

The Ultimate Buy-Sell Solution

with Signature Indexed Universal Life Insurance



Case Study Summary

Quick Facts

1. Family Business with two owners valued at \$1,000,000 and growing
2. Majority owner (80%) is father age 50 in good health, Minority owner (20%) is 25 year old son
3. Business cash flow allows for \$40,000 annual commitment to fund a buy-out solution

Challenges

Prepare the business to survive through the possible Death, Retirement, or Illness of the majority owner.

Solution

Use a permanent life insurance policy to fund the Buy-Sell agreement.¹ A Signature IUL policy with Accelerated Benefit Riders from American National could benefit the business in the following ways:

- If the majority owner dies prematurely, the Death Benefit could be used to purchase the business.
- If the majority owner decides to retire, a policy loan² against the Accumulation Value could be used to help purchase the majority owner's interest.
- If the majority owner becomes ill with a qualifying condition, the Accelerated Benefit Riders³ for critical, chronic, or terminal illness may be used to receive a discounted Death Benefit that could be used to help purchase the majority owner's interest.



Case Study: Funding a Buy-Sell Agreement with Signature IUL policy with Accelerated Benefit Riders³

Buy-Sell agreements may be especially beneficial to family businesses with multiple family members holding an ownership interest in the company. If a family member becomes unable to continue with the business, the remainder of the family owners can continue on if a Buy-Sell agreement has been prepared in advance.

Consider this hypothetical scenario. Smith and Son, Inc. is a family business owned by Michael Sr., age 50 and his son Michael Jr., age 25. Michael Sr. retains 80% ownership of the business while Michael Jr. holds the remaining 20%. The business is currently valued at \$1,000,000 with steady growth.

Michael Sr. wants to see the business continue after he stops participating in the business and wants to make sure Michael Jr. and his family can continue the business after he is gone. A good solution is a buy-sell agreement funded by life insurance on the father. What if the father wants to retire and receive a retirement income? What if the father is faced with a health related life crisis and is no longer able to work in the business? Consistent cash flow from Smith and Son, Inc. may allow \$40,000 annually as a commitment to fund a buy-out solution.

Continued on next page...

1. When using insurance as the funding vehicle, premium payments must be made to keep the life insurance policy in force, otherwise the life insurance policy will lapse.
2. Policy Loans are subject to interest charges and can reduce the death benefit paid to beneficiaries. Outstanding loans may affect the policy's death benefit, the Accumulation Value of the policy and possibly the length of time the policy remains in force.
3. Accelerated Benefit Riders are subject to an administrative fee of up to \$500 and an actuarial discount that will be assessed when the benefit is elected. Outstanding Policy Loans will reduce the amount of the Accelerated Benefit Payment.

Possible Solutions

1. **Obtain a Signature Indexed Universal Life insurance policy. This policy can be funded by Smith and Son, Inc. and may be owned by either Smith and Son, Inc. or by Michael Jr. on the life of Michael Sr.**
 - a. A main goal of the policy will be to fund up to the Modified Endowment Contract (MEC) level without creating a MEC.¹
2. **Fund the Buy-Sell agreement using the \$40,000 annual commitment from Smith and Son, Inc. as an annual premium for a Signature Indexed Universal Life policy.**
 - a. The Death Benefit for this recommended Signature IUL policy would begin at \$759,088 with Option B (Increasing Death Benefit) which pays either: (a) The specified amount plus the Accumulation Value or (b) the minimum death benefit calculated under the standard guideline premium test.
 - b. In this hypothetical example² using non-guaranteed values, when Michael Sr. reaches age 70, there could be an Accumulation Value of \$1,703,760 with a \$2,462,848 Death Benefit.
3. **Use the Signature IUL policy for multiple life events that may affect the buy-sell agreement.**
 - a. At the age of 70, if Michael Sr. is interested in getting out of the business, Michael Jr. may have the option of borrowing \$100,000 per year for 20 years via Policy Loans³ to pay Michael Sr. \$2,000,000 for his currently valued interest in Smith and Company, Inc.
 - b. In the event of retirement, the Accumulation Value may provide a substantial annual payment to purchase Michael Sr.'s interest in the company.³
 - c. In the event Michael Sr. is faced with a health related life crises Smith and Son, Inc. may receive a partial or full accelerated death benefit that could be used to help purchase Michael Sr.'s ownership interest with American National's Accelerated Benefit Riders⁴ for qualifying critical, chronic and terminal illnesses.
 - d. In the event of premature death, the death benefit from the policy may provide the money to buy out Michael Sr.'s ownership interest.

American National does not give legal advice. Clients should see their own legal counsel.

1. When a policy is classified as a MEC, withdrawals and loans are taxable to the extent there is a gain on the contract. Additionally, taxable loans are subject to a 10% IRS penalty if the policyowner is under the age 59 1/2 at the time of distribution. Gain in the contract is taxable upon full surrender of the policy.

2. **Hypothetical Example Assumptions:** Assume the purchase of a \$759,088 Life Insurance Policy for Male, Age 50, Preferred TNU, 100% Indexed Allocations, \$40,000 Annual Premium for 20 years, No withdrawals or loans taken from Policy during Pre-Retirement years, Increasing Death Benefit Option until age 70 then changing to level Death Benefit, Non-guaranteed assumptions: Signature Indexed Universal Life Insurance as of 10/21/2014.

3. Policy Loans are subject to interest charges and can reduce the death benefit paid to beneficiaries. Outstanding loans may affect the policy's death benefit, the Accumulation Value of the policy and possibly the length of time the policy remains in force.

4. Accelerated Benefit Riders are subject to an administrative fee of up to \$500 and an actuarial discount that will be assessed when the benefit is elected. Outstanding Policy Loans will reduce the amount of the Accelerated Benefit Payment.

Signature Indexed Universal Life Insurance policy is not a registered security or stock market investment and does not directly participate in any stock or equity investment or index. When an individual purchases the policy, the individual is not buying an ownership interest in any stock or index. American National Insurance Company and its agents do not make any recommendations regarding the selection of indexed strategies. American National Insurance Company and its agents do not guarantee the performance of any indexed strategies. Policy Form Series: IUL14; ABR14-TM; ABR14-CH; ABR14-CT; (Forms will vary by state) See Policy for details and limitations.

American National Insurance Company,

One Moody Plaza, Galveston, TX 77550

For Agent use Only; Not for Distribution or Use with Consumers.