



Business Planning Using Life Insurance

Retain, Recruit, Reward

For broker-dealer and financial professional use only.

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Buy-sell Arrangements

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Buy-sell Arrangements

- ▶ A buy-sell arrangement is a binding agreement in which one party agrees to sell an interest, and the other party agrees to buy it
- ▶ Transactions occur at
 - ▶ Death
 - ▶ Retirement
 - ▶ Disability



Types of Buy-sell Arrangements

Stock redemption
or entity purchase

Cross-purchase

Wait and see

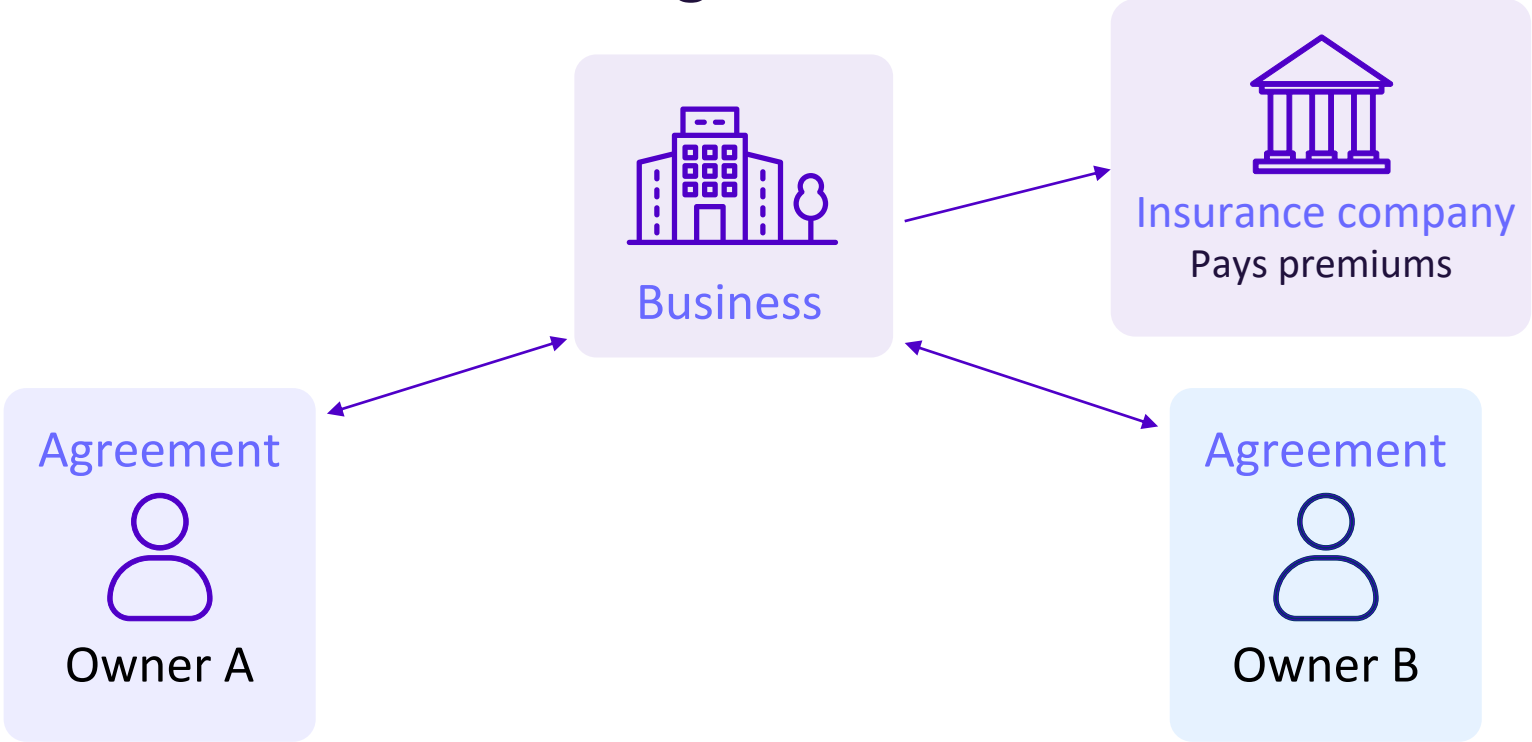
Stock Redemption or Entity Plan

- ▶ The business agrees to buy life insurance on the lives of the owners
- ▶ The agreement states that the owners or their estates agree to sell their interest in the business, and the business agrees to buy it
- ▶ The business is the owner and beneficiary of the life insurance policy



Stock Redemption or Entity Plan

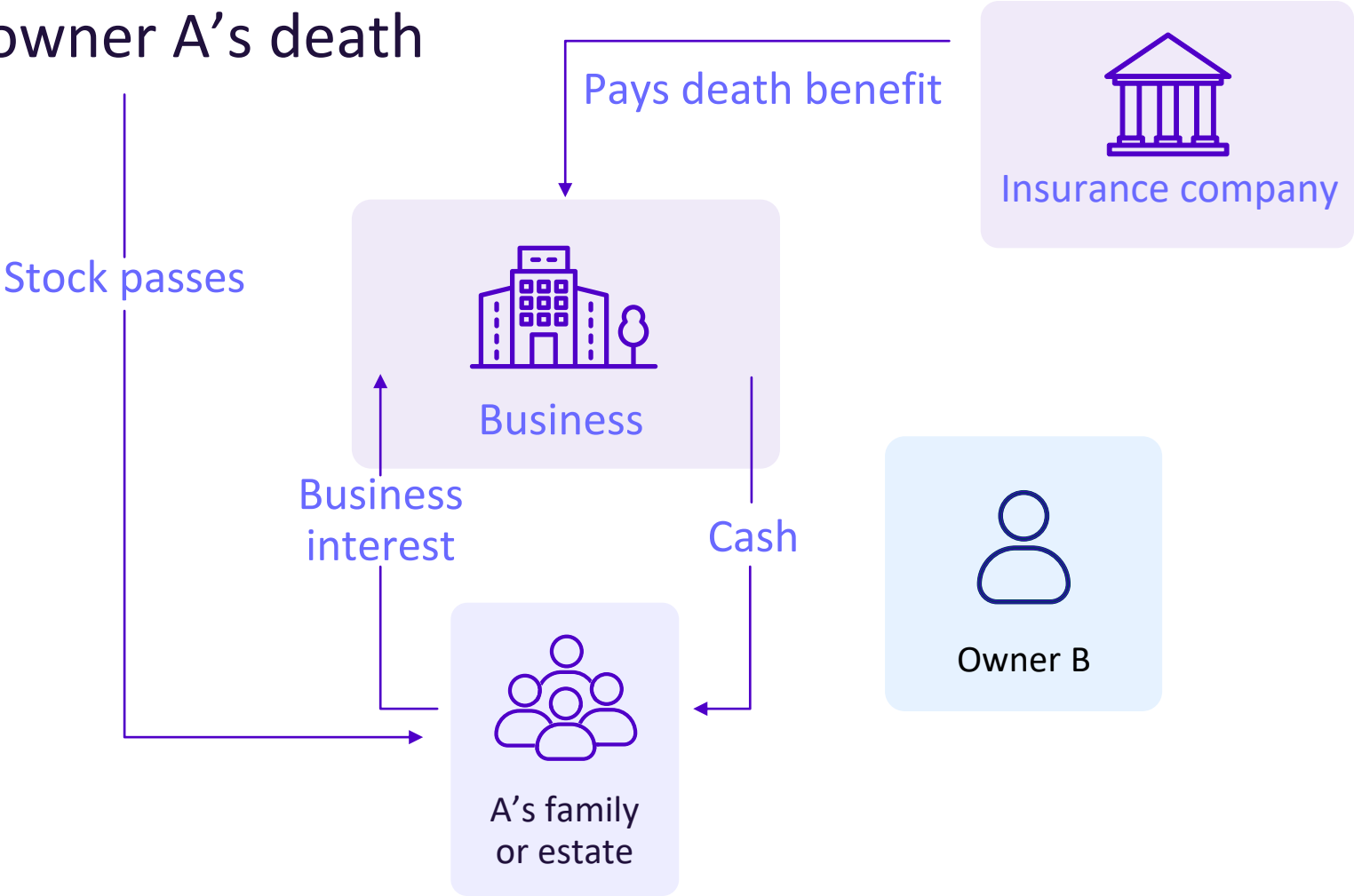
During lifetime



The business owns insurance policies on each owner

Stock Redemption or Entity Plan

Upon owner A's death



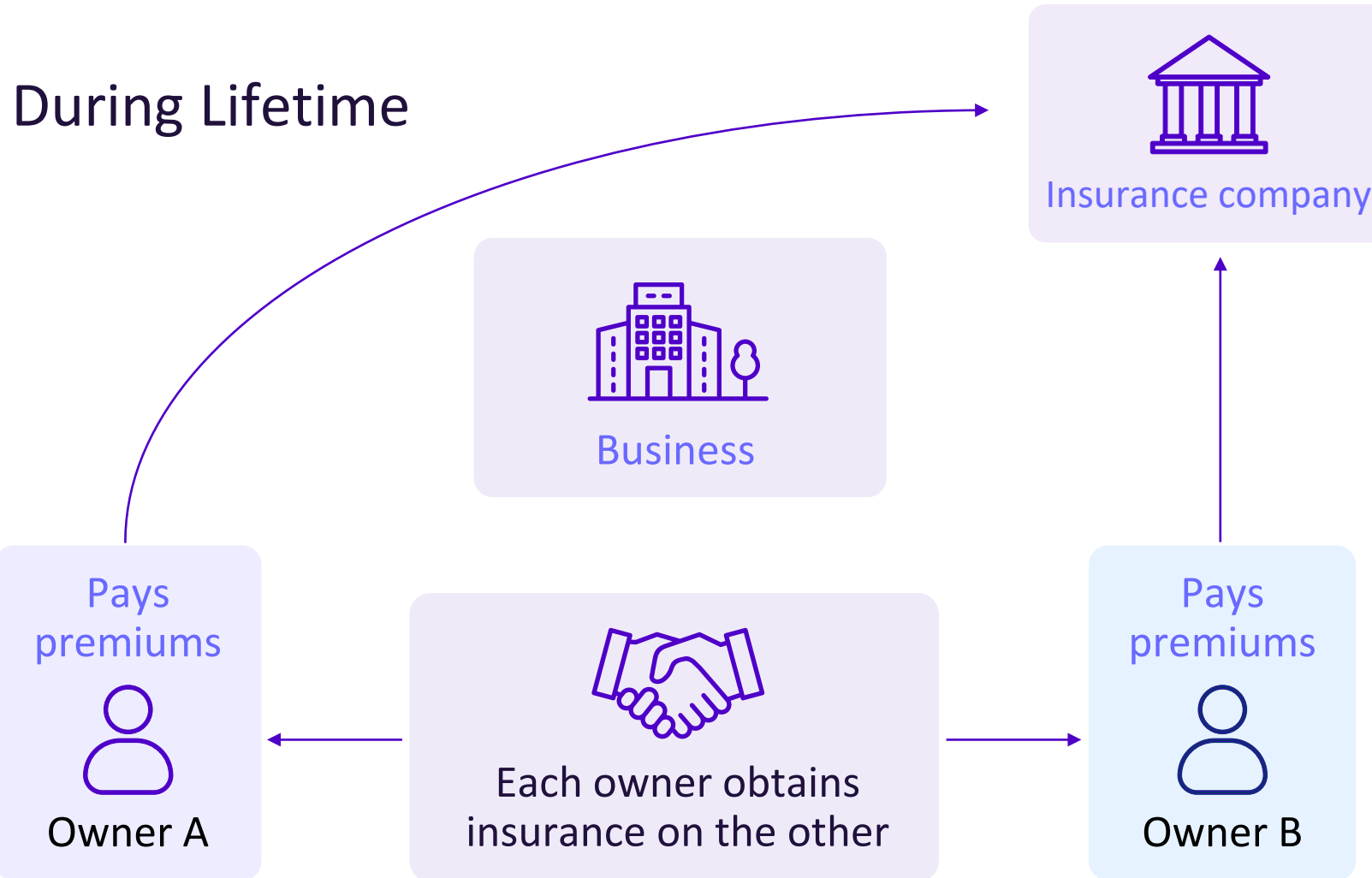
Cross-purchase Plan

Owners take life insurance policies out on each other

Survivor purchases deceased owner's shares in company

Life insurance proceeds help to provide the funds

Cross-purchase Plan



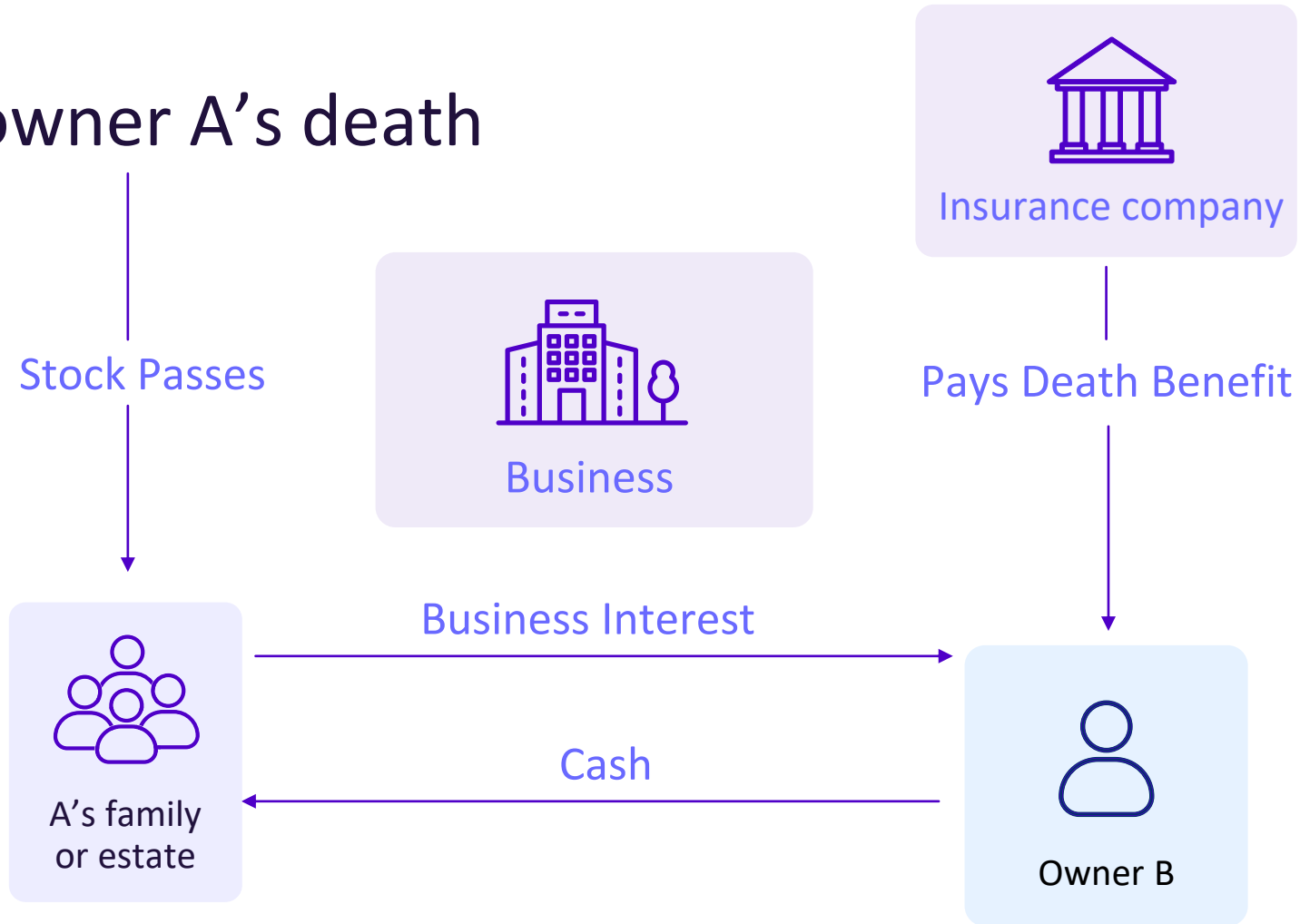
Advantages of Cross-purchase Plans

- ▶ Purchasing shareholder will get step-up in cost basis
- ▶ Life insurance proceeds are income tax free
- ▶ Avoids possible treatment of redemption as a dividend
- ▶ No AMT or accumulated earnings tax problems
- ▶ Can reallocate ownership of the surviving owners by purchasing varying amounts of the deceased owner's shares



Cross-purchase Plan

Upon owner A's death



Wait and See Agreement

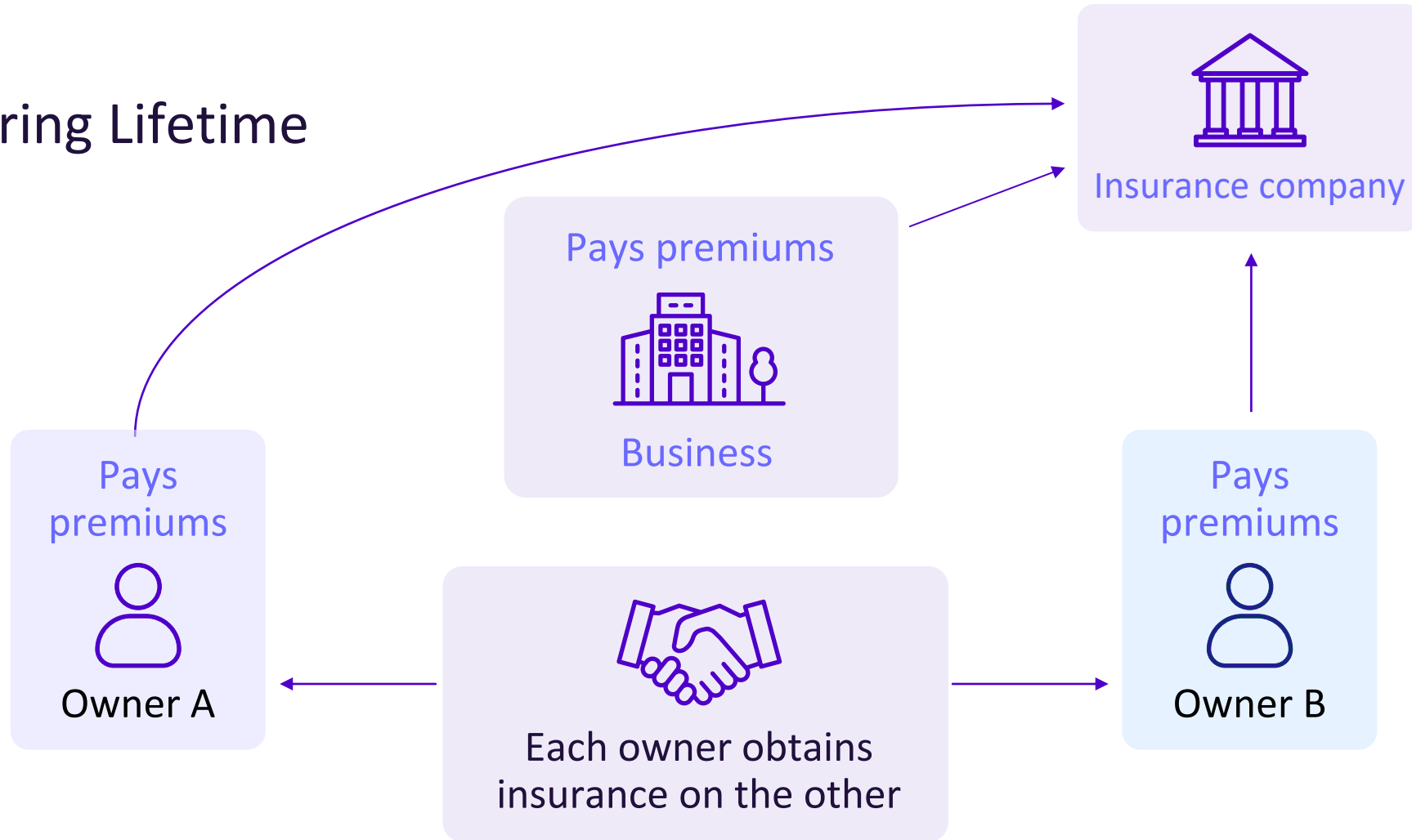
Owners agree to buy and sell their shares but the price is not determined until death, retirement or disability

Owners purchase life insurance on each other

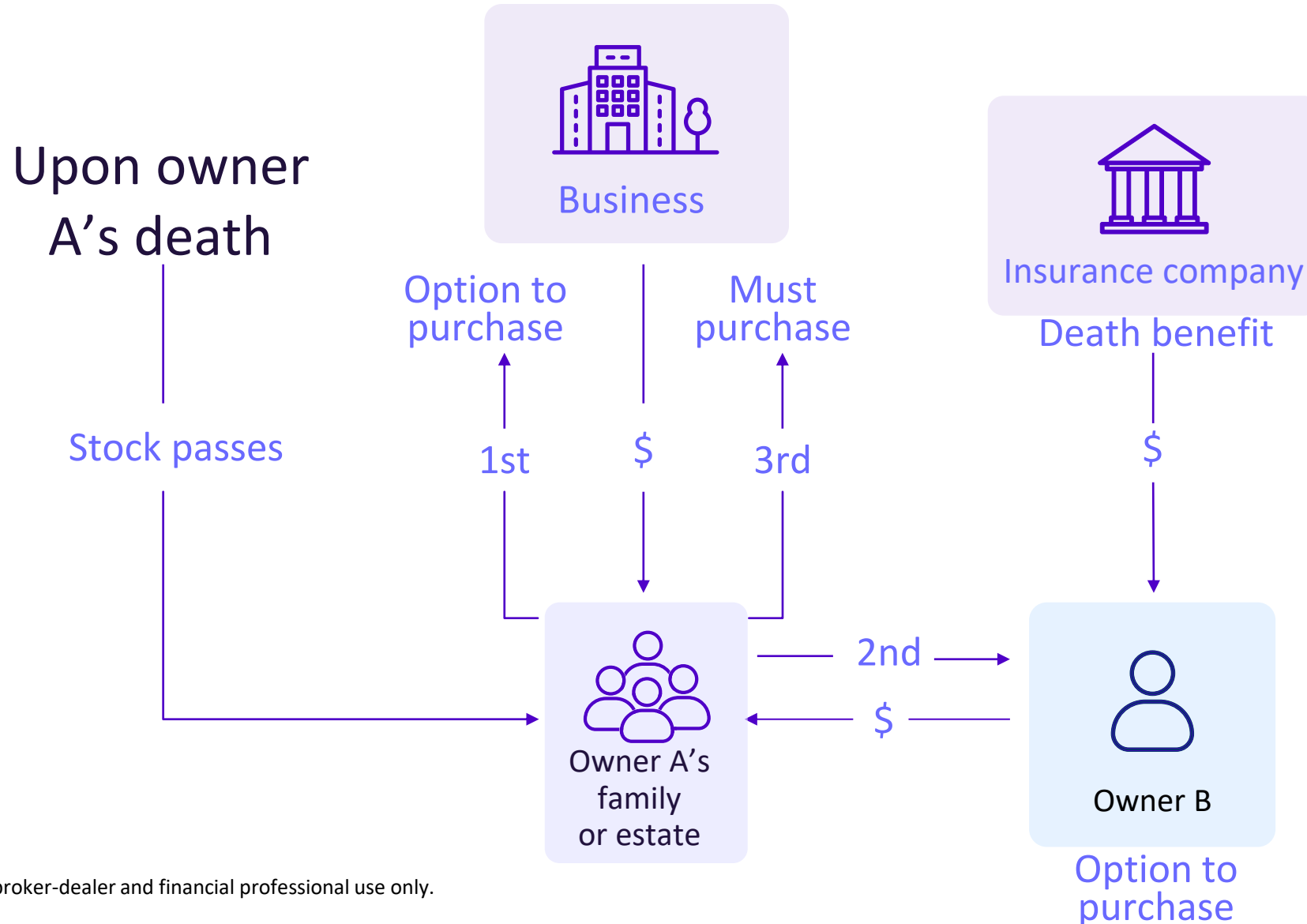
Business has right of first refusal, owner second right, and the business must purchase remaining shares

“Wait and See” Funded By Owners

During Lifetime



“Wait and See” Funded By Owners





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Thank you!

Connect with us
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