

## LIFE INSURANCE FOR BUSINESS SUCCESSION AND WEALTH TRANSFER: A BUSINESS OWNER'S DILEMMA

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### Enough Already

If you have been a business owner or executive for any period of time, you already know most of the advantages of life insurance, because you have had hundreds of "friends" approach you to sell you life insurance. Advantages include:

- Provide for family in event of death;
- Accumulate funds for rainy day/ retirement;
- Fund buy-sell agreement to provide for orderly business succession;
- Potential benefit if value of policy grows after employer pays premium;
- Death proceeds are generally tax-free to beneficiary; and/or
- Death proceeds may be excluded from estate with proper planning.

While any of the foregoing may be true with proper planning, it is likely that you also know the disadvantages of life insurance (which promoters fail to mention):

- Premiums generally are not tax- deductible;
- Life insurance is not a particularly good investment due to the fees, commissions and mortality charges which are built into the contracts;
- Will increase your taxable estate if not excluded;
- Not easily accessed in case of need or emergency;
- You may not qualify for life insurance at a reasonable cost due to health issues; and
- Many policies are rip-offs; it is difficult to tell the good ones from the bad ones. Frequently, sales representatives don't even know if what they are selling is a good policy; they're just selling what their company told them to sell.

### The Business Owner's Dilemma

What's a business owner or executive to do? The choices seem to be limited to:

1. Do nothing, ignore the need and save your money hoping for the best;
2. Investigate, evaluate a modest number of insurance proposals and select the one that seems the best to you; or
3. Become a genuine expert by studying insurance contracts and various ownership alternatives and develop a plan and documentation which will accomplish your objectives. Then you hope and pray that the carrier you select is not taken over by another company which makes unilateral changes to your contract so that it no longer performs as originally projected and represented.

The truth is, buying life insurance is a crap-shoot no matter what you do. Choice 1 is right unless you die one day. Choices 2 and 3 are right unless they blow up due to unforeseen circumstances. Speaking as an attorney and an actuary with considerable experience with life insurance policies and concepts, there is no risk-free solution to this dilemma.

### The Good News

It's not all doom and gloom, however; there is good news: There are ways to manage and mitigate the risks, and ways to make life insurance affordable for business owners and executives.

In fact, there are ways to buy insurance for any of the purposes listed above, and to do it in a most efficient way. Consider what the following would do for your quest for the ideal way to purchase life insurance.

### A Promising Insurance Arrangement

The ideal insurance purchase arrangement should include the following elements:

- 1) The insurance carrier should be rated among the top handful of carriers in the world on all

factors (financial solvency, stability, customer service, etc.);

- 2) The policy should be designed by insurance actuaries specifically for the purpose of maximizing investment performance (i.e., growth inside the policy), and should include guarantees as to interest rates, mortality charges, service fees, etc.;
- 3) A lender will pay the first 7 years of insurance premiums;
- 4) No premiums will need to be paid after the first 7 years, and the policy will stay in force for the rest of your life;
- 5) The interest rate on the premium loan will be pegged to a very low rate; and
- 6) This program will be available through multiple insurance carriers both inside the US and internationally.

#### **Too Good to Be True?**

Is such an arrangement possible? Or is this too good to be true? The arrangement is, indeed, possible, but is subject to several requirements:

1. To qualify for this program, you must have a verifiable net worth of \$10 million USD and/or an annual income of \$500,000 USD.
2. To protect the lender, you will be required to pledge assets (approximately 1% of the policy face amount) as collateral for 5 years or more, depending on investment performance, until the policy's cash value exceeds the then loan balance (with interest).
3. Due to the complexity of arrangement, your attorneys and tax advisors will work with our attorneys and advisors to make sure this is established correctly. For protection of both parties, we will not work directly with you without your advisors.
4. For these reasons, the process will take anywhere from three (3) to nine (9) months to complete.

#### **Who Can Benefit From Such an Arrangement?**

We live in a time of great uncertainty. Those who can afford to plan for the future need to do so, not just their future, but that of their family, their society and the institutions which will make the world a better place. These arrangements were created to be used:

- For estate maximization and the benefit of heirs (turn a \$10M estate into a \$70M estate);
- For the benefit of public charities, donor-advised funds, public safety charities, private foundations, etc. (leave a large legacy to a worthy group at a small cost and make the world a better place); and
- Any other business or insurance purpose (estate planning, key-man, buy-sell, tax-free loans after retirement, etc.).

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**WE ADVISE YOU TO RELY ON ADVICE FROM YOUR OWN ATTORNEY, CPA AND/OR OTHER QUALIFIED TAX ADVISOR.**

#### **CONTACT INFORMATION**

Contact Ron Snyder or Mike Gundersen at (800) 815-0129 for more information or to find out if you qualify for this coverage.