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Advanced Markets

The buy-sell triple play

A case study using life insurance to fund a buy-sell agreement

The buy-sell triple play can eliminate the triple threat to your clients' business.

What would happen to your clients' business if one of the co-owners:

- Dies unexpectedly?
- Needs long-term care and is unable to work?
- Retires or leaves the business?

Your clients can eliminate this triple threat with a properly structured buy-sell agreement, funded by permanent life insurance.

A case study

Triple threat

Meet Bill, Jessica and Colin Larson, siblings and co-owners of a business

Bill
Age 40

Jessica
Age 43

Colin
Age 39

Each sibling's value in the business has been appraised at

$1,000,000

Bill, Jessica and Colin want to make sure the business will continue, run by the other two, if something should happen to one of them. As part of their buy-sell agreement, they decide to have the business purchase $1,000,000 of permanent life insurance on each sibling's life.

How can life insurance help?

Threat event	Life insurance feature	Planning objective
Death	Income tax-free death benefit can be used to cover a buyout in the event of an owner's death.	$ 1,000,000
Disability	Policy cash values can grow over the life of the policy, tax-deferred. With enough time and proper funding, cash values can help fund a buyout if an owner becomes disabled. The Long-Term Care Services℠ Rider can be added for an additional cost to provide an accelerated death benefit to fund a buyout in the event that an insured's health becomes impaired and triggers the long-term care rider.[1]	$1,000,000 initial LTC amount, starting at up to $20,000 per month
Departure	Policy cash value can accumulate tax-deferred and may be available to help fund an installment buyout if an owner decides to retire.	$100,000 per year for 10 years

1 If a Long-Term Care Services℠ Rider is added to a permanent policy, and the insured is unable to perform two activities of daily living or is suffering from a cognitive impairment and is subject to a plan of care, the rider benefit can be triggered.

See the strategy in action — using one of our life insurance policies

Bill

A preferred non-tobacco user at non-guaranteed values and current charge, for this example:

The chart below shows the options available with one of the sibling's policies

Age	Cumulative contributions	Cumulative income	Non-guaranteed cash value	LTCSR maximum benefit	Death benefit
40	$20,000	$0	$0	$1,016,000	$1,016,000
45	$100,000	$0	$81,000	$1,092,000	$1,092,000
55	$300,000	$0	$398,000	$1,215,000	$1,215,000
65	$500,000	$0	$965,000	$2,092,000	$2,092,000
66	$0	$100,000	$912,000	$1,918,000	$1,918,000
75	$0	$1,000,000	$265,000	$762,000	$762,000
85	$0	$1,000,000	$343,000	$619,000	$619,000

The business pays the premium payments on Bill's policy.

If Bill retires, the business pulls out cash (here $100,000) from the cash value each year to buy out Bill over 10 years.

If Bill becomes disabled and his condition triggers the Long-Term Care Services℠ Rider, the funds can be used to buy out Bill's interest, which can provide a cash flow to take care of his long-term care needs.

Any life insurance benefit that's left in the policy after taking the money out for Bill's retirement would benefit the business when Bill passes away.

If Bill dies unexpectedly, the tax-free life insurance benefit goes to the business and is used to buy out Bill's business interest, per the buy-sell agreement. As a result, Jessica and Colin will be 50/50 co-owners of the business.

Count on Equitable Financial for strategies designed to meet your clients' changing needs

Our permanent life insurance can help your clients protect their businesses and families, while providing assurances that their businesses will continue on their terms. Our life insurance products are designed to work with your clients and adjust as their needs change.

The basic illustration contains values using the same underwriting assumptions as this supplemental at both guaranteed charges and a 0% interest rate and contains other important information. The values represented here are for a $1,000,000 VUL Optimizer® on a 40-year-old male preferred non-smoker. The values reflect the cost of 25 years of premiums. The values represented here are non-guaranteed and assume current charges and a current interest rate of 7%. If a 0% rate and guaranteed charge are used, the policy would fail in year 27.

To learn more, call Equitable Advanced Markets or visit equitable.com.

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Loans and withdrawals reduce the policy's cash value and death benefit, may cause certain policy benefits or riders to become unavailable, and increase the chance the policy may lapse. If the policy lapses, is surrendered or becomes a Modified Endowment Contract (MEC), the loan balance at such time would generally be viewed as distributed and taxable under the general rules for distribution of policy cash values.

Under current federal tax rules, your clients generally may take federal income tax-free withdrawals up to their basis (total premiums paid) in the policy or loans from a life insurance policy that is not a MEC. Certain exceptions may apply for partial withdrawals during the policy's first 15 years.

If the policy is a MEC, all distributions (withdrawals or loans) are taxed as ordinary income to the extent of gain in the policy, and may also be subject to an additional 10% premature distribution penalty prior to age 59½, unless certain exceptions are applicable.

A life insurance policy is backed solely by the claims-paying ability of the issuing life insurance company. It is not backed by the broker/dealer or insurance agency through which the life insurance policy is purchased or by any affiliates of those entities, and none makes any representations or guarantees regarding the claims-paying ability of the issuing life insurance company.

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