

Buy-sell agreements funded with life insurance

Case study

Problem

Your clients are partners in a dental practice and have recently started working on succession planning. There is concern about where the funds will come from to buy-out the other partner's shares if one of them were to pass away.

A solution

A buy-sell agreement funded with life insurance can help one owner buy the other owner's share should either partner pass away. Their attorney drafts a buy-sell agreement. Your clients agree to purchase the other's interest in the business, purchase life insurance policies on one another, and make themselves the beneficiary on the other owner's life. The total amount of coverage on each owner is the value of each individual's ownership in the business. In order to provide maximum flexibility, each partner names the other partner as the contingent owner of the policies they've purchased.

Benefits for business owners:

- Establishes an agreed-upon method for determining business valuation
- Helps avoid unintended or unwelcome transfers of ownership
- Prevent heirs being stuck with an inheritance they can't use
- Have funds to transfer ownership of the business without probate
- Protects the business from shares being sold to someone outside current ownership
- Funding through life insurance is potentially guaranteed and offers a generally tax-free death benefit¹

Hypothetical case study

Dental Practice Value: \$1M

► Client A: age 50

Owns a \$500,000 15-year ADDvantage® Term policy on partner (Male, Age 32, Preferred Non-Tobacco)

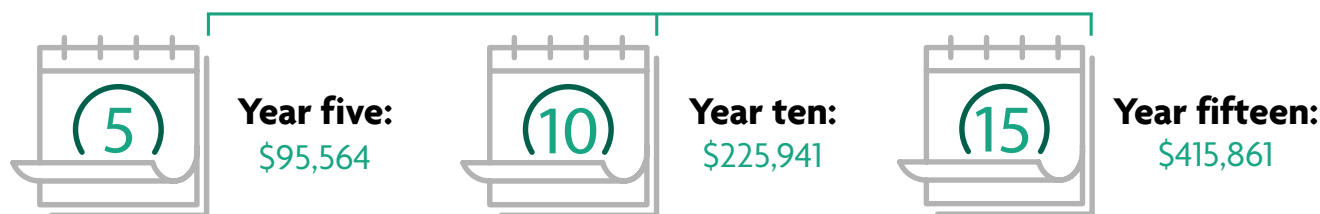
- Annual premium: \$250

► Client B: age 32

Owns two policies on partner (Male, Age 50, Preferred Non-Tobacco)

Policies	Death Benefit	Annual Premium
ADDvantage Term (15-year term)	\$250,000	\$460
Builder Plus IUL® 3	\$250,000	\$20,795.46

Client B cash surrender value at year:



The information presented is hypothetical and not intended to project or predict investment results. Illustrations are not complete unless all pages are included. (October 31, 2023, North American Web-Based Illustrations). Builder Plus IUL 3 with its S&P500® Annual Pt-to-Pt %0 index at 50% and Fidelity Multifactor Yield IndexSM 5% High Par Annual Pt-to-Pt option at 50%, return of premium death benefit option¹, 5.88% index credits, non-guaranteed assumed, premium for 15 years.

Why indexed universal life insurance?

A life insurance policy that offers potential cash value can provide several benefits:

- Funds for buy-out at retirement or exit of another owner if the buy-sell isn't triggered
- Funds for a non-death trigger (disability, divorce, leaving the company, etc.)

Case design tips

Be sure the **specified amount is enough** to meet buy-out needs.

Consider the possibility of **future business value** and address with something like **Return of Premium death benefit option²** or **larger death benefit**.

Generally, the ownership on a **cross-purchase buy sell** is one person owning and funding the policy on the life of their partner. For an **entity purchase buy-sell**, the business may own the policy on the life of the owner and offer a potential bonus at retirement if funds are not needed.

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 with one or more partners
2. Reach out to them to see if they have a plan in place to protect the business should an owner pass away
3. Share how life insurance could be used to help fund a buy-sell agreement to help extend the life of the business

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

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