Business Owner Life-stage Design (BOLD)

Individual Life Insurance

Insurance products issued by:
Minnesota Life Insurance Company
Securian Life Insurance Company

BOLD BUSINESS SUCCESSION

Financial Professional guide

Whether your client is starting a new business or retiring from a long-established enterprise, a business succession strategy can be an important asset. When it comes time to transferring a business to new ownership, BOLD action on succession can ensure the business owner's hard work and commitment can be turned into value they've earned.

Help clients take BOLD action on business succession

Will your client step back completely from their business? After spending a lifetime building a business, not every business owner will just walk away.

Consider your own practice. When you turn 65, are you going to simply pull the plug on your entire book of business? You'll likely have a number of decisions to make before your retirement. And so will your clients.

Many exiting business owners:

Wish to remain involved.

Feel dedicated to its ongoing name, tradition and goodwill.

Want the business to provide employees with continued security.

Want to realize maximum value once they fully exit and transition ownership.

BOLD business succession strategies can pave the way for the owner to eventually exit on the best possible terms, financially and personally.

While the business owner may not retire for many years, creating an exit and transition strategy today provides the time and resources needed to successfully execute the transition.

Help your clients establish their business succession priorities with our BOLD Initial Questionnaire (F79732). Next, use the BOLD Business Succession Questionnaire (F79732-7) to gather details regarding the business exit and the transfer of ownership. The first section of this guide loosely follows these questionnaires.

All business owners eventually leave their business

Proper preparation can:

- Strengthen and grow a business over time.
- Allow a business owner to realize value from their hard work and the goodwill they've built.
- Successfully transition ownership to someone else.

There are two business succession paths. A planful approach prepares for leaving the business during the owner's lifetime. A contingency approach prepares for life events that force departure, such as death, disability or divorce.

Who will buy the business?

Identifying a potential buyer is the first priority in a business transition. Business owners not planning to sell in the near future probably have not identified a person or entity to take ownership.

A business may have several potential buyers, each with certain considerations:

Potential buyer	Consideration
Current co-owner(s)	There may be obligations to co-owners for taking over ownership of the business
Key employee	A key employee may be the best candidate for taking over ownership
Family member	Family members deserve to share in the wealth created by the business
Outside party	An outside interest will seek to negotiate the purchase price downward

When will the owner transition?

Next, the selling owner must set a timeline for transition. When does the owner expect to leave the business?

This is important

Without adequate preparation, the business owner's **premature death** can negatively impact:

- The value of the business
- Business continuity
- Relationships with the deceased owner's family members
- Ownership
- Vendor and account relationships
- Cash flow

Strategies that call for transition during the owner's lifetime will require time to generate funds and to transfer expertise, relationships and goodwill.

Summary of transition strategies used during the owner's lifetime

Strategy	Description	Considerations
Outright gifts	Seller gifts business to family member or an irrevocable trust	Potential gift taxes Equity issues for non-business family members
Self-canceling installment note	Installment sale that is canceled at owner's death	Need higher price or higher interest rate since risk of early death may provide financial windfall to buyer
Sale to defective trust	Trust purchases with note back to seller	Income paid back Highly appreciating assets "Freezes" estate Tax risk
Grantor Retained Annuity Trust (GRAT)	Gift to grantor retained annuity trust income paid to grantor	If death occurs during trust period, entire fair market value is included in estate Income from GRAT can be used for life insurance premiums
Charitable Remainder Trust (CRT)	Transfer to an irrevocable trust where the donor receives an income stream and a charity receives the remainder interest	Valuation required Tax deduction Securian Trust Company can help Call 1-800-818-7988

Your client's goal may be to transfer at death. This presents you with an opportunity to help the business owner prepare for a successful transfer.

Summary of transition strategies used at death

Strategy	Description	Considerations
Bequests	Seller bequeaths the business to family members according to the terms of the business owner's estate planning documents	Step-up in basis Will be included in the client's estate Equity issues for non-business family members
Estate equalization	Parents bequeath the business to one child, and other assets are given to other children	Step-up in basis Handles the equity issues for the non-business family members Equal versus fair to the non-business family members Uses life insurance
Buy-sell agreement with other owners	A business owner negotiates a pre-determined sale to other business owners upon certain life events	Step-up in basis Guarantees a buyer Creates liquidity for decedent's family Helps avoid conflict of interest between decedent's family and current ownership
Family buy-sell agreement	Family member purchases the business from the other non-business family members	Step-up in basis Handles the equity issues for the family members not involved in the business Purchasing family member must have the ability to purchase the business from children not involved in the business Uses life insurance
Testamentary Charitable Lead Annuity Trust (CLAT)	Seller transfers the business to family in a testamentary charitable trust, providing income to charity for a term, then balance to family	Estate tax charitable deduction Family must wait to receive business Special considerations for S corporation Follow with a stock redemption if not prearranged sale

How will the owner transition?

Combining strategies can help retiring business owners turn their hard work and goodwill into cash at retirement.

Summary of transition strategies

Strategies	Description	Considerations	
Stock sale	Buyer purchases stock from the seller	Valuation issues Generally better for seller	
Asset sale	Buyer purchases business assets from the seller	Buyer receives stepped-up basis in all assets Generally better for buyer	
Installment sale	Buyer makes payments for more than one year	Flexible Prorates gain Creates market	Minimal capital Issue of related party rules
Employee Stock Ownership Plan (ESOP)	Qualified profit sharing plan funded with employer stock	Expensive Annual valuations	Tax deductions for the seller Qualified employee benefit
Earn outs	Seller "earns" part of the sale price based on business performance	Used if the buyer and seller disagree about future performance of the business Applies to a limited period and only a percentage of the purchase	
Part sale/gift	Part of the business may be sold to a family member and the remainder gifted	Typically applies to a family business An analysis should be completed to determine if the sellers need money from the sale for retirement	

Factors influencing how an owner may wish to transfer the business

- **Related owners** The business owner's family likely feel they deserve to share in the wealth the business has created. Additional challenges sometimes arise when family members own a business together.
- **Transfers to key executives** Key people in the organization may be best positioned to take over the business and manage it well. These individuals are likely most willing to invest time, resources and effort in purchasing the operation.
- **Bonus shares** Granting shares as a bonus can be a way of transferring ownership to a key employee. This can make an eventual sale more complicated. The key employee must also include the value of those shares as income in the year of the bonus. The key employee will be taxed on the value of the shares but will have relatively little control of the shares or their marketability.
- **Gifting shares** Business shares can only be gifted to a family member. For example, it would not be unusual for a mother who owns a business to give shares to her children. There is no income tax associated with such a gift. The children take the income tax basis of the mother's shares. To maintain family harmony, estate equalization techniques could be used for children not in the business.

What type of business entity is the company?

This table outlines the attributes, advantages and disadvantages of different types of businesses. It can help you help your clients determine the appropriate buy-sell strategies for their business entity.

	Attributes	Advantages	Disadvantages	Appropriate buy-sell arrangement
Sole proprietorship	Business controlled and owned by one individual.	Low organizational costs. Decisions made by owner. Fewer reporting requirements. Profits are taxed as income at personal tax rate. Corporate "double tax" is avoided.	Some IRS Code benefits not available to sole proprietorships Business terminates upon the death of the owner. Investment capital is limited to that of the owner Owner's assets subject to business liabilities	One-way buy-sell
Partnership	Business owned by two or more people who carry on the business as a partnership.	All partners share equally in the right and responsibility to manage the business Each partner is responsible for all debts and obligations of the business. Partnership agreement defines distribution of profits and losses, management responsibilities and other issues	Each partner is personally liable for all the obligations of the business Each partner has the power to act on behalf of the business. All partners must pay tax on their share of partnership profits, although profits may be retained in the business. A general partnership has more opportunity than a sole proprietorship but less than a corporation, to take advantage of certain benefits afforded by the Internal Revenue Code.	Cross purchase Cross endorsed Entity redemption
Limited liability company	A business entity that combines the limited liability of a corporation with the flexible management options of a partnership.	Members of the LLC maintain liability limited to the amount invested. Flexible management options. May be taxed as a partnership if properly structured. Can be perpetual.	Transfer of interest is limited. An investment is of limited liquidity since all members must vote to transfer a member's interest.	Cross purchase Cross endorsed (if taxed as a partnership) Entity redemption

<table>
<tr><th></th><th>Attributes</th><th>Advantages</th><th>Disadvantages</th><th>Appropriate buy-sell arrangement</th></tr>
<tr><td>S corporation</td><td>A separate legal entity that is comprised of three groups of people: shareholders, directors and officers. Shareholders elect a board of directors that manage and control the corporation.

As a separate legal entity, the corporation is also a separate taxable entity.

S Corporation is taxed in the same manner as a Partnership.

Income and expenses of the S Corporation flow through to the shareholders in proportion to their shareholdings and profits are taxed to the shareholders at their individual income tax rate.</td><td rowspan="2">No shareholder, officer or director may be held liable for debts of the corporation unless the corporate law was breached.

Interests in the business may be readily sold by the transfer and sale of shares.

The ready transferability of shares in the corporation facilitates estate planning.

Corporations, to a much greater extent than sole proprietorships and partnerships, may take advantage of pension plans, medical payment plans, group life and accident plans and other benefits available under the Internal Revenue Code.

The entity exists forever, so long as corporate regulations are met.

There is no need to cease operations if an owner or manager dies.</td><td rowspan="2">Cost of organization, legal and filing fees can be expensive depending on the complexity and size of the business.

Control is vested in a board of directors, elected by shareholders rather than control vested in the individual owners.

The corporation must qualify in each state in which it chooses to do business.

Unlike sole proprietorships and partnerships, individual shareholders may not deduct corporation losses unless the corporation has elected to be taxed as a S Corporation.</td><td>Cross purchase

Entity redemption

Lifecycle</td></tr>
<tr><td>C corporation</td><td>A separate legal entity that is comprised of three groups of people: shareholders, directors and officers. Shareholders elect a board of directors that manage and control the corporation.

As a separate legal entity, the corporation is also a separate taxable entity.

C Corporation reports its income and expenses on a Corporation Income Tax Return and is taxed on its profits at corporate income tax rates. Profits are taxed before dividends are paid. Dividends are taxed to shareholders, who report them as income, resulting in “double taxation” of profits, which are paid as dividends.</td><td>Cross purchase

Entity redemption

Lifecycle</td></tr>
</table>

How many shareholders are there?

The number of shareholders will determine the continuation strategy to present to your client. A sole proprietor may only need an arrangement where a key employee or family member will take over the business at the owner's death. A life insurance policy would be placed on the owner's life for the funds to complete a one-way buy-sell at the owner's death.

Two owners can usually negotiate a sale with a cross purchase buy-sell arrangement.

Ownership of a **company** may consist of any number of individuals in various percentages. These owners can be any age, and may range in health from very fit to uninsurable. The possibilities are limitless, but a number of strategies can help ensure business stability, continuity, value and a smooth transition.

Does the owner have buy-sell arrangements?

Business owners are typically extremely busy with the operations of their company. Often, years pass without any updates to shareholder, partnership or operating agreements. These agreements usually contain provisions that address buy-sell obligations that would be triggered by certain events. If these agreements are not reviewed and updated from time to time, surprises may occur if the owner dies or becomes disabled.

A comprehensive buy-sell review should be conducted periodically. The business owners should be aware of the general nature of the buy-sell, and especially of such critical components as events covered, the valuation method used and the payment terms if an event occurs.

A business owner client who has buy-sell arrangements in place that have not been recently reviewed presents an excellent sales opportunity.

Are family members involved in ownership?

If family members are involved, there may be gift and estate tax consequences. These can be addressed through strategies of gifting with discounts, various trusts or buyout provisions involving the family members.

Owner retirement income and protection strategies

A business owner may want to incorporate a personal retirement arrangement into the business succession strategy. This may involve personal financial strategies or a formal qualified plan with the business.

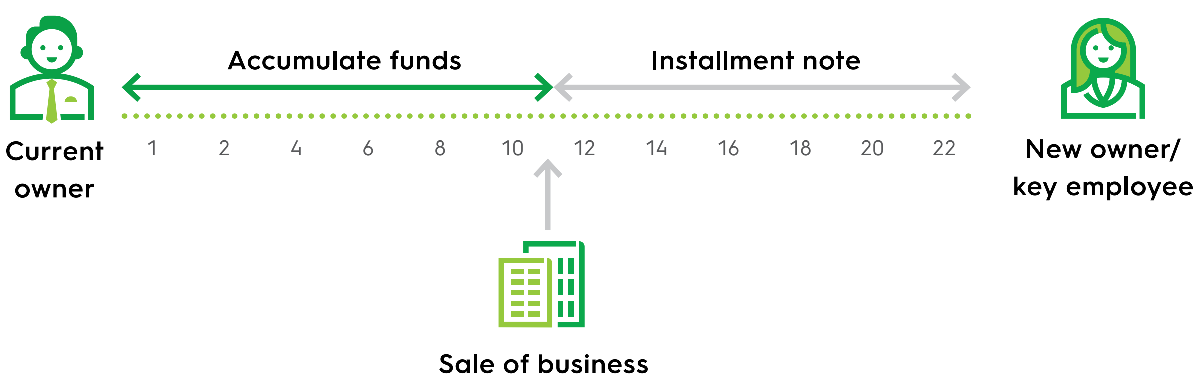
Installment note — income strategy

Because a new owner likely will not be able to pay the entire purchase price, the business will probably be purchased on an installment basis.

- An installment purchase allocates the financial strain for the new business owner to the back end of the transition.
- Even if the new owner gets a loan from a bank, it will likely cover only a portion of the purchase price.
- The selling business owner can expect to carry part of the installment obligation.
- Life insurance should be considered for liquidity in the event of the buyer's death.

Maintaining business value through non-owner executive compensation

This approach helps business owners maximize the value of their business by helping ensure key employees are satisfied both monetarily and professionally. Review our BOLD Executive Compensation guide (F79732-53) for executive compensation strategies using life insurance.



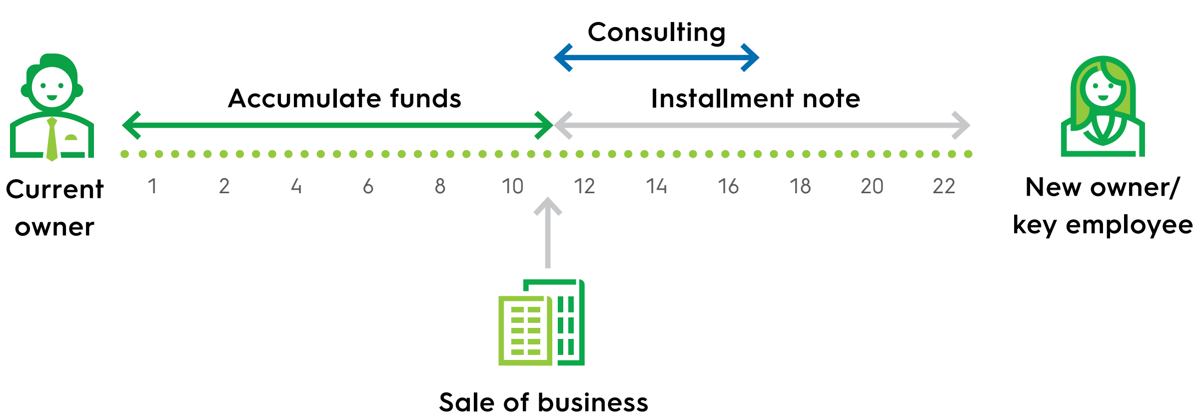
Consulting agreement — income strategy

The selling business owner might also want to consider a consulting agreement after the new owner takes over. This agreement:

- Allows the selling owner to receive additional compensation.
- Provides compensation that would be taxed as income to the former owner, and tax deductible to the new owner.
- Allows the former owner to track the new owner's progress and help transition goodwill and relationships to the new owner.

Maintaining business value through non-owner executive compensation

This approach helps business owners maximize the value of their business by helping ensure key employees are satisfied both monetarily and professionally. Review our **BOLD Executive Compensation guide (F79732-53)** for executive compensation strategies using life insurance.



Establishing a business's value for buy-sell strategies

IRS considerations

The IRS has determined the following eight factors should be considered in the valuation of closely held businesses.[1]

1. Business nature and history
2. General economic and industry outlook specific to the business
3. The business's book value and financial condition
4. The business's past, present and future earnings
5. The business's dividend paying history and capacity
6. The business's goodwill
7. Prior sales of stock and the number of shares sold
8. Market price of similar publicly traded companies

Business valuation techniques

Generally, there are **five different approaches to the challenging task of valuing a business.**

1. Book value

Book value is essentially the stated assets less liabilities. Determining value by this technique is difficult.

- Because stated book value often lists assets at cost, using book value without any modifications can misrepresent the business's value. At a minimum, examine **the actual fair market value of the assets** to determine if there are large discrepancies.
- The business should be examined to determine whether assets are a substantial income-producing factor:
  - **If assets are a substantial income-producing factor, valuing the business based on the modified book value has some credibility.**
  - If assets are not a substantial income-producing factor, valuing the business based on book value fails to recognize the true value of the business.
- The business's profit or loss should also be reviewed. A business that has substantial assets and yet produces negative income amounts should probably not be valued at net book value.

- A final valuation consideration for the book value technique is establishing a date to determine the value of the company. This is especially important if the company will receive insurance proceeds at the owner's death.
  - If the valuation date is after the owner's date of death, insurance proceeds are included in the business's assets and increase the company's book value.
  - If the valuation date is a date before the owner's date of death, the insurance proceeds are not an asset of the business and will not inflate the value of the business.

2. Agreed value

The agreed value method establishes a stated value inside a buy-sell arrangement.

- The value is generally subject to an annual review process and can change by amending the arrangement.
- An alternative valuation mechanism may be needed if the owner(s) cannot agree to a new value within a reasonable timeframe.

The buy-sell arrangement may provide a stated value. It may also state that if no modifications are made to that value within two years prior to the valuation date, outside appraisers will be used. This encourages business owners to update the stated value to keep it from becoming too low.

3. Appraised value

The appraised value method uses a qualified, independent third party to appraise the business on a specific date. In this arrangement, either:

- The two parties agree upon one specific appraiser, or
- Each party hires its own appraiser, and the two appraisals are compared. If the two appraisals do not result in an equitable price, a third appraisal or an arbitration system generally establishes the appraised value. Although costly, the appraised value is generally the most accurate way to establish the value of the business.

4. Formula value

The formula valuation method establishes a specific formula inside a buy-sell arrangement to determine business value. This approach can produce fairly accurate results, but requires more planning than other valuation methods.

- Items such as the capitalization rate and the method of determining the income factor must be decided before drafting the buy-sell arrangement.
- Any modifications to the income number must be outlined in the buy-sell arrangement.

If these items are taken into account and an accurate formula is established, the value will not become obsolete should the owner fail to review the valuation annually, as may happen with the agreed value method.

5. Capitalization of earnings

The capitalization of earnings method applies a capitalization rate to an income figure based on average or weighted earnings over time. This calculation divides the annual income number by the capitalization rate, producing a total value based on the income and anticipated risk.

Provide business owners with a complimentary business valuation

Our business valuation program provides your business-owner client with a complimentary, no obligation business valuation. It's an excellent tool for those who might postpone important business succession strategies because they don't know their business's approximate value. The business valuation provided is an informal estimate and is not designed to be used for tax reporting purposes.

Life event buy-sell strategies

What is a buy-sell arrangement?

A buy-sell arrangement is an agreement between business owners to transfer ownership at such key life events as death, divorce and disability. A properly constructed and funded buy-sell arrangement:

1. Guarantees a buyer upon an owner's death, retirement or disability.

2. Creates liquidity for the deceased owner's family It can require the business or surviving owners to purchase the deceased owner's interest, allowing liquid assets to be distributed to the decedent's family.

3. Avoids conflict of interest between the surviving owner(s) and the deceased owner's family A deceased owner's family may want income from the business, while the surviving owners may want to reinvest all excess profits back into the business. A fully-executed buy-sell arrangement helps avoid such disputes.

4. Avoids valuation difficulties Typically, a buy-sell arrangement which is negotiated at arm's length determines the value of the business for estate tax purposes.

5. Solves lack of marketability issues There is no established market for closely held stock, and generally no third party would be willing to purchase an interest — particularly a minority interest — in a closely held business immediately after the death of an owner-employee.

How is a buy-sell arrangement funded?

Four buy-sell funding methods

1. Unfunded/installment purchase The surviving owners or business purchases the deceased owner's interest by installment. The installment method, however, could strain the business's cash flow and drastically affect profits.

2. Side fund The business or owners put money in a side fund to purchase the deceased or re-tired owner's share upon an event such as death, disability or retirement. The business, however, may not have time to accumulate sufficient assets to fund the purchase. Also, retention of assets in a C corporation can trigger an accumulated earnings tax.

3. Third party financing The business or the owners plan on borrowing funds from a third party to fund the buy-sell. But third party financing can be difficult to secure after an owner's death. It may also restrict the ability to secure additional loans the business needs for expansion or working capital.

4. Life insurance The business or the owners purchase life insurance on the owners' lives to fund the buy-sell arrangement. If a permanent policy is used, the policy's cash value may assist in the buyout at retirement. Using life insurance can be difficult if an owner is in poor health, since the cost of premiums could be higher than is justified.

Sole business owner buy-sell strategies

How can a sole business owner protect the business's value at death? Through these two measures:

1. One way buy-sell Transfers ownership upon death.

2. Stay bonus Maintains value of the business upon death of a business owner.

They can be used together or separate, depending on the business owner's objectives.

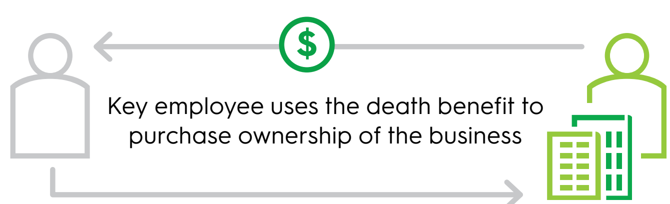
One way buy-sell strategy: Transferring ownership upon death

A one way buy-sell arrangement helps alleviate concerns about what will happen to a business if the sole owner dies. Those include possible difficulty in selling the business, tax issues and uncertainty about the continued success — or even loss — of the business.

How does a one way buy-sell strategy work?

Setup

Death of a business owner



1

The sole owner of a business enters into a buy-sell arrangement with either a key employee or a family member. The key employee or family member is the owner and beneficiary of a policy on the business owner.

2

The business bonuses premium payments to the key employee.

3

Upon death of the business owner, the key employee or family member is required to purchase ownership of the business from the estate of the deceased owner.

4

The key employee or business owner then becomes sole owner of the business.

Benefits

- Relatively simple to administer
- Gives key employee certainty that he or she can buy business
- Aligns the key person with business owner's objectives
- The policy's cash value can be used as collateral for a lifetime buyout

Considerations

- Need to specify what happens to the policy if key employee decides to leave the business
- Employee must pay income taxes on the premium payments made as a bonus

Stay bonus: Preserving business value after an owner's death

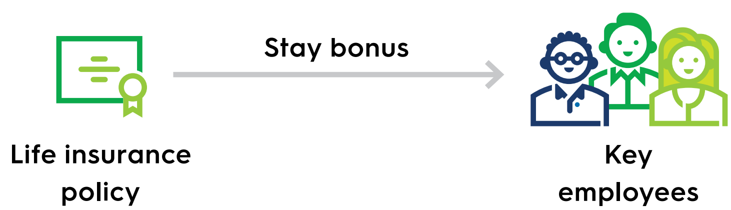
When a business owner dies, key employees may be concerned about the future and think about leaving the business. A stay bonus strategy can help retain key employees by providing a financial incentive to stay.

How does a stay bonus work?

1. The business purchases a life insurance policy on the business owner's life. The purpose of the policy is to provide liquidity to potentially pay bonuses to select key employees after death of the owner.

Owner	Why?	Considerations
Business owner	Business owner can access the policy	Must be included in the business owner's estate
Business	Business pays policy premiums	Cash value and death benefit is paid to the business, and tax issues may arise when taking these funds out of the business
Irrevocable Life Insurance Trust (ILIT)	Keeps the policy out of the business owner's estate and outside the reach of business creditors	Prevents the business owner from accessing the policy

2. If the business owner dies, a bonus agreement is drafted and executed to retain the key employees by providing a financial incentive to stay with the business.



3. The life insurance policy’s death benefit proceeds provide the funds needed for the stay bonus.

Benefits

- Protects the owner's family by helping uphold the business's value
- Stabilizes the business at the owner's death by retaining key employees and reassuring creditors, vendors and customers
- Flexibility — depending on ownership, the policy can be used for a combination of other business owner objectives

Owner	Other objectives
Business owner	Supplemental income, income replacement, legacy strategies
Business	Key person, entity redemption buy-sell
ILIT	Estate tax planning, legacy strategies

Considerations

- Since no ownership is transferred, the family continues to own the business
- Stay bonus must be drafted **after** the business owner's death
- Employees must pay income taxes on the stay bonus, and the business receives a deduction

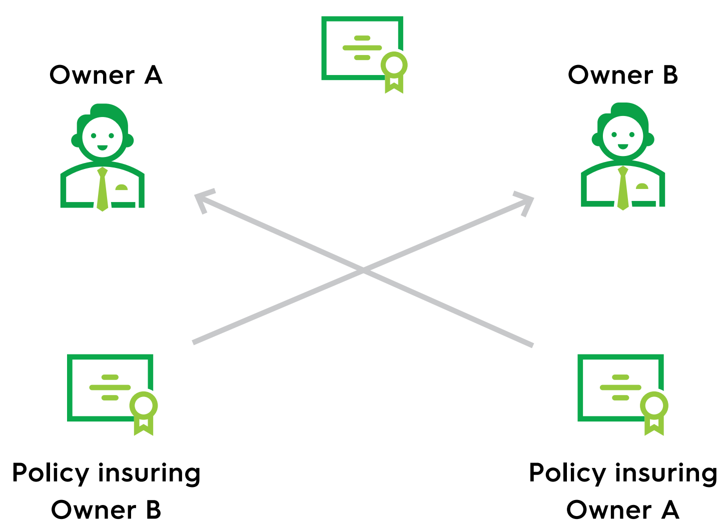
Multiple business owner buy-sell strategies

There are two basic buy-sell strategies for multiple business owners: cross purchase and entity redemption. This section reviews each strategy, outlines which strategy works and ends with a discussion of why these strategies typically don't work well when combining retirement objectives.

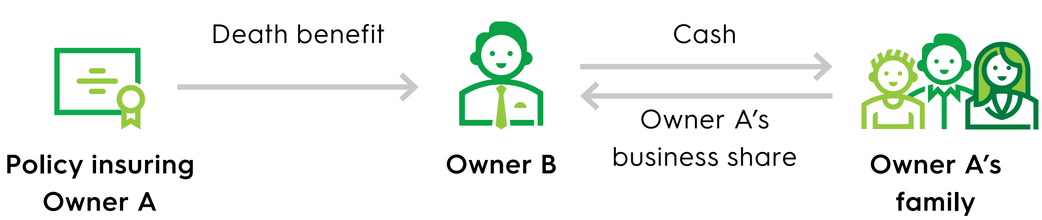
Cross purchase buy-sell arrangements for two or three owners

How does a cross purchase buy-sell work?

- The business owners enter into an agreement prepared by an attorney. The agreement provides that on the death of one owner, the surviving owner(s) will buy the deceased owner's share of the business with cash.
- Each business owner applies for and owns a life insurance policy on the other owner(s).



- If Owner A dies first, Owner B receives the policy's income tax-free death benefit on Owner A.
- Owner B uses the death benefit to buy Owner A's share of the business from the surviving family.
- Owner A's family receives cash, and Owner B retains the business and becomes the sole owner.



Benefits

- Basis increase for the surviving owners
- Can reallocate the owners' interests at buyout
- Assets safe from business creditors

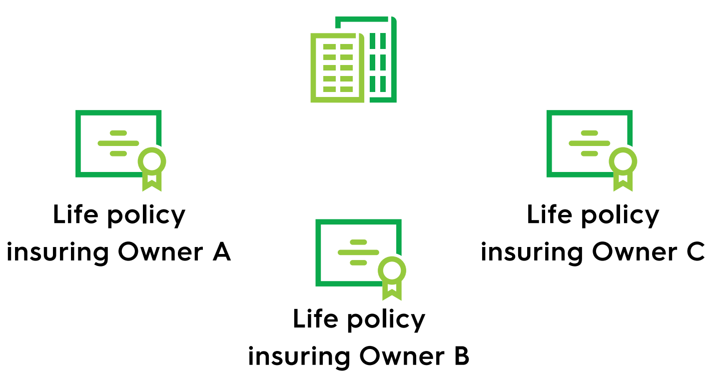
Considerations

- Difficult to use insurance proceeds for personal retirement
- Requires multiple policies on each owner
- Not safe from personal creditors

Multiple owner entity redemption buy-sell

How does an entity redemption buy-sell work?

1. Multiple owners of a business enter into an agreement (prepared by an attorney) that should any owner die, the business will purchase the shares from that owner's heirs.
2. The business purchases a life insurance policy on each owner, which will serve as the source of funds the business will use to redeem the deceased owner's shares. The business is the owner and beneficiary of all the policies.
3. When Owner A dies, the business receives the death benefit from A's policy income tax-free.



4. The business purchases the shares from Owner A's heirs with the policy's death benefit, and retires them.

The subsequent decrease in the number of shares outstanding increases the value of the shares for the surviving owners. **Owners B and C now each own 50 percent** of the company, and A's estate receives cash from the sale of Owner A's business interest.

Benefits

- Requires only one policy per owner
- Premium payments equalized among owners
- Owners control funding vehicle as a group
- Not subject to personal creditors

Considerations

- Does not increase basis for surviving owners
- Subject to corporate creditors
- Owner retirement benefits are taxable

When to use cross purchase or entity redemption strategies

The factors below offer guidelines for when each of these strategies may be suitable for businesses owned by three or more business owners:

1. Type of business entity

Cross purchase	Step-up in basis for owners of C corporations (C corps) and pass-through entities
Entity redemption	Possible step-up in basis for owners of pass-through entities only

Basis increase for the surviving owners can be an important consideration. A detailed discussion of the characteristics of these entities is beyond the scope of this guide. What is important to know is that **partnerships, S corporations (S corps), and LLCs (taxed as either a partnership or S corp) are pass-through entities, meaning that losses and profits are taxed directly to the owners.**[2] This becomes an issue when determining whether remaining owners will receive a step-up in basis for the purchase of a departing owner's interest.

Entity redemption with a partnership — special allocation

Partnerships are pass-through entities similar to S corporations, so basis is also a key consideration. Like S corporations, a partner's basis is affected by contributions, distributions and income or loss. But unlike S corporations with their ability to specially allocate income within a partnership, the basis discrepancy between entity redemption and cross purchase can be eliminated. See **"Premium Allocation"** within the lifecycle buy-sell strategy section for a special allocation example.

2. Number of owners

Cross purchase	Requires each owner to own a policy on every other owner
Entity redemption	Requires one policy per owner

The entity redemption buy-sell strategy requires only one policy on each of the owners. For seven owners, for example, seven policies are required. However, for a cross purchase buy-sell arrangement, each owner must own a policy on each of the other owners. In the example of a business with seven owners, 42 policies would be required. **Because of the immense administrative burden, cross purchase buy-sell arrangements are better suited to businesses with fewer owners.**

3. Owner percentages, ages and health

Percentages of ownership

Large variances in ownership interests will complicate buy-sell arrangements. When one owner has substantially more of the business than other owners, funding becomes problematic.

Cross purchase	Minority owners may not be able to afford life insurance premiums on the majority owner and may require additional bonuses to pay for the premiums.
Entity redemption	Becomes an issue with S corps due to pass-through taxation. In an S corp, the minority owner may only receive a pro rata step-up in basis. If he or she owns 10% of the corporation, he or she will only get a 10% basis increase but may end up owning 100% of the corporation. Subsequent sale of the corporation may result in large capital gains tax exposure.

Ages and health of owners

Healthy and/or young owners pay more to insure older and less healthy ones. This is particularly problematic in a cross purchase where policies are owned by the owners.

Combining retirement with buy-sell strategies

Cross purchase and entity redemption buy-sell arrangements can cause income taxation if the client is trying to combine retirement income strategies.

Entity redemption

In entity redemption, a business owns life insurance policies on the owners. If the owners were to retire or dissolve the business, the distribution of life insurance policies with cash value to the owners will be a taxable event. The taxation will depend on the type of business entity:

C corporation	Any life insurance policy distributions from a C corporation will be taxable to the recipient as a dividend or salary. The amount taxable is the "fair market value."[3] At the point of distribution, the corporation must recognize any gain to the extent that the cash value of the policy exceeds the corporation's premium payments. However, the corporation is entitled to a deduction (under Section 162) equal to the amount of distributed cash value the executive includes in income.
S corporation	If an S corporation provides a policy to the insured owner as a distribution, any gain will be recognized to the corporation as if the property were sold at fair market value. (Fair market value is generally considered the difference between the policy's cost basis and its cash value without reduction for surrender charges.) All gains will pass through to the owner as ordinary income under the built-in gain rules.
S partnership	Generally distributions of property from a partnership to a partner are tax-free[4] unless those distributions are considered compensation to the owner.

Cross purchase

In a cross purchase, business owners personally own policies on the lives of other owners. At retirement, if the owners were to transfer the policies to the insureds, each owner would recognize taxable gain (the difference between the price they paid for the asset they are trading and the value of the asset they are receiving).

Example

A owns a policy on B

$5,000 premium for 10 years = $50,000 cost basis and $80,000 cash surrender value (CSV)

B owns a policy on A

$5,000 premium for 10 years = $50,000 cost basis and $70,000 cash surrender value (CSV)

Tax ramifications of uncrossing the policies:

- Each has a cost basis of $50,000
- A has $20,000 taxable gain ($70,000 CSV - $50,000 cash basis)
- B has $30,000 taxable gain ($80,000 CSV - $50,000 cash basis)

This is a hypothetical example for illustrative purposes only.

Advanced multiple owner buy-sell strategies

Lifecycle buy-sell strategy

The lifecycle buy-sell combines the benefits of the traditional entity redemption and cross purchase buy-sell strategies. Benefits include:

- One life insurance policy per owner.
- Full basis increase to surviving owners.

It also provides additional benefits not available with cross purchase or entity redemption type buy-sells:

- Ability to transfer life insurance policies funding the arrangement to a departing owner (insured) while keeping the receipt of the policy from being taxable income to the owner, and without recognizing any gain from the policy's cash values exceeding the sum of the life insurance premiums.
- Flexibility in allocating the cost of life insurance premiums among the owners.
- Accumulation of significant dollars on a tax-favored basis, safe from corporate creditors, for supplemental retirement income.
- The simplicity of using a single buy-sell vehicle when several business entities share the same owners.

How does a lifecycle buy-sell strategy work?

1. Partnership agreement

The business owners form a separate partnership to ensure the continuous operation and control of the corporation upon death or retirement of an owner. This separate partnership can also be set up as an LLC (taxed as a partnership).

2. Two buy-sell agreements (partnership and corporation)

Entity	Type of buy-sell	Considerations
Corporation	Wait-and-see buy-sell	Provides that, upon death of an owner, the surviving owners have the option to buy his or her stock. If the surviving shareholders do not buy all of the decedent's stock, the corporation must redeem it.
Partnership	Entity redemption	Partnership must purchase the ownership from the deceased owner's estate.

Initial LifeCycle setup

C Corp value: $2 million

A (40)	B (40)	C (40)
100 shares	100 shares	100 shares

Wait-and-See Buy-Sell Agreement

Business has first option

Survivors have next option

Business must buy stock

Partnership setup

C Corp value: $2 million

A (40)	B (40)	C (40)
100 shares	100 shares	100 shares

Partnership

A	B	C
100 units	100 units	100 units

This is a hypothetical example for illustrative purposes only.

3. Partnership purchases life insurance policies

The partnership purchases life insurance policies on each of the owners to fund both buy-sell agreements. The policies can also be designed to accumulate sufficient cash to provide retirement income to fund a living buyout at retirement. There are two factors to consider when determining how much life insurance to buy:

a. Sufficient death benefit for both buy-sell arrangements. The partnership needs sufficient cash to buy the deceased partner's partnership interest and to distribute enough cash to the survivors to purchase or redeem the decedent's stock.

b. Accumulation. The cash value on each business owner can be accessed for a number of personal and business reasons.

4. Source of premium payments

The policy premiums are paid through a bonus or distributions from the corporation to the owners, which they will contribute to the partnership as a capital contribution. In addition, the partnership can be seeded with cash or other investments, and use the income from those investments to pay the premiums.

5. Premium allocation

Premiums can be allocated among the partners as they agree, and payments varied year to year. The amount allocated to any partner doesn't need to match the premium on the life insurance policy insuring that partner. Alternatively, each partner bears the cost of all premiums based on the percent ownership in the corporation.

Example

A, B and C each own one-third of a corporation

- The premiums necessary to insure A, B and C are $14,000, $9,000 and $7,000, respectively. The partners have agreed to allocate the total $30,000 premium equally, $10,000 to each.
- If the corporation pays the premium, each owner will have $10,000 of taxable income, and the corporation will have a $30,000 tax deduction.
- The partners will each have $10,000 deemed contribution of capital to the partnership each year.
- At the end of 10 years, if the policies have $130,000, $110,000 and $90,000 of cash value, respectively (for a total of $330,000), each partner will have an interest in the partnership worth $110,000.

This is a hypothetical example for illustrative purposes only.

Corporation makes bonuses to partners

C Corp value: $2 million

A (40)	B (40)	C (40)
100 shares	100 shares	100 shares
↓ Bonus to A $10,000	↓ Bonus to B $10,000	↓ Bonus to C $10,000

LLC

A	B	C
100 units	100 units	100 units
$10,000 basis	$10,000 basis	$10,000 basis

LLC pays premiums

Premium payments for each owners are:

A - $14,000

B - $9,000

C - $7,000

But allocate bonuses equally among the owners:

A - $10,000

B - $10,000

C - $10,000

This is a hypothetical example for illustrative purposes only.

LLC pays premiums

C Corp value: $2 million

A (40)	B (40)	C (40)
100 shares	100 shares	100 shares
↓ Bonus to A $10,000	↓ Bonus to B $10,000	↓ Bonus to C $10,000

LLC value = Cash value of life insurance policies

A	B	C
100 units	100 units	100 units
$10,000 basis	$10,000 basis	$10,000 basis

This is a hypothetical example for illustrative purposes only.

Retirement of an owner

Upon termination of a partner's interest at retirement, the policy insuring the partner may be distributed to him or her in exchange for the partner's partnership interest.

- If the cash value of the policy does not equal the partner's share of the total partnership cash value, adjustments may be made prior to the distribution.
- The adjustment can be accomplished by withdrawing cash from the policy or policies. Such transfers are not income taxable and do not affect the partners' bases.[5]

Tax consequences include:

- There is no transfer for value because the transfer is to the insured.
- There will be no gain or loss to the departing partner (regardless of whether the value of the policy is more or less than the departing partner's adjusted basis in his or her partnership interest).[6]
- There will be no gain or loss recognized by the partnership, regardless of the relationship of the sum of the premiums to the cash value.[7]
- The departing partner will take the policy with a basis equal to the departing partner's adjusted basis in his or her partnership interest immediately before the distribution.[8]

Retirement benefit: A retires from LLC

C Corp value: $3 million

A (50)	B (50)	C (50)
100 shares	100 shares	100 shares

LLC value = Cash value of life insurance policies

A	B	C
100 units	100 units	100 units
$100,000 basis	$100,000 basis	$100,000 basis
$130,000 cash value	$100,000 cash value	$70,000 cash value

This is a hypothetical example for illustrative purposes only.

Retirement benefit: adjustments to cash value

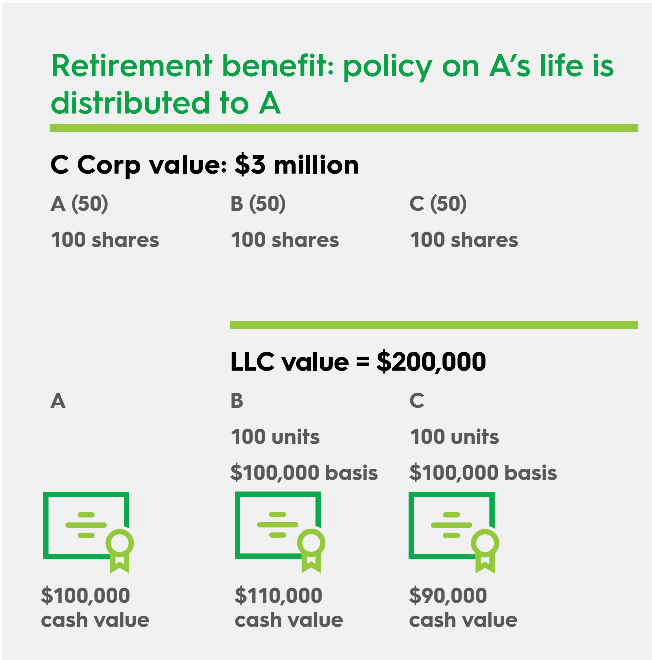
C Corp value: $3 million

A (50)	B (50)	C (50)
100 shares	100 shares	100 shares

LLC value = Cash value of life insurance policies

A	B	C
100 units	100 units	100 units
$100,000 basis	$100,000 basis	$100,000 basis
$100,000 cash value	$110,000 cash value	$90,000 cash value

This is a hypothetical example for illustrative purposes only.



This is a hypothetical example for illustrative purposes only.

Exit and transition strategy – installment note buyout

Under an exit and transition installment note buyout, the retiring owner sells his or her stock and partnership interest to the remaining owners for an installment note.

- The remaining owners use the cash value from the policies to pay installments on the note.
- If the retiring owner dies during the payment period, the death proceeds are used to pay off the installment note.
- After the installment period, the death proceeds can be used to reimburse the partnership for the premium payments.

Death of an owner

When the life insurance proceeds come into the partnership, the deceased partner's interest (in the partnership) will first be purchased by the partnership in accordance with the partnership's buy-sell provisions. The remaining death proceeds are paid to the surviving partners/shareholders to fulfill the obligation to purchase or redeem the decedent's shares of the corporation under the buy-sell agreement.

Life insurance death benefits received by the partnership are income tax-free:[9]

- The proceeds are included in each partner's distributive share as tax-exempt income.[10]
- Each partner's basis in the partnership interest increases by the distributive share of the tax-exempt income.[11]

Distributions from the partnership to a partner are generally nontaxable if the cash distributed does not exceed the partner's basis in the partnership interest.[12] The death benefit should be specially allocated only to the surviving partners to allow them to receive the full basis increase. The surviving partners will then be able to distribute the death benefit to themselves income tax-free, giving them the funds needed to execute the corporate buyout provisions.

A’s death benefit paid to LLC

C Corp value: $3 million

A	B	C
100 shares	100 shares	100 shares
$1 million value	$1 million value	$1 million value

LLC value = Cash value of life insurance policies

A	B	C
100 units	100 units	100 units
$100,000 basis	$100,000 basis	$100,000 basis
$1.1 million death benefit	$110,000 cash value	$90,000 cash value

This is a hypothetical example for illustrative purposes only.

A’s death: Special allocation

C Corp value: $3 million

A	B	C
100 shares	100 shares	100 shares
$1 million value	$1 million value	$1 million value

LLC value = Cash value of life insurance policies

A	B	C
100 units	100 units	100 units
$100,000 basis	$100,000 basis	$100,000 basis
	+$550,000	+$550,000
$1.1 million death benefit	$110,000 cash value	$90,000 cash value

This is a hypothetical example for illustrative purposes only.

A’s death: Increase B and C LLC basis

C Corp value: $3 million

A	B	C
100 shares	100 shares	100 shares
$1 million value	$1 million value	$1 million value

LLC value = Cash value of life insurance policies

A	B	C
100 units	100 units	100 units
$100,000 basis	$650,000 basis	$650,000 basis
	$110,000 cash value	$90,000 cash value

This is a hypothetical example for illustrative purposes only.

A's death: B and C buy A's interest in LLC

C Corp value: $3 million

A	B	C
100 shares	100 shares	100 shares
$1 million value	$1 million value	$1 million value

A's estate	B	C
100 units	100 units	100 units
$100,000	$600,000 basis	$600,000 basis

← $50,000

← $50,000

This is a hypothetical example for illustrative purposes only.

A's death: B and C buy A's interest in corporation

C Corp value: $3 million

A	B	C
0 shares	150 shares	150 shares
	$1.5 million value	$1.5 million value

A's estate	B	C
100 units	100 units	100 units
$100,000	$600,000 basis	$600,000 basis

← $500,000

← $500,000

This is a hypothetical example for illustrative purposes only.

The death proceeds can be loaned or contributed to the corporation, which would then redeem the shares of the decedent.

A's death: B and C buy A's interest in corporation

C Corp value: $3 million

A	B	C
0 shares	150 shares	150 shares

A's estate	B	C
$1 million	150 units	150 units
$100,000	$100,000 basis	$100,000 basis

This is a hypothetical example for illustrative purposes only.

Benefits

- Funds for business continuation in the event of a business downturn, or an owner's disability, departure or death
- Separate business entity provides safety from corporate and personal creditors
- Owners' premium payments can be equalized
- Requires only one policy per owner
- Central policy management

Considerations

- Must set up a separate business entity, which entails additional legal fees
- May be subject to meeting the insured's notice, consent and income requirements of IRC Section 101(j)
- May be a complicated strategy
- Death benefit may be included in the estate and subject to estate taxes if a partner is deemed to possess incidents of ownership

Cross endorsed buy-sell arrangements

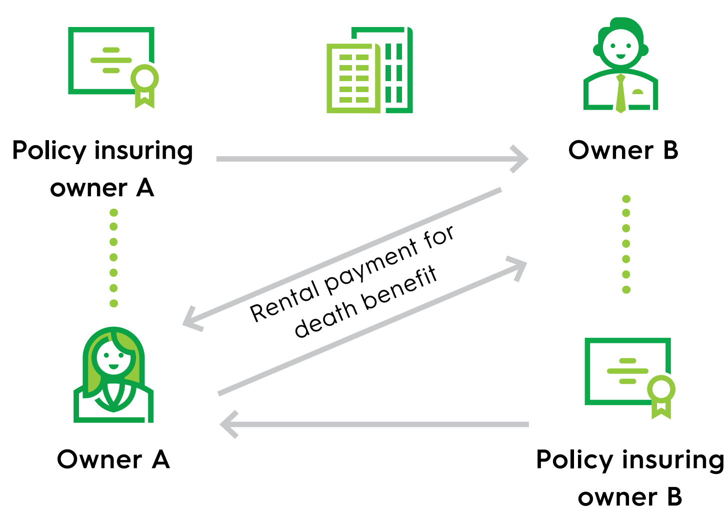
In a cross endorsed buy-sell agreement, each business owner purchases a policy on his or her own life, and "rents" a portion of the death benefit to the other owners. Each owner recognizes rental income but retains access to the cash value in his or her own policy. This strategy allows ownership of the insured's own policy.

How does a cross endorsed buy-sell strategy work?

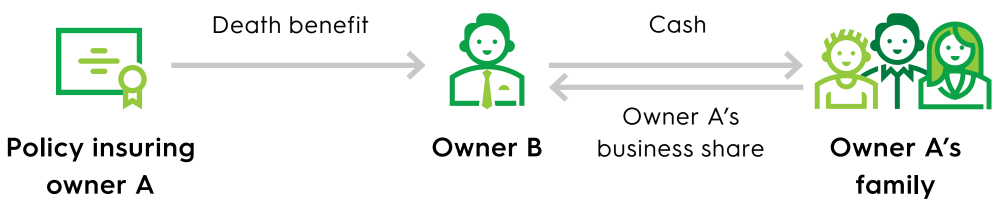
1. Business owners enter into a buy-sell agreement prepared by an attorney. The agreement provides that on the death of either owner, the survivor will buy the other's share of the business for cash.

2. Each business owner applies for and owns the life insurance policy.

3. Each business owner endorses a portion of the death benefit amount over to the other owner(s), assessing a "rental charge." The business owners recognize the rental income on their tax returns. The rental charge is based on the economic benefit of the death benefit's cost. Throughout the life of the policy, the business owners have access to the cash value in their own policies.



4. At the death of Owner A, Owner B receives the endorsed death benefit from Owner A's policy.
5. Owner B uses the death benefit to buy Owner A's share of the business from the surviving family.
6. Owner A's family receives cash, and B retains the business and becomes sole owner.



Benefits

- Gives a basis increase for surviving owners
- Can reallocate the owners' interests at buyout
- Cash value and death benefit are safe from business creditors
- Works well for two or three business owners
- Allows business owners to own and control the life insurance policies funding the agreement
- Ensures business is transferred according to owners' wishes
- Agreement can terminate at any time with each owner retaining his or her life insurance policy

Considerations

- Not safe from personal creditors
- Can be complex if there are more than two or three business owners
- Written notice and consent rules may apply
- Rental income must be recognized by each owner
- May have transfer-for-value issues; clients should discuss this strategy with their legal and tax advisors

Concerns regarding life insurance with buy-sell arrangements

Notice and consent requirements for employer-owned life insurance

An Employer-Owned Life Insurance (EOLI) contract is defined as a life insurance policy issued after August 17, 2006, that:

- Is owned by a person engaged in a trade or business and under which such person (or a related person) is directly or indirectly a beneficiary under the contract.
- Insures an employee of the trade or business of the policy owner or a related person (collectively the "applicable policyholder") on the date of the contract's issuance.[13]

Unless an exception applies, an applicable policyholder must include in gross income the death benefits received under an EOLI contract that exceed the total premiums and other amounts paid by the policyholder for the contract.

There are two exceptions:

1. The first depends on the insured's status as an employee. The exception will apply if the insured under the contract was:

a. An employee at any time during the 12 months prior to his or her death, or

b. A director or a highly compensated employee or individual at the time the contract was issued.[14]

2. The second exception occurs when the death benefits are either:

a. Paid to the insured's estate, family members or other designated beneficiaries (other than the policyholder), or

b. Paid to a trust for the benefit of any such individuals, or

c. Used to purchase an equity (or capital or profits) interest in the applicable policy-holder from any person described above.

These exceptions apply only if the notice and consent requirements are met before the issuance of an EOLI contract.

As a general rule, whenever a business entity owns a life insurance policy (including wholly-owned corporations and sole proprietorships), specifically in these business succession strategies:

- **Entity redemption buy-sell** The business owns the policy insuring the business owner and receives the death benefits to fund the owner's buyout.
- **Lifecycle buy-sell** A separate partnership or LLC holds life insurance on the owners of an operating business to fund the buy-sell of the operating business.
- **Key person life insurance** A business owns the policy to protect it against the loss of a key employee, owner, director, etc.
- **Changes or exchanges of grandfathered policies** Any change to a grandfathered policy or an IRC §1035 exchange of a grandfathered policy for a new policy if there is:
  1. A material increase in the death benefit, or
  2. Another material change in the policy.

The IRS stated that life insurance policies issued in cross purchase arrangements generally will not qualify as EOLI contracts for purposes of IRC §101(j).[15]

To fit within any exception to EOLI taxation, policyholders must satisfy certain notice and consent requirements prior to issuance of the EOLI contract. The IRS issued the following guidance regarding compliance with the notice and consent requirements:[13]

Notice. The employee must receive written notification that the applicable policyholder intends to insure the employee's life; reasonably expects to purchase a specified maximum amount of life insurance (stated either in dollars or as a multiple of salary) on the employee during the employee's tenure; and will be a beneficiary of any proceeds payable upon the death of the employee.

Consent. The employee must provide written consent to being the insured and to the continuation of coverage after termination of the insured's employment. The contract must be issued:

1. Within one year after the employee's consent, or
2. Before the termination of the employee's employment — whichever is earlier.

EOLI compliance is the policyholder's responsibility. In any potential EOLI situation involving a Minnesota Life Insurance Company or Securian Life Insurance Company policy, there are two steps:

1. The employer must sign a copy of Minnesota Life Insurance Company's form F66015 or Securian Life Insurance Company's form FSL-66015, "Employer Notification Regarding the Potential Taxation of Death Benefits," before the policy is issued, and return it to the financial representative. This form simply notifies the employer of its potential obligations under these rules. It does not relieve the employer of its obligation to obtain a signed notice and consent from the prospective insured.

2. The client should discuss the EOLI rules with an attorney and, if the EOLI rules apply, obtain a signed notice and consent from the insured before the policy is issued. A sample

"Insured's Acknowledgement of Notice and Consent — Employer Owned Life Insurance Policy" is located at the end of the **buy-sell foreword to counsel (F71834-45).**

a. The employer must obtain a signed form from each prospective insured before the policy is issued.

b. The employer should retain these signed forms and file them along with their life insurance policies.

c. The employer must also report these policies to the IRS annually by attaching completed Form 8925 to the employer's annual income tax return.

While the IRS presumes that an employee will receive a separate form for notice and consent, a recent private letter ruling by the IRS held that a separate document was not required where the totality of the applicable policyholder's documentation in connection with the EOLI contract evidenced that all the notice and consent requirements were met prior to contract issuance (specifically a buy-sell agreement and a life insurance application, both executed by the insured employee prior to issuance of the contract, which together contained all the required notice and consent information).[16]

- **For existing EOLI contracts,** an employer may be able to show evidence of notice and consent without separate documentation if it can demonstrate that all required notice and consent information was included in one or more documents that were provided to and/or executed by the insured employee prior to the contract's issuance.
- **For newly issued contracts,** however, obtaining a separately executed notice and consent form from the insured employee will more easily and clearly document compliance.

In addition, EOLI policyholders must file Form 8925 with their annual federal tax returns for each year that an EOLI contract is owned to report certain information regarding EOLI contracts, including the number of employees insured, the total insurance held under EOLI contracts and the number of non-consenting insured employees (if any). The policyholder must also keep whatever records may be necessary to evidence compliance.

The only situations in which the IRS will not challenge inadvertent failures to satisfy the Notice and Consent requirements are when:[17]

- The applicable policyholder made a good faith effort to satisfy the notice and consent requirements (e.g., maintains a formal system for notice and consent for new employees);
- The failure to satisfy the requirements was inadvertent; and
- The failure to obtain the notice and consent was discovered and corrected by the due date of the tax return for the taxable year in which the EOLI contract was issued (failure to obtain consent cannot be corrected if the insured employee has died).

Otherwise, removing the "taint" of an improperly issued EOLI contract often involves 1) canceling the existing policy and issuing a new one, or 2) affecting a material increase in the policy death benefit or other material change in the contract. The notice and consent requirements must be satisfied prior to the issuance of a new policy or a material change in an existing policy.

Transfer-for-value

The transfer-for-value rule, contained in Internal Revenue Code §101(a)(2), provides:

In the case of a transfer for a valuable consideration, by assignment or otherwise, of a life insurance contract or any interest therein, the amount excluded from gross income by [the beneficiary of death proceeds under a life insurance contract] shall not exceed an amount equal to the sum of the actual value of such consideration and the premiums and other amounts subsequently paid by the transferee.

The transfer-for-value rule provides that when a policy is transferred for valuable consideration, the death proceeds received in excess of the consideration paid are taxed as ordinary income (as opposed to tax-free under the general rule for life insurance proceeds).[18] **Ensuring compliance with the transfer-for-value rule is supremely important.**

Key points regarding the transfer-for-value rule

- It does not matter whether the policy is term or permanent life insurance.
- It applies to group as well as individually-purchased life insurance coverage.
- How the policy is transferred is irrelevant.
- It can apply even if ownership of a policy has not been transferred.
- A mere shift in an interest in the contract may be sufficient to trigger the rule.
- For the rule to apply, there must be both a transfer of a policy or an interest in a policy and valuable consideration paid to the transferor for the transfer.

Five safe-harbor exceptions may shelter a transfer from the transfer-for-value rule penalty (even if there is a transfer for valuable consideration):

1. Transferor's basis ("in whole or in part").
2. Transfer to the insured.
3. Transfer to a partner of the insured.
4. Transfer to a partnership in which the insured is a partner.
5. Transfer to a corporation in which the insured is an owner or officer.

Please note:

- Transfers to a stockholder are not protected and will trigger the transfer-for-value rule.
- Transfers to a partnership in which the insured is a partner and transfers to a partner of the insured are statutory exceptions to the transfer-for-value rule under Section 101(a)(2)(b). When a partnership owns the life insurance which funds the buy-sell, all transfer-for-value traps are avoided.

Transfer-for-value trap: switch from entity redemption to cross purchase with a corporation

If the owners wish to change from entity redemption to a cross purchase arrangement, the corporation transfers the policies owned on the life of the owner to their other owners. **However, the transfer of a policy to a co-owner is treated as a sale for valuable consideration and therefore the transfer-for-value rule would apply, creating taxable income at death.**

At Securian Financial, we're here for family. And we're here because of it.

We're guided by our purpose: helping customers build secure tomorrows. Since 1880, we've been building a uniquely diversified company that has outlasted economic ups and downs while staying true to our customers. We're committed to the markets we serve, providing insurance, investment and retirement solutions that give families the confidence to focus on what's truly valuable: banking memories with those who matter most.

Learn more

Businesses come in all shapes and sizes – and so do their business succession needs. Use BOLD to identify and implement solutions that fit your client's business and life stage.

Ready to take bold action?

To find out more about BOLD, call our advanced sales team: 1-888-413-7860, option 3

For resources to help maximize your sales in the business owner market, visit: securian.com/BOLD

1. Revenue Ruling 59-60.

2. IRC Sec. 1366.

3. RS Notice 2005-25.

4. Section 731(a).

5. Assuming no modified endowment contracts and assuming withdrawals do not exceed policy basis.

6. IRC Section 731(a).

7. IRC Section 731(b).

8. IRC Section 732(b).

9. IRC §101(a).

10. Section 702.

11. Section 705(a)(1)(B).

12. Section 731.

13. IRC §101(j). For this purpose: (1) a "related person" is any person with a relationship to the policy owner as specified in IRC §§267(b), 707(b)(1), 52(a) or 52(b); and (2) an "employee" is a U.S. citizen or resident who is an officer, director or certain highly compensated employee as defined in IRC §414(q).

14. For this purpose, (1) a "highly compensated employee" is defined in Code §414(q) but ignoring paragraph (1)(B)(ii) (i.e., any employee who is a 5% owner or had compensation from the employer in excess of $115,000 (inflation adjusted), and (2) "highly compensated individual" is defined in Code §105(h)(5), but substituting 35% for 25% (i.e., An individual who is a) One of the five highest paid officers, b) A owner who owns (with the application of the constructive ownership rules of IRC §318) more than 10% of the employer's stock, or c) Among the highest paid 35% of all employees).

15. Notice 2009-48.

16. PLR 201217017.

17. Notice 2009-48.

18. IRC §101.

Please keep in mind that the primary reason to purchase a life insurance product is the death benefit.

Life insurance products contain fees, such as mortality and expense charges (which may increase over time), and may contain restrictions, such as surrender periods.

Policy loans and withdrawals may create an adverse tax result in the event of lapse or policy surrender, and will reduce both the surrender value and death benefit. Withdrawals may be subject to taxation within the first 15 years of the contract. Clients should consult their tax advisor when considering taking a policy loan or withdrawal.

This information should not be considered as tax or legal advice. Clients should consult their tax or legal advisor regarding their own tax or legal situation.

This material may contain a general analysis of federal tax issues. It is not intended for, nor can it be used by, any taxpayer for the purpose of avoiding federal tax penalties. This information is provided to support the promotion or marketing of ideas that may benefit a taxpayer. Taxpayers should seek the advice of their own tax and legal advisors regarding any tax and legal issues applicable to their specific circumstances.

These are general marketing materials and, accordingly, should not be considered investment advice or a recommendation that any particular product or feature is appropriate or suitable for any particular individual. These materials are based on hypothetical scenarios and are not designed for any particular individual or group of individuals (for example, any demographic group by age or occupation). The materials were prepared for financial professionals who are experienced in investment and/or insurance matters. As a result, they should not be reviewed or relied on by any other persons. Securian Financial Group, and its affiliates, have a financial interest in the sale of their products.

Insurance products are issued by Minnesota Life Insurance Company in all states except New York. In New York, products are issued by Securian Life Insurance Company, a New York authorized insurer. Minnesota Life is not an authorized New York insurer and does not do insurance business in New York. Both companies are headquartered in St. Paul, MN. Product availability and features may vary by state. Each insurer is solely responsible for the financial obligations under the policies or contracts it issues.

Securian Financial is the marketing name for Securian Financial Group, Inc., and its affiliates. Minnesota Life Insurance Company and Securian Life Insurance Company are affiliates of Securian Financial Group, Inc.

For financial professional use only. Not for use with the public. This material may not be reproduced in any form where it would be accessible to the general public.

Securian FINANCIAL®

INSURANCE
INVESTMENTS
RETIREMENT

securian.com

400 Robert Street North, St. Paul, MN 55101-2098

F79732-52 Rev 12-2019 DOFU 12-2019
963378