



Cross endorsed buy-sell

Preparing for the untimely loss of a business partner

Your challenge

If your business partner died tomorrow, you could be faced with a downturn of revenue, diminished marketability and a new business relationship with your partner's family.

A potential solution¹

You may need a large amount of money in a short timeframe if your partner passes away. By funding a cross endorsed buy-sell arrangement with a life insurance policy that you own, you could have an asset at your disposal to help you buy out your partner's family.

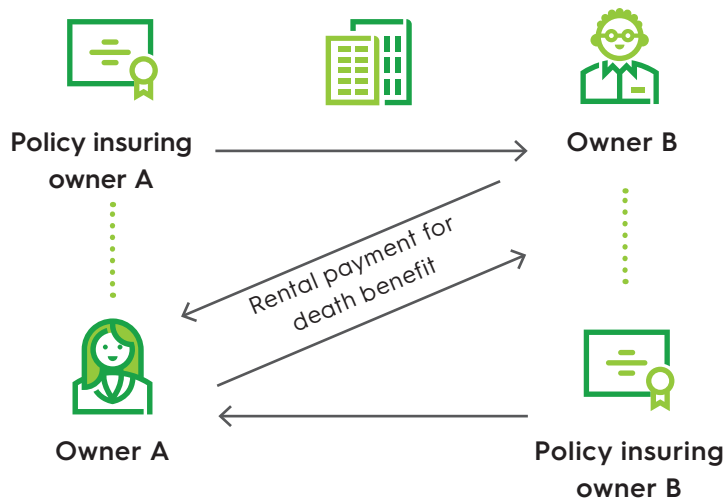
**Because your
business is
your life**

Why life insurance?

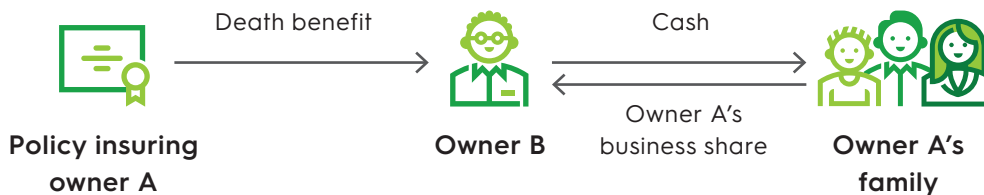
Permanent, cash value life insurance is a long-term financial tool that can provide an immediate source of funds with which to buy out your partner's surviving family.

How does a cross endorsed buy-sell arrangement 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 insuring him/herself.
- A portion of the death benefit is endorsed to the other owner(s).¹



- If Owner A dies first, Owner B receives the endorsed death benefit from Owner A's policy.
- 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.



Why use a cross endorsed buy-sell?

Benefits

- Helps ensure the business is transferred according to the owners' wishes
 - Policy can also be used for personal objectives, like supplemental retirement income
 - Gives a basis increase for surviving owners on the ownership purchased from the deceased owner
 - 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
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Why not use a cross endorsed buy-sell?

Considerations

- Not safe from personal creditors
 - Administration can be complex with more than two or three business owners
 - Annual rental fee will be considered taxable income each year
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Learn more

To learn how you can implement a cross endorsed buy-sell agreement to help ensure business continuity, contact your financial professional today.

1. The U.S. Supreme Court decided the Connelly case (*Estate of Connelly v. US*, 144 US 1406 (2024)) which fundamentally affects all business owners who have or are considering a life insurance funded buy-sell arrangement. Arrangements commonly referred to as “entity purchases” or “stock redemptions” are most affected. The US Supreme Court unanimously held that the corporation’s redemption obligation is not a liability that reduces the estate tax value of the decedent’s shares and that the death proceeds received by the corporation must be included as part of the estate tax valuation of the business. It is critical to remember that when contemplating a buy/sell arrangement that stock redemptions or entity purchases funded with life insurance will produce higher date of death valuations than other types of arrangements.

2. With the endorsed death benefits, each owner charges the other owners a fee for “rental” of the death benefit. This fee is based on the reportable economic benefit of the death benefit’s cost, and must be reported as taxable income.

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

Life insurance products contain charges, such as Cost of Insurance Charge, Cash Extra Charge, and Additional Agreements Charge (which we refer to as mortality charges), and Premium Charge, Monthly Policy Charge, Policy Issue Charge, Transaction Charge, Index Segment Charge, and Surrender Charge (which we refer to as expense charges). These charges may increase over time, and these policies may contain restrictions, such as surrender periods. Policyholders could lose money in these products.

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 fifteen years of the contract. You should consult your tax advisor when considering taking a policy loan or withdrawal.

The policy design you choose may impact the tax status of your policy. If you pay too much premium, your policy could become a modified endowment contract (MEC). Distributions from a MEC may be taxable and if the taxpayer is under the age of 59 ½, may also be subject to an additional 10% penalty tax.

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F71834-53 Rev 4-2025 DOFU 4-2025
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