Business Planning: Business Succession

Buy-Sell Planning

Using Life Insurance

These materials are not intended to be used to avoid tax penalties and were prepared to support the promotion or marketing of the matter addressed in this document. Neither ING nor its affiliated companies or representatives give tax advice. Clients should always be advised to consult with their tax and legal advisors regarding their individual situation.

Buy-Sell Agreements
Using Life Insurance

A buy-sell agreement is a contract that outlines what will happen to your business interest in the event of your retirement, death, or other triggering events. When your buy-sell agreement is funded with life insurance, the policy owner (usually a co-owner of the business or the business itself) uses the policy proceeds to buy your business interest at your death or retirement. If you retire, the cash value of the life insurance policy can provide a down payment and help fund the buy-out of your share of the business.

Advantages of a Buy-Sell Agreement

A well-constructed buy-sell agreement anticipates how the value of your business may change over time and provides for appropriate adjustments in the amount of the buy-out price. The life insurance policy can be designed to vary with the buy-out price so you maintain sufficient coverage. When it's time to leave your business, a properly designed buy-sell agreement can:

- Help create a market for your business interest.
- Establish the purchase price of your business interest and possibly set a value for estate tax purposes, while you are living.
- Maintain the "closeness" of the business by restricting the transfer of your business interest to co-owners, family members or key employees who you choose.
- Help your family by providing liquidity for the payment of death taxes and other estate settlement costs.
- Increase the business' credit risk by providing a business continuation plan.
- Assure that the business you created continues to provide for your family and your employees.

Funding a Buy-Sell Agreement

When funding a buy-sell agreement, you'll want to make certain that the required amount of cash is available at precisely the time it is needed. Because life insurance is the only funding method that can assume this, it generally is the most appropriate way to fund the death provision of a buy-sell agreement. In addition, life insurance:[1]

- May be more cost effective than other funding methods (loans, sinking funds).
- Allows the purchaser to satisfy the buy-sell obligation without having to deplete business cash flow or personal funds.
- Provides the purchaser with the necessary funds income-tax free.
- Can help fund other sales events, such as disability or retirement.

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 your family secure. By arranging a buy-sell agreement, you can protect yourself, your business, co-owners and your family. Talk to your ING financial professional to create a buy-sell agreement using life insurance tailored to meet your specific needs.

Glossary

Alternative Minimum Tax: A tax of up to 15 percent on the annual increase in policy cash value and up to 15 percent of life insurance death benefit greater than premiums paid minus any withdrawals or loans received.

Attribution: Stock owned by one individual or entity is considered to be owned by another individual or entity for determination of how a specific transaction is taxed.

Basis Step Up: In an entity cross-purchase plan, the purchaser (surviving owner) will receive an increase in his/her base value of stock purchased equal to the purchase price paid. The purchaser's basis for the ownership interest steps up in value to the price paid.

Consideration: Any payment or service that can be valued in exchange for, in this case, a life insurance policy.

Redemption: a.k.a. Stock Redemption. The purchase of the deceased owner's business interest by the business.

Non-Voting Interest: An ownership interest that does not vote on management issues.

Sinking Fund: A funding method for buy-sell agreements in which deposits are made with personal or business after-tax dollars. Earnings on the fund may be reduced by income taxes.

Stock Redemption Plan: a.k.a. Entity Purchase Agreement. An agreement that the business will purchase the owner's interest when a triggering event occurs. At the death of an owner, policy proceeds are paid to the business. The business then purchases the deceased owner's interest in the business from his or her estate.

Transfer-for-Value: A transfer for value occurs when a life insurance policy is transferred to a new owner for consideration. With a transfer for value, the death benefit proceeds will be exempt from income tax in the amount equal to the consideration paid. The amount of death proceeds that exceed the consideration paid for the policy will be subject to income tax. There are several exceptions to the transfer for value rule: 1) a sale or transfer to the insured, 2) a sale or transfer to a partnership in which the insured is a partner, to a partner of the insured or to a corporation in which the insured is an officer or a shareholder, 3) a transfer where the basis for determining gain or loss in the hands of the transferee is made with reference to the basis of the transferor (examples include transfers between spouses or transfers of a policy by gift).

Triggering Event: Retirement, death or disability of a business owner.

Voting Interest: Management interest.

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

Neither ING nor its affiliated companies or its representatives give tax or legal advice. The strategies suggested may not be suitable for everyone, and each individual should consult with his or her own tax advisor and legal counsel before implementing any of the strategies discussed here.

Life insurance products are issued by ReliaStar Life Insurance Company, ReliaStar Life Insurance Company of New York, and Security Life of Denver Insurance Company. All are members of the ING family of companies. Only ReliaStar Life Insurance Company of New York is admitted, and its products issued, within the state of New York.

INSURANCE MARKETPLACE STANDARDS ASSOCIATION

117672

cn35925062008
© 2006 ING North America Insurance Corporation
06/01/2006