

Flexible business continuation

A plan funded with life insurance



Life

The death of an owner could mean the death of a business. Heirs of the deceased may insist on a job or an active role in management, may insist on dividends being paid, or may force liquidation in order to obtain funds. Surviving owners may have no idea how much it will cost to buy out the deceased's heirs, and may have no cash for the buyout.

Today's small business owner needs a flexible solution – something that can serve more than just one purpose. They put everything into their growing businesses. What happens during an unexpected illness? How can the plan also help them retire? A business continuation plan that includes permanent life insurance could provide the funding needed to continue the business should one of the owners die, but also provide funds through accelerated death benefits if the insured is diagnosed with a qualifying illness¹ or can even be repurposed to help supplement income for retirement.

How does it work?

Under a buy-sell cross-purchase agreement, the owners agree to purchase life insurance policies on each other to fund the purchase of the owner's interest upon death. Each owner purchases a separate life insurance policy on each of the other owners and names themselves as the beneficiary. The total amount of coverage on each owner is the value of the individual's ownership in the business. Upon the death of an owner, death benefit proceeds are paid to each surviving owner generally free from income tax.² The surviving owners use the death benefit proceeds to purchase the deceased owner's share of the business.

Flexibility

Affordability

The cross-purchase agreement can be expensive for younger business owners when other business owners are significantly older. A good way to help keep the agreement affordable, yet provide flexibility, is for younger business owners to purchase a mix of term life insurance with guaranteed Universal Life (UL) insurance. The term policy can have a term length that roughly matches the time frame in which another owner will retire. The guaranteed UL policy can be guaranteed for life as long as you meet the premium payment requirements.

Accelerated Death Benefits

Midland National's accelerated death benefits can offer financial assistance at a time when you might be wondering how you'll pay the bills. These benefits allow the policyowner to accelerate a portion of the death benefit should the insured be diagnosed with a qualifying illness, subject to eligibility requirements. The funds could be used to cover any expense. These endorsements are included for no additional premium charge at issue on eligible policies.¹

Contingent ownership

The buy-sell agreement can have additional flexibility if each business owner is the contingent owner on the policy on their own life. For example, in an agreement with two business owners, should owner one die, owner two would receive the death benefits proceeds as beneficiary from the policy on owner one's life, and also become the policyowner of the policy on his/her own life.

Guaranteed Exchange Privilege

Midland National's Essential Guaranteed[®] UL offers a Guaranteed Exchange Privilege³, which allows you to exchange your policy, without evidence of insurability, and without a surrender charge, to one of our individual cash-value accumulation universal life policies available at the time of exchange. This is a great option if you want to revise the business continuation agreement to include more of a focus on potential cash-value accumulation.

Next steps

Make sure you help protect the continuity of your business. Talk to your attorney today about setting up a buy-sell agreement. Then, work with your Midland National agent to develop and illustrate life insurance policies for a buy-sell agreement that's tailored to your business.

1. An administrative fee may be required at time of election. The death benefit will be reduced by the amount of the death benefit accelerated. Since benefits are paid prior to death, discount will be applied to the death benefit accelerated. As a result, the actual amount received will be less than the amount of the death benefit accelerated.

2. Neither Midland National nor its agents give legal or tax advice. Please consult with and rely on a qualified legal or tax advisor before entering into or paying additional premiums with respect to such arrangements.

3. The Cash Surrender Value on the new policy may not be greater than the Cash Surrender Value on the policy being exchanged. Not available for policy ages 76 and above or if there is an outstanding policy loan.

Essential Guaranteed UL4 (policy form series L138), is issued by Midland National, Administrative Office, One Sammons Plaza, Sioux Falls, SD 57193. Products, features, riders, endorsements, or issues ages may not be available in all jurisdictions. Limitations or restrictions may apply.

TEXAS Residents receipt of acceleration-of-life-insurance benefits may affect your, your spouse's or your family's eligibility for public assistance programs such as medical assistance (Medicaid), Aid to Families with Dependent Children (AFDC), supplementary social security income (SSI), and drug assistance programs. You are advised to consult with a qualified tax advisor and with social service agencies concerning how receipt of such a payment will affect your, your spouse's and your family's eligibility for public assistance.

Life insurance policies have terms under which the policy may be continued in force or discontinued. Permanent life insurance requires monthly deductions to pay the policy's charges and expenses, some of which will increase as the insured gets older. These deductions may reduce the cash value of the policy. Current cost of insurance rates and current interest rates are not guaranteed. Therefore, the planned periodic premium may not be sufficient to carry the contract to maturity. For costs and complete details, refer to the policy or call or write Midland National Life Insurance Company, One Sammons Plaza, Sioux Falls, SD 57193. (800)-923-3223.