Success Story

Advanced Markets

Planning in Action

Buy-sell arrangements and installment sales

Case in point

An agent called Advanced Markets with an interesting case about a family exploring succession planning options where the business would go from father to son. Gifting the business to the son was not an option, since Mom would need liquidity to maintain her lifestyle. They also did not want to use outside buyout financing as a strategy, because they did not want to have business assets used as collateral. The two remaining options included buying life insurance on the father or an installment sale. The obstacle came from the father's underwriting status as substandard and rated 200%. The premiums needed to use life insurance in a buy-sell arrangement were thought to be too prohibitive. What would be the most effective way to keep everyone happy?

Designing a case

The AMC dug in and compared the numbers

- A full-pay premium on a protection IUL policy would cost $232,727 annually for a $5.5 million of death benefit, which would provide liquidity for the business succession at death.*
- A $5.5 million installment sale, with a twenty-year term and using the September 2020 long-term AFR of 1.0%, would result in an amortization payment of $304,784 annually.
- By year fifteen, the cumulative life insurance premiums would be $3,490,905, whereas the installment payments would be $4,571,760.

Client profile

- Client owns a profitable firm, built up over decades of work
- Desires to install a succession plan to smooth the ownership transition to his son
- He would like to keep working in the business as long as health allows

Fact Finding

- Client is male, age 68
- Non-Smoker, rated 200%
- His business was recently valued at $5.5 million
- He wants the business to last for multiple generations

* Solved for full pay $5.5 million DB using Core Capped Index Account with illustrated rate of 5.67%

This is a supplemental illustration. Not all benefits and values are guaranteed. The assumptions on which the non-guaranteed elements are based are subject to change by the insurer. Actual results may be more or less favorable.

Why it works

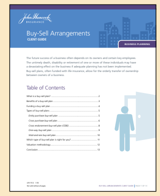
Ultimately the clients decided on purchasing a life insurance policy because:

- The tax-free death benefit will provide a balloon payment to settle the buy-sell at death
- A buy-sell using life insurance would alleviate Mom's liquidity concerns
- The premium commitment is less than the installment payments over life expectancy

Conclusion

Succession planning is critical to ensuring a business owner's value is protected. A buy-sell arrangement implemented with life insurance can provide needed liquidity at death and helps secure an orderly transition without family discord.

Resources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Call Advanced Markets at *888-266-7498, option 3* to speak with an Advanced Markets Consultant, or email *advancedmarkets@jhancock.com*

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