

Buy-Sell Planning Using Life Insurance

Entity Purchase Agreements

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Entity Purchase Agreement Using Life Insurance

You and your partners have a growing business with a bright future. That's why it is important to plan for unexpected events that could negatively impact the success of your business. Have you thought about what would happen to the business if one of your co-owners were to die? Where would you get the money to fund the buyout of his or her share of the business?

Entity Purchase Agreements are one way you can help ensure the continued success of your business so that you can focus on what you do best — take care of business.

Entity Purchase Agreement

In an entity purchase agreement, also known as a stock redemption for corporations, the business itself will enter into an agreement with each owner to purchase a deceased owner's business interest. To accomplish this, the business purchases a life insurance policy on each owner's life in an amount that equals his or her respective ownership interest in the business. The policy proceeds are used to acquire stock from the deceased owner's estate when a triggering event, such as death, disability or retirement occurs.



Leaving my business to chance just isn't my style.

Advantages

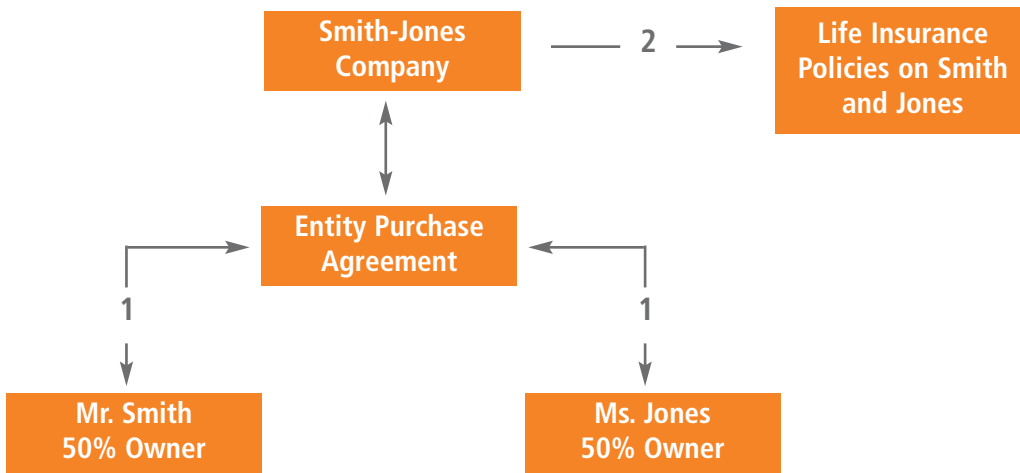
- **Administrative ease:** The number of policies that need to be purchased is limited to one policy for each owner.
- **Equalization of payments:** Because the business is paying all insurance premiums, there is equalization of premium costs among owners. Factors such as age, smoker status, and health ratings may be less of an issue.
- **Business pays the premiums:** It is usually psychologically easier for business owners to pay premiums from the business account than from a personal account.
- **Cash value is a business asset:** The insurance policies' cash values are shown as an asset on the business' balance sheet.

Disadvantages

- **Policies and cash value are subject to creditors of the business:** Because the policies are owned by the business, they are considered assets that the business's creditors can attack.
- **No basis credit for entity redemption:** The surviving owners' basis in shares will not change, even though the value will increase as a result of the redemption. This is important if any of the surviving owners sells stock before his or her death, since capital gains tax will be paid on all proceeds greater than the shareholder's basis.
- **Payment system may not be fair:** The equalization of payment may not be fair because of age or health status differences among owners. For example, there are two 50 percent owners; one owner is 30 years old with a life insurance premium of \$1,000 and the other owner is 65 years old with a premium of \$7,500. The business will pay the total premiums of \$8,500 per year. The owners may feel that another payment scheme is more appropriate.
- **Inequality of total benefits received:** Depending on the timing of an owner's death, the total benefits received by each owner may not be equal.
- **Non-deductibility of premiums:** The life insurance premiums are nondeductible under IRC §264(a).
- **Increase in value of entity:** The life insurance proceeds may increase the value of the entity for estate tax purposes because the death proceeds flow into the business.

How It Works

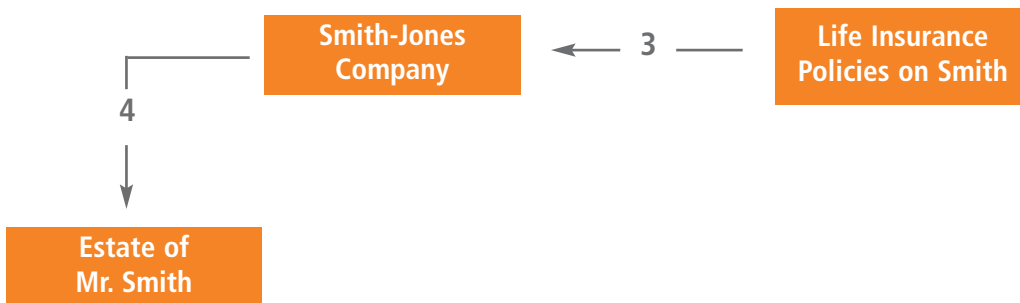
Establishing and Funding the Plan



1. The Smith-Jones Company establishes an entity purchase agreement with Mr. Smith and Ms. Jones. Mr. Smith and Ms. Jones each agree to sell their interest to the business at death or other triggering event such as disability or retirement.
2. Smith-Jones Company purchases a life insurance policy on each owner equal to the owner's share of the business. Smith-Jones Company is the beneficiary of the policy.

Smith-Jones Company is the owner, beneficiary and premium payer for the insurance.

At Death or Other Triggering Event



3. Assuming Mr. Smith dies, the insurer pays income-tax free proceeds to Smith-Jones Company. (This may be subject to state income taxes and federal Alternative Minimum Tax (AMT)).
4. Smith-Jones Company continues to pay cash to Mr. Smith's estate in exchange for the estate's interest in the business.

Results

Smith-Jones Company continues with the surviving owners in control of the business. The estate of the deceased has cash from the sale of the business interest.

Next Steps

Designing a business continuation plan is a crucial step to ensure your business remains in-tact at your retirement, death or other triggering event. Whether you leave your business by choice or by chance, you'll leave your business on track and help provide for your family's future. With an entity purchase agreement, you can help protect yourself, your business, co-owners and your family.

Talk to your ING Financial Professional to determine if an entity purchase agreement using life insurance may meet your specific needs.



For more information, please call your
ING Financial Professional

ReliaStar Life Insurance Company
20 Washington Avenue South
Minneapolis, MN 55401

**ReliaStar Life Insurance
Company of New York**
1000 Woodbury Road, Suite 208
Woodbury, NY 11797

**Security Life of Denver
Insurance Company**
1290 Broadway
Denver, CO 80203

www.ing.com/us

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