

Establishing a family business succession plan

Entity Purchase Buy-Sell Agreement



Meet Jane

She and her brothers would like to ensure the survival of her family-owned business in the event of one of their untimely deaths, but without having to purchase multiple individual policies on each other.

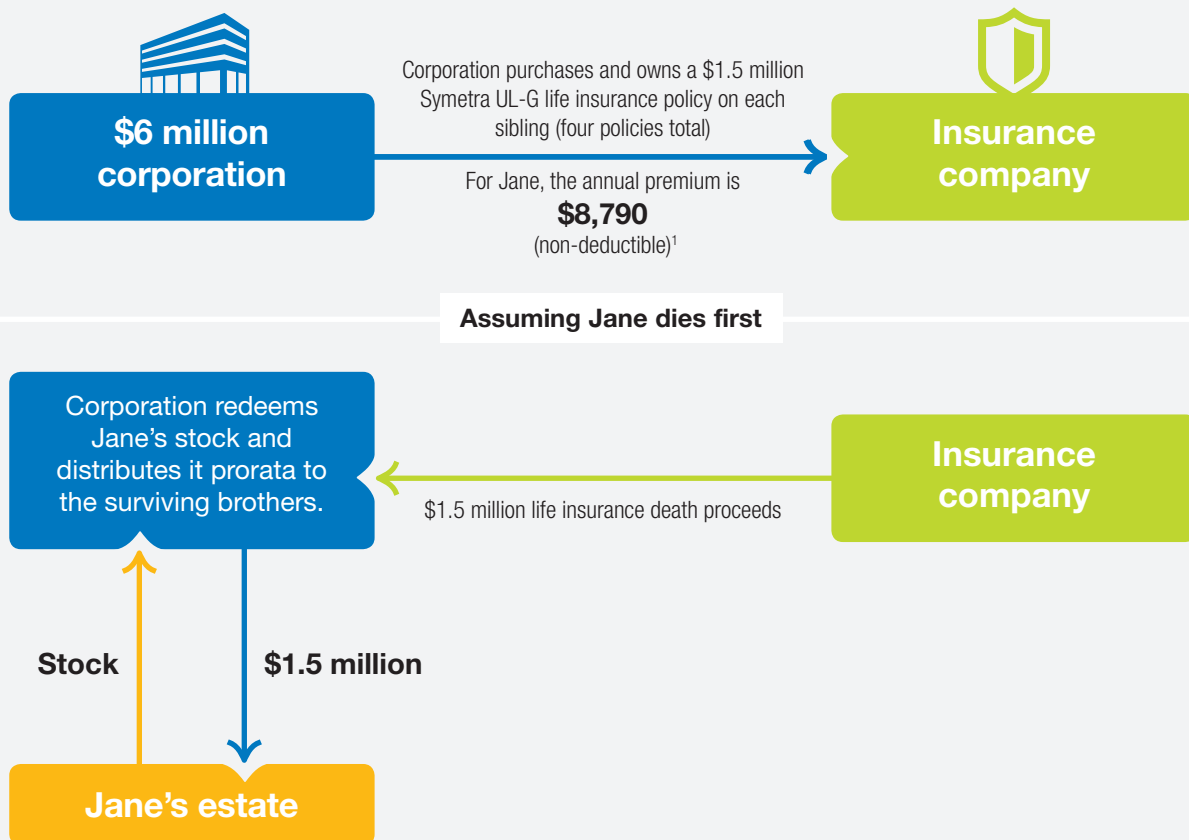
Situation

Jane, age 46, and her three brothers each own a 25% stock interest in a closely held “C” corporation with a fair market value of \$6 million. The siblings would like to establish a buy-sell plan in case one of them dies unexpectedly. They are not concerned with a step-up in basis, as they have no plans to sell their interests and believe their own children will eventually join the business. They are, however, worried about the complexity of cross-purchasing multiple individual policies on each other.

Solution

Their insurance professional recommends an **entity-purchase/corporate stock redemption plan**, in which Jane and her brothers fund a single buy-sell agreement through life insurance. Should one of the siblings die, the policy will provide a federal income-tax-free source of funds through which the remaining siblings can purchase the deceased’s interest in the business.

Here’s how it works



Focus:

Establishing a proper business succession plan.

Age

46

Gender

Female

Product

Symetra UL-G

Rate Class

Preferred Non-Nicotine

Included Benefit

Lapse Protection Benefit
(guaranteed to age 105)

Optional Rider

Return of Premium Rider

Death Benefit

\$1.5 million
(\$6 million total for corporation)

Annual Premium (without ROP)

\$8,790

Annual Premium (with ROP)

\$9,108

ROP Benefits in Year 20

\$223,140

The Result

Assuming Jane dies first, the corporation uses the \$1.5 million death benefit to purchase her shares.

As a result:

- Each surviving brother now owns 33% of the company.
- Jane's estate receives a step-up in basis upon her death, and the estate is not subject to capital gains tax on the redemption of the stock.
- For the corporation, there is no step-up in cost basis when the stock is redeemed, the life insurance premiums are not deductible, and the death proceeds are not subject to federal income tax. The potential of a transfer for value is also eliminated, as no policies transfer ownership after the death of a stockholder.²
- An alternative plan adds Symetra UL-G's optional Return of Premium (ROP) Rider to each policy. For an additional cost, this unique rider provides an "exit strategy" if the buy-sell is no longer needed. The rider offers two opportunities (windows) to fully surrender the UL-G policy and receive up to 100% of the cumulative premiums paid. If the rider was elected in our case above, Jane's policy would have an annual premium of \$9,108, and the corporation would have the option to surrender the policy at the end of year 20 or Jane's age 66 for the cumulative premiums of \$223,140. If the coverage needed to remain in-force longer, the ROP could also be exercised at the end of the 25th year.

Symetra UL-G is a flexible premium universal life insurance policy issued by Symetra Life Insurance Company, 777 108th Avenue NE, Suite 1200, Bellevue, WA 98004. This policy is not available in all U.S. states or any U.S. territory; however, where available, it is usually issued under policy form number ICC14_LC2.

The Lapse Protection Benefit, form number ICC13_LE5 or ICC14_LE7, is not available in all states and terms and conditions may vary by the state in which it is available. Insurance coverage will continue as long as the Lapse Protection Benefit remains in effect. Note that any increase in the policy's face amount after issue will terminate the Lapse Protection Benefit.

Guarantees and benefits are subject to the claims-paying ability of Symetra Life Insurance Company.

The Return of Premium (ROP) Rider is not available in all U.S. states or any U.S. territory; however, where available, it is issued under policy form number ICC15_LE5. It is an optional rider offered at an additional charge. Under this rider, if a full surrender is requested during an ROP Access Period, we will pay an amount equal to the greater of the Net Cash Surrender Value and the ROP Value. There are conditions when you may not receive 100% of your premiums back. In order to qualify for the benefit, the rider must be in effect and in a ROP Access Period and all eligibility requirements must be met. Prior to the start of any ROP Access Period, we will send a communication with available options. Exercising the ROP Rider will result in the termination of the policy. The Return of Premium Rider is available for all insureds age 70 and under that are rated no more than Table 4, flat extra of \$3 for 5 years, or have a combination table rating and flat extra. The ROP benefit is designed to return up to 100% of the cumulative paid premiums reduced by any withdrawals, loans and outstanding loan interest. The ROP benefit will not exceed the face amount of the policy. For nicotine users and rated policies, the ROP benefit will not exceed 50% of the face amount of the policy. The Return of Premium (ROP) Rider is not available without Lapse Protection Benefit (LPB) Rider. If LPB is terminated or any portion of the death benefit is accelerated, the ROP will also terminate.

A rider is a provision of the policy that may have additional costs, limitations, potential benefits and features that should never be confused with the base policy itself. Before evaluating the benefits of a rider, carefully examine the policy to which it is attached.

Life insurance policies contain exclusions, limitations, reductions of benefits and terms for keeping them in force. Please call your insurance professional for complete details.

This material is not intended to provide investment, tax or legal advice. Consult your attorney or tax advisor for more information.

¹ The life insurance and death benefit are based on a Symetra UL-G life insurance policy for a 46-year-old female in a Preferred Non-Nicotine rate class. The annual premium of \$8,790 provides a Lapse Protection Benefit to age 105.

² The proceeds paid from life insurance after death of the insured are income tax free except when a transfer of ownership has taken place while the insured was still alive. See IRC Section 101(a)(2).

Contact Us

Life Sales Desk

1-877-737-3611

Weekdays, 8 a.m. to 6 p.m. ET

lifesales@symetra.com



Symetra Life Insurance Company
777 108th Avenue NE, Suite 1200
Bellevue, WA 98004-5135
www.symetra.com

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