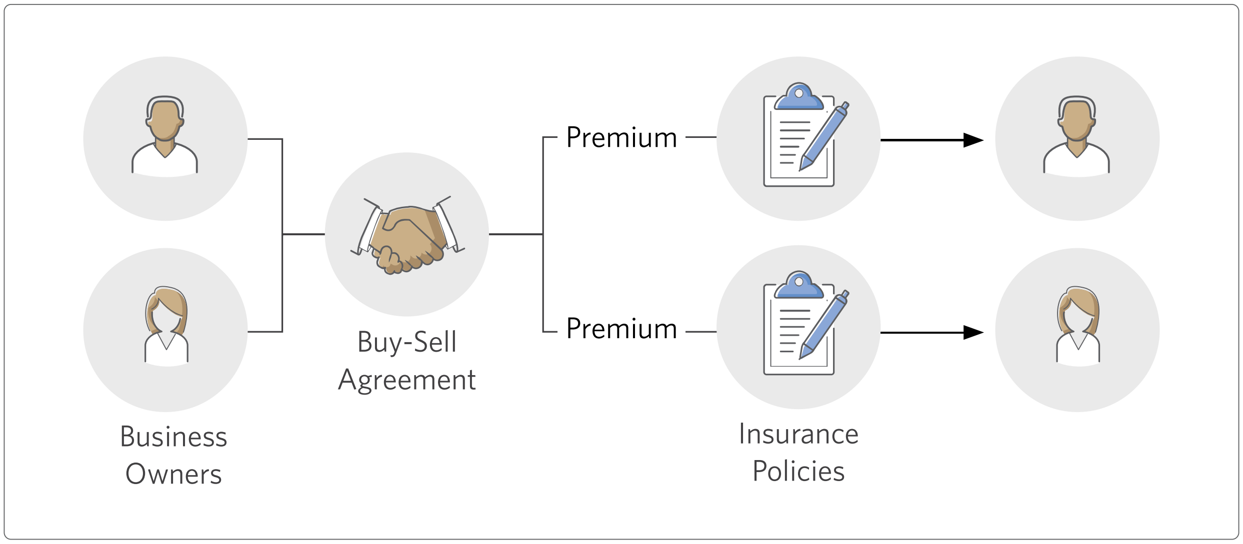
That's exactly what a buy-sell agreement is for. It takes the uncertainty out of the equation and helps you rest easy, knowing the business you've built will survive beyond the death of a partner.

But because there are many kinds of businesses and relationships between owners, there are a few different kinds of buy-sell agreements. One of them is a Living Benefit Buy-Sell Agreement. It lets business owners prepare for the best-case scenario, while still preparing for the worst.

How does a Living Benefit Buy-Sell Agreement work?

1. The business owners enter into a written buy-sell agreement committing to sell their interest and buy the interest of the other owner(s).
2. You and the other business owners own and are the insured on an individual life insurance policy. Each owner collaterally assigns some (or all) of the death benefit to the other owner(s) or names the other owner(s) as irrevocable beneficiary in a sufficient amount that allows the other owner to buy the business interest. The remaining death benefit can go to family or other beneficiaries.

   NOTE: If the buy-sell is designed to cover owners of a corporation, their assignment or irrevocable beneficiary will be to the corporation.
3. Doing so creates an economic benefit for each owner equal to the cost of basic coverage in the amount of the assigned portion of the death benefit (as defined in IRS Table 2001). Each owner recognizes that amount as taxable income.
4. As owner of their own policy, each business owner is free to fund the life insurance policy in whatever amount is desired to build a cash value that the owner can use, subject to any restrictions in the buy-sell agreement. The owner can use that cash to supplement his or her individual retirement, buy out retiring or departing co-owners, handle family expenses such as tuition, or any other purpose not limited by the buy-sell agreement.
5. Most business owners retire from their business, so it's good to be prepared for your co-owner's retirement as well as having financial protection against an owner's death. This form of buy-sell allows flexibility to provide for those possibilities.



Benefits of a Living Benefit Buy-Sell Agreement

- Personal ownership of your policy — you name the beneficiary and control the cash value. Any death benefit not committed to the buy-sell agreement can go to family or other personal beneficiaries
- Younger and healthier owners aren't required to pay premiums on older and less healthy business partners as they might be with a cross purchase buy-sell agreement
- You can fund your own policy at a higher level to build greater cash value for your future use
- Policy is portable — if the business ends or you retire, you still retain the policy and any cash value
- As an individually owned policy, it may be protected against business creditors
- The business owners can prepare for the best while protecting themselves and their business against the worst

A Living Benefit Buy-Sell Agreement allows you to plan and protect the future of your business on your own terms. Talk with your advisor/producer about how this agreement might work for you.

Why Mutual of Omaha

Over 50 years of Mutual of Omaha's Wild Kingdom taught us that the animal kingdom and the human kingdom have something in common … an instinct to protect what matters most. Through insurance and financial products, we help people protect their lives, protect their families, protect their kingdoms.

MutualofOmaha.com

Buy-sell agreements

Insurance-related best practices guide for buy-sell agreements

All businesses are different. And business owners need their buy-sell agreements to work for their specific situation. We've reviewed hundreds of complex buy-sell agreements and have valuable best practice information that can help.

This guide isn't a complete list of suggestions. But, you can use it when working with your legal counsel to get the most out of your buy-sell agreement and properly coordinate it with any insurance funding.

Valuation

1 | When a formula valuation is employed by the buy-sell agreement and company-owned life insurance policies are present with the company listed as beneficiary, the buy-sell agreement should be clear about whether life insurance death proceeds should be considered as cash or cash equivalents for purposes of the valuation formula.

2 | If an appraisal approach is used to value the business, the buy-sell agreement should instruct the appraiser about the desired treatment of life insurance death proceeds from company-owned policies.

3 | Company-owned life insurance may be excluded from the value of the business through an effectively drafted buy-sell agreement.

- Buy-sell agreements may be drafted in a way that locks-in the value of the business for estate tax purposes, exclusive of life insurance proceeds acquired for buy-sell funding purposes.

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- The agreement should be clear that certain policies, identified on an attached schedule or exhibit, were obtained for the sole purpose of the buy-sell agreement. These should be excluded from the company's value.

4 | Using the value of life insurance death proceeds to establish the value of a deceased owner's business interest is generally inconsistent with IRS estate and gift tax valuation guidelines. This can be found in Revenue Ruling 59-60.

Taxation

1 | A trusteed cross-purchase arrangement with trustee-owned policies may cause a portion of the life insurance death proceeds to be treated as taxable income to the beneficiaries. This is due to a violation of the transfer for value rule found in IRC Section 101(a)(2).

- In general, the promise of reciprocal action may be viewed as implied consideration paid for access to death proceeds. This may create a transfer for value problem if life insurance policies are transferred to the trust or if the beneficial interest of the trust beneficiaries changes.
- A trusteed cross-purchase buy-sell arrangement can also require inclusion of death proceeds in a deceased business owner's estate.

2 | Life insurance death proceeds are only income tax free to an employer if the insurance is properly structured and the employer complies with the requirements of IRC Section 101(j).

- Section 101(j) applies to employer-owned life insurance policies issued or materially changed after Aug. 16, 2006.
- A few things need to happen to preserve the favorable income tax treatment of life insurance death proceeds. Section 101(j) compliance requires that the employee/insured:
  - › Is provided written notice meeting the specific requirements of 101(j) and
  - › Provides a signed consent to the placement of life insurance coverage owned by the employer. This notice and consent needs to be obtained prior to the policy being issued.

3 | Revenue Procedure 2005-25 generally provides valuation safe harbors for the transfer of life insurance policies from a business to an owner/employee. The general standard of valuation found in the Revenue Procedure is that a policy should be valued at its "fair market value" for income tax purposes. This Revenue Procedure is the most recent income tax guidance provided by the IRS on this topic.

- Transactions between or among business owners are generally not bound by the valuation guidelines of Revenue Procedure 2005-25.
- Fair market value is measured differently for different types of life insurance policies. Sometimes a policy's cash surrender value isn't representative of its fair market value. The insurance company that issued the policy is in the best position to provide the measure of fair market value for a policy based upon IRS guidance.

4 | For entities taxed under the rules for flow-through companies (S corporation or partnership), cash value increases in company-owned life insurance policies help to offset the negative impact on owner cost basis in business interest occurring from payment of a non-deductible expense (a life insurance premium).

- Company-owned policy cash values may also serve as an informal sinking fund to assist with a purchase under any lifetime buy-sell triggering events.

5 | Buy-sell agreements should include provisions regarding the disposition of life insurance death proceeds in excess of the purchase price set by the agreement.

- Best practice suggests retention of excess death proceeds by the policy owner who paid for the policy. This avoids unexpected and unnecessary taxation.

- If the agreement requires death proceeds in excess of the purchase price to be paid to the estate or personal beneficiary of a deceased owner, then adverse tax consequences may result. If these excess proceeds are paid from the company (policy owner) to the deceased owner's estate or personal beneficiary, the excess proceeds may be taxable ordinary income as undocumented split dollar benefits.

6 | If business owners appear likely to have an estate tax liability at death, then best practice suggests that the buy-sell agreement be used to "lock-in" the value of the business for estate tax valuation purposes. The requirements to do this generally include the following factors:

- The price must be fixed or determinable pursuant to a formula under the agreement.
- The estate must be obligated to sell at death at the agreement price.
- The agreement must prohibit the owner from disposing of his or her interest during life without first offering it to the other party or parties at no more than the agreement price.
- The agreement must be a bona fide business arrangement and not a device to pass the interest to the natural objects of the deceased owner's bounty without full and adequate consideration in money or money's worth.
- For family transfers, any agreement to acquire property at less than fair market value will be disregarded for federal transfer tax purposes. Unless, under IRC Section 2703(b), the agreement (1) is a bona fide business arrangement; (2) not a device to transfer property to members of the decedent's family for less than full and adequate consideration; and (3) has terms comparable to similar arrangements entered into by persons in an arms-length transaction.

General considerations

1 | To provide the highest level of assurance that life insurance death proceeds will be used to complete a sale after the death of a business owner using the agreement's terms, the buy-sell agreement should be drafted in a manner that creates a valid, binding contractual obligation to complete a purchase with the death proceeds. The below structure could be incorporated into the buy-sell agreement:

- The agreement should provide that the business owners have agreed to fund death-time purchase obligations through acquisition of life insurance policies.
- The agreement should require that policies acquired for purposes of funding the buy-sell agreement must be maintained for the life of the agreement.
- The agreement should identify life insurance policies acquired for the sole purpose of completing a purchase under the agreement in a schedule attached to the agreement.
  - › The schedule should identify the policy owner, the insured, and the beneficiary, in addition to the policy number, insurer, and face amount.
  - › The schedule should be kept up to date as changes in company ownership or policies happen.
- The agreement should explicitly require that death proceeds from policies identified on the life insurance schedule need to be used to complete a sale upon the death of a business owner.
- Payment terms of the agreement should be integrated with the availability of life insurance death proceeds from policies identified on the schedule. The scenarios addressed should include: (1) death proceeds in excess of the purchase price, and (2) any amount of the purchase price not covered by death proceeds.
- As noted in other places in this document, the policy rights of a non-insured policy owner, whether it's the company or a co-owner other than the insured, should be restricted by the buy-sell agreement.

2 | Cash value policies on the life of a business owner, held by the company or another business owner, should be transferred to the seller as part of the consideration in purchasing such owner's interest in the business upon the occurrence of a lifetime purchase and sale event. Best practice suggests using the policy's fair market value to complete payment under an installment note.

3 | A buy-sell agreement should include language that addresses the possibilities for future ownership changes of life insurance policies acquired for purposes of the buy-sell arrangement.

- Many buy-sell agreements include dispositive provisions for some or all of the following circumstances: (1) termination of the buy-sell agreement; (2) sale of the company; or, (3) termination of the business owner's relationship with the company. If any of the preceding events occur, best practice suggests the business owner should be given the option (to be exercised within a specified period of time) to purchase his or her policy for its fair market value.
- Plus, if a departing business owner holds a policy on a remaining business owner, the remaining owner should also be provided the option to purchase his or her policy from the departing owner.

4 | As a general rule, the ownership and beneficiary structure of life and disability insurance acquired for purposes of funding a buy-sell agreement should be aligned with the agreement's purchase obligations.

- If insurance isn't properly structured, the business owner with the purchase obligation may not be the person receiving insurance proceeds.
- Life insurance policies owned by the insured, with other business owners named as beneficiaries, will likely be considered a violation of the "transfer for value" rule (IRC Section 101(a)(2)). This happens because the mutual promises exchanged between policy owners is viewed as consideration exchanged for access to the death proceeds. When this happens, a large portion of the death benefit may be taxable as ordinary income.

5 | Death, disability, and retirement are the three most common mandatory purchase and sale events found in buy-sell agreements. Funding for mandatory purchase and sale events can ease financial strain when death and disability happen unexpectedly. This can also be helpful for anticipated lifetime exit events, such as retirement.

- If the buy-sell plan design for these events is entity purchase, funding which is provided from a source independent of existing corporate surplus prior to the death of a business owner, may help ease state law requirements governing corporate redemptions.

6 | The amount of insurance available for purchase generally depends on the value of the business.

- The presence of a formal or informal business valuation, in the absence of a clear valuation method in the agreement supported by financial details, can be very helpful in validating life insurance death benefits, as well as the disability buy-out benefit amount.
- Financial underwriting standards for life insurance and disability coverage may be different.

7 | A business owner exiting the business under a lifetime triggering event through an installment sale of his or her interest generally shouldn't have an option to purchase the life insurance policy on his or her life until the installment sale is completed.

8 | Business owners should be provided with an unqualified purchase option regarding any policy on their lives owned by either the company or other business owners for the purposes of the buy-sell agreement before the policy is terminated or sold to a third-party.

9 | An owner of a life insurance policy, who isn't insured by the policy, should be prohibited by the buy-sell agreement from exercising any rights as policy owner which would reduce the death benefit to an amount less the full face amount of the policy. And also from taking any other action that might otherwise impair the viability of the policy, without first obtaining written permission from the insured business owner.

10 | Many business owners have found it helpful to list all life and disability insurance policies acquired for purposes of the buy-sell agreement on a separate schedule attached to the agreement.

- Where life insurance policies are concerned, this practice has the advantage of not confusing whether death proceeds should be used to reimburse the company for the loss of a key person, provide survivor income to a spouse, or to complete the purchase of a deceased owner's business interest.

11 | When life and disability policies are acquired and identified for purposes of the buy-sell agreement, the buy-sell agreement should explicitly require payment of life insurance death benefits or disability buy-out proceeds, up to the purchase price, to complete a sale under the agreement.

12 | It's important to maintain funding for purchase obligations at a level which is close to the current value of the business.

- Back-up provisions for payment using an installment sale process are typically included to cover payments for any uninsured purchase price.

13 | Buy-sell funding is easier to manage and plan when there are fewer policies involved in funding purchase obligations under a buy-sell agreement.

14 | Many business owners who have adopted a wait-and-see buy-sell design where the business owners hold a final, mandatory purchase obligation find it most helpful for insurance policies funding this plan design to have the non-insured business owners as the owners and beneficiaries of these policies.

- When neither the company, nor the business owners, have a mandatory purchase obligation, life insurance funding may generally work best when the company is the owner and beneficiary of any funding policies.

15 | The life insurance company that issued an insurance policy identified by the agreement as a policy acquired for purposes of that agreement should be authorized and directed to give the insured shareholder, upon receipt of his or her written request, any information on the status of the insurance policy(s) on his or her life.

Entity purchase buy-sell plans

1 | An entity purchase buy-sell arrangement provides the simplicity of only one life insurance and/or disability buy-out policy on the life of each business owner.

2 | Under an entity purchase arrangement, life insurance policies are generally owned by the business entity with the business as beneficiary for the entire amount of death proceeds. Policies owned in this way would be subject to the creditors of the business, but wouldn't be subject to the personal creditors of the business owners.

3 | For pass-through taxation entities, life insurance death proceeds from company-owned policies as tax-exempt income received by the business entity may provide the surviving owners with only partial cost basis increase for income tax purposes. This is because some of the basis increase is allocated to the deceased owner. This inefficient basis allocation may create unnecessary larger capital gains exposure upon a subsequent sale by a surviving business owner.

4 | S corporations using an entity redemption buy-sell plan design have often found it advantageous to incorporate the "short-year" election process of IRC Section 1377(a)(2) into their agreement. If the S corporation can qualify, this technique can provide a full increase in ownership cost basis to surviving owners and only requires one policy per owner (owned by the company). Qualification generally requires use of the cash basis accounting method by the business entity.

- S corporations with three or more owners that currently have a cross purchase buy-sell plan design have sometimes found it helpful to convert to an entity purchase buy-sell plan design in conjunction with the "short-year" election process of IRC Section 1377(a)(2).

5 | In general, premiums paid for company-owned policies are non-deductible at the company level. See IRC Section 264(a)(1). Premiums paid by an entity taxed as a flow-through organization for company-owned policies are generally considered a non-deductible item at the company tax reporting level as an expense not properly chargeable to a capital account. Non-deductible expenses generally reduce the owners' cost basis in their company ownership interest, pro rata. Annual increases in policy cash value, if present, may, in effect, be "netted" against decreases in cost basis, since these cash value increases are chargeable to a capital account. See IRC Section 1367(a)(2)(d).

6 | For entities taxed as partnerships, including LLCs that have chosen to be taxed under the partnership rules, life insurance death proceeds, as tax-exempt income received by the business entity, generally increase all owners' cost basis in the company on a pro rata basis. A special allocation process may be made part of the operating agreement or partnership agreement that allocates all of the basis increase from receipt of life insurance death proceeds only to the surviving owners. Without an allocation process like this in place, a meaningful portion of the cost basis increase from death proceeds is wasted on the decreased owner. It's also generally advisable, in order to support the reasonableness of the death benefit allocation, to also provide for a corresponding similar allocation of premium expense.

Cross-purchase buy-sell plans

1 | Under a cross-purchase arrangement, life insurance policies are generally cross-owned by the business owners.

- Policies owned in this way are subject to the personal creditors of the business owners. But, cross-owned policies aren't subject to the creditors of the business.

2 | The buy-sell agreement should identify cross-owned policies in a schedule attached to the agreement. The agreement should also note that the policies were acquired for the exclusive purpose of buy-sell planning. It's also helpful when the agreement explicitly requires that life insurance death proceeds first must be used to complete a sale under the agreement to the extent possible.

- Business owners want to feel comfortable that if they pass away, the agreement will be enforceable as implemented. Agreements drafted with the above provisions are more likely to be enforceable as written than agreements without these provisions.

3 | The transfer of existing life insurance policies from an entity taxed as a corporation to a business owner in order to establish cross-purchase funding may create a "transfer for valuable consideration" as defined in Section 101(a)(2) of the Internal Revenue Code. This transfer will most likely jeopardize the income tax free nature of life insurance death proceeds. One important exception is that transfers to "partners" of the insured aren't subject to the transfer for value rule.

- If practical, a cross-purchase buy-sell plan may be funded with policies owned by a general partnership or an LLC tax as a partnership. If the owners of both entities are the same, then the partnership exception to the transfer for value rule would likely apply. New policies may also be an option.

4 | The number of life or disability buy-out policies owned by the business owners will increase as the number of business owners increases under a cross-purchase arrangement.

5 | A corporate cross-purchase buy-sell arrangement informally funded with partnership-owned life insurance policies offers the simplicity of one policy per business owner, while also providing owners with a full increase in corporate ownership cost basis. Also, if the partnership is properly structured, life insurance death proceeds on a deceased business owner may be excluded from the deceased's owner's estate for estate tax purposes.

Disability buy-out considerations

1 | It's typically most helpful to adopt a definition of disability in the agreement that's directly linked to the determination of disability by the insurer under the disability buy-out policy.

- This will ensure that funds are available from the disability buy-out policy to complete a purchase under the disability trigger.

2 | It's important to review an agreement's payment terms for consistency with the claims payment procedures in the disability buy-out policy.

- Many disability buy-out policies are structured by insurers as expense reimbursement policies. Therefore, a disability buy-out claim will not be payable until the buy-out of a disabled owner's interest has occurred.

3 | It's generally advisable for the company to retain ownership of any life insurance policies on the life of a disabled owner until an installment purchase of the disabled owner's interest is completed.

- This helps to ensure continued funding if a disabled owner should die before his or her interest is fully purchased under a disability purchase and sale trigger.

Life insurance funding considerations

Plan type	Structure	Tax issue	Alternatives
Cross-purchase buy-sell plan design funding	Each insured owns a policy on his or her own life naming the other owner(s) as beneficiary.	Likely a "transfer for value" when death occurs, causing taxation of death benefit in excess of cost basis. Mutual promises have been viewed as "consideration" paid for access to death proceeds. Estate may argue not a payment under buy-sell plan.	Policies should generally be owned by the party holding the purchase obligation, not the insured. For multiple owners, possibly consider a business continuation general partnership approach for cross-purchase funding.
Trusteed cross-purchase buy-sell plan design	A trust owns policies on the business owners. Trustee uses death proceeds to complete the sale transaction.	Same transfer for value issue as above. In addition, there may also be an estate tax issue (either through an incident of ownership or a transfer with a retained interest).	With multiple owners and a corporation, possibly consider a business continuation general partnership or an IRC Section 1377(a)(2) short-year election (if a full S corp). Both allow one policy per owner and a full increase in the survivors' cost basis. If a partnership, consider use of the partnership special allocation process for a similar outcome.
Entity purchase buy-sell plan design funding	Entity owns a policy on each business owner. Spouse of the business owner is named as beneficiary.	Likely an undocumented endorsement split dollar plan or a dividend causing the death benefit to be taxable as ordinary income. It may also be possible for the spouse to argue the death benefit isn't a payment for the deceased owners' interest.	If the entity holds the purchase obligation, then the entity should be the beneficiary of any policy it owns for purposes of the buy-sell agreement.
Converting from an entity purchase plan design to a cross-purchase plan design	Company-owned policies are transferred to business owners to implement cross-owned funding structure.	Unless the entity is taxed as a partnership, this is a violation of the transfer for value rule causing taxation of death proceeds since there isn't an exception governing such a transfer.	Either transfer to a funding entity taxed as a partnership, or acquire new coverage. Existing policies could be retained for key person needs or sold to the insured.

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Principal®

Key employee retention and retirement

Key employee benefits can be your key to success

The right benefits can make all the difference

Take a moment to think about the success of your business. How much of that success is related to your employees? Chances are, you have select key employees that play important roles in your organization. Where would you be without them?

Having the right tools to recruit, reward, retain, and retire those key employees can make all the difference. Key employee benefits can play a big role in helping you by helping them. These plans can provide significant advantages—like helping them make up for benefits lost due to limitations on qualified retirement plans and Social Security. The result? More engaged and loyal employees and a great recruiting tool, too.

Will your key employees be able to save enough money for retirement with the current benefits you have in place?

Do your competitors offer benefits that might draw valuable employees away from your organization?

The benefits

Could key employee benefits really have an impact?

Yes. Specifically, these plans help you:

RECRUIT

Attract top talent as part of a competitive benefits package.

REWARD

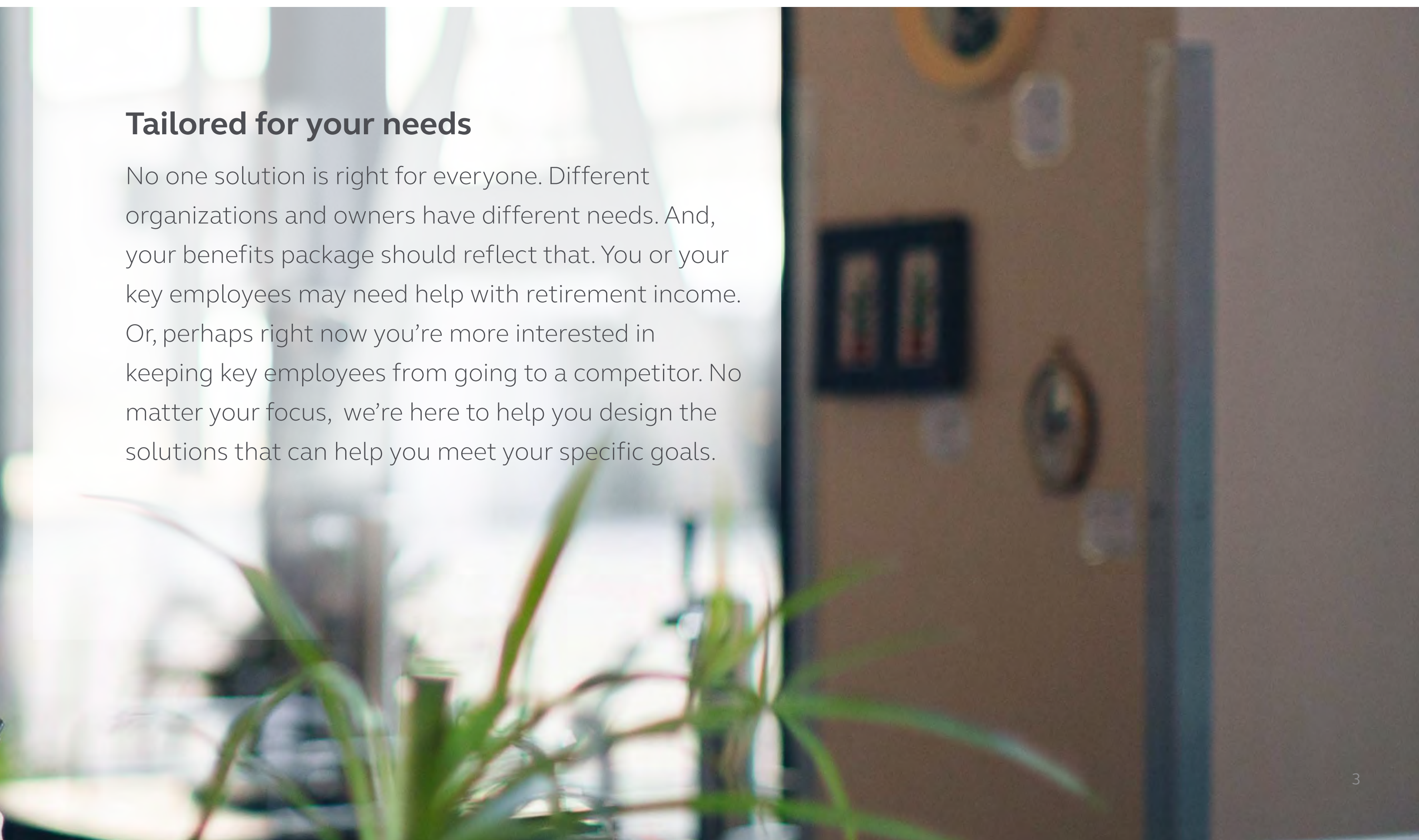
Provide performance-based contributions to achieve organizational goals.

RETAIN

Encourage loyalty by helping to secure financial futures.

RETIRE

Offer additional savings and long-term income diversification options.



Tailored for your needs

No one solution is right for everyone. Different organizations and owners have different needs. And, your benefits package should reflect that. You or your key employees may need help with retirement income. Or, perhaps right now you're more interested in keeping key employees from going to a competitor. No matter your focus, we're here to help you design the solutions that can help you meet your specific goals.

The right solution is easier with the right partner

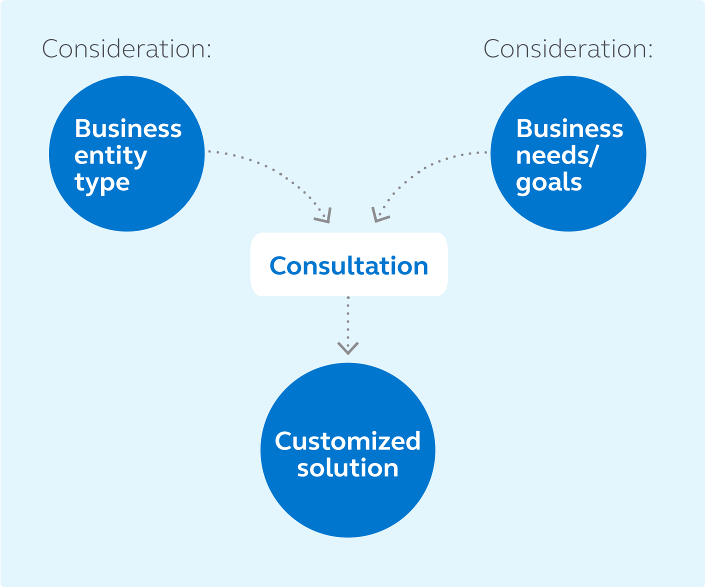
There's a fair amount to think about when you're designing and implementing a plan. Which plan fits your needs? How will you pay for it? How will you administer it? We walk you through all of that. And we're not just here now, but throughout the lifetime of your plan.

While the plan itself is a core part of your key employee benefits solution, there's so much more to consider. To make it as effective as it can be, consider the total package—**solutions, expertise, and service**. When you work with Principal®, you get all of this in one place.

Solutions

It all starts with the right plan. You'll want a plan that fits your business type and overall goals. Then, it's important to have funding options that are designed for your specific business needs.

It doesn't matter if your organization is for-profit or tax-exempt, Principal offers multiple, unique solutions designed for all types of businesses. Each plan is structured to achieve the unique goals of the plan sponsor. Some offer tax benefits for your business, others for the participant. Others may allow for participant deferrals, discretionary employer contributions, or both.



Expertise

There's a lot to consider when designing and implementing an effective key employee benefits plan. That's why it's helpful to work with a provider that has the expertise and experience to understand how to turn your objectives into a successful plan, all while watching out for your bottom line. Over decades, we've worked with thousands of businesses. And every day, we'll put that experience to work for you.

Consultation. Our team of business solutions experts, including attorneys, CPAs, and case design specialists, are here to help you find the right solution for your business. They can provide guidance and work with your professional advisors on the many factors that influence your plan's design and success.

These factors include:

- Who can participate in the plan?
- Who can contribute to the plan?
- How will the plan be financed?
- What are the vesting options?
- When will benefits be paid?
- Is your focus on employee retention?

Financing. What's the best financing strategy for your business and your plan? Life insurance, taxable investments, or something else? To help you weigh your options, Principal creates detailed financial models based on your organization's assumptions. These models compare multiple financing techniques to illustrate the impact to company cash flow, tax, financial statements, cost, and long-term performance. And, throughout the life of your plan, periodic plan status and strategy reviews are available to assess financing status relative to your goals.

Administrative services. You don't have to take care of the ongoing management of your plan all by yourself. Lean on the expertise of our case design specialists and administrators to be there throughout the life of your plan. We keep track of legislative changes that might impact your plan, as well as consult with you on any other plan adjustments that may be needed as your objectives evolve.

This is what we do every day, and we've learned a few things along the way. Some organizations look like yours, while others are different. But, our service matches your specific plan's design. We currently provide administrative services for nonqualified key employee benefit plans that serve more than 4,800 plans, representing almost 78,000 plan participants.[1]

[1] As of Dec. 31, 2020.

Service

You don't want administration of your plan to take time and attention away from focusing on your business. That's why exceptional service and support are essential. When you have a plan from Principal, we focus on the plan details so you don't have to. Our robust administrative services help ensure that the initial and ongoing needs of your plan are met.

Dedicated administrators personally assist you with the day-to-day aspects of your plan.

- Plan implementation/new enrollments
- Online access—for both employers and plan participants
- List billing/periodic premium payments
- Ongoing policy administration and service
- Annual plan-level reporting
- Plan status and strategy review
- Plan participant education—for the more robust plan designs that may require a little extra help explaining the benefits

A lot rests on the success of your business

Your business provides financial well-being to you and your employees. That's why Principal wants to help you protect it. Whether you want to grow your business, provide benefits to your key employees, or prepare for the unexpected, we can help you find the right solution to any challenge.

Protect your business. Plan for the future with buy-sell and business-transfer strategies for closely held companies, key employee benefits, and key person protection.

Protect your employees. Recruit and retain good people with key employee benefits, qualified retirement plans, and group benefits.

Protect your lifestyle. Maintain your family's current standard of living with life insurance and disability income insurance, and help meet lifetime objectives through legacy and estate planning.

Let’s get started

As you think about establishing or enhancing a key employee benefit plan, here’s our commitment to you:

We’ll listen. We need to better understand the unique needs of you, your business, and your key employees in order to present you with appropriate options.

We’ll provide consulting expertise. Our team of experts will be with you throughout all phases of the process—plan design, financing options, and administrative services. The decisions you make can help you maximize the benefits you provide, so we want you to have all the information you need.

We’ll deliver a tailored solution. Plan design and administrative services should fit your needs—both today and tomorrow. Goals and objectives can change, and so can regulations. That’s why we’ll periodically review your plan design and financing options to make sure everything is still in check.

We’re ready to work with you and your financial professional today. Together, we can create or enhance a key employee benefit plan to match the needs of your organization and your top talent.

Your goals, our purpose

No matter what's important to you, your advisors and Principal are here to help you identify and implement solutions that are right for you, your business, and your employees. We've been administering business cases for more than 30 years and make it a priority to understand where you want to be and how you plan to get there. This means you'll get expertise and innovative ideas when you need them to help make your financial progress possible.

Strength you can depend on

A member of the FORTUNE 500®, we have $807 billion in assets under management[2] and serve clients worldwide of all income and portfolio sizes.

Year after year we receive strong financial ratings from the four major rating agencies—A.M. Best Company, Moody's Investor Services, Standard & Poor's, and Fitch Ratings.[3]

No. 1 provider of nonqualified deferred compensation plans.[4]

Our innovative business solutions include more than 30 plan types and serve almost 24,000 employers.[5]

[2] As of December 31, 2020.

[3] Third-party ratings relate only to Principal Life Insurance Company, the largest member company of the Principal Financial Group, and Principal National Life Insurance Company, and do not reflect any ratings actions or notices relating to the US life insurance sector generally. A high rating by a particular firm does not constitute an endorsement of the rated insurer by the ratings firm.

[4] Based on number of Section 409A plans, 2021 PLANSPONSOR Defined Contribution Plan Benchmarking Report, June 2021.

[5] As of December 2020.

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