DBS SALES SOLUTIONS

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# Own Your Own Insurance Buy-Sell

**Nearly all buy-sell agreements that use life insurance have one thing in common:** The business owners do not own the life insurance policies that insure their own lives. In an entity purchase arrangement, the business owns the policy. In a cross-purchase arrangement, the other owners or another entity own the policies.

**Common Concerns Expressed by Business Owners:** Many buy-sell agreements are triggered when an owner retires, becomes disabled or voluntarily leaves the business. In these cases, the death benefit cannot be used to purchase the departing owner's interest. Yet, the departing owner's policy may be a valuable asset that could be used for the departing owner's financial plans. The fact that the business owner does not own his/her policy has the potential to raise the following concerns:

1. If the owner's health deteriorates, he may become uninsurable and unable to purchase other coverage to meet his/her family needs.
2. Even if the insured is insurable, the cost of purchasing new life insurance coverage could be prohibitive.
3. Of course, during the term of the buy-sell arrangement, the business owner is precluded from making decisions about the policy insuring his/her life.

Because of these concerns, it's not unusual to find many buy-sell agreements funded with a term insurance policy. In contrast, when the business owner owns his/her policy, the owner has more reason to consider a permanent policy.

**How the Own-Your-Own Policy Buy-Sell Structure Work:** With this approach, the owners enter into a cross-purchase agreement where each owner agrees to purchase their pro rata share of the other business owner's interest. However, instead of each business owner purchasing a policy on the other owner's life, each business owner purchases and owns a life insurance policy on his/her life. The policy's value will be based on at least his or her proportionate projected value in the business. The arrangement is structured as a non-equity endorsement split-dollar agreement (normally using a return of premium death benefit option) with the death benefit endorsed to the other business owners to satisfy the obligation under the buy-sell agreement. The necessary endorsement forms are filed with the insurance carrier.

At an insured business owner's death, the death benefit is paid to the surviving owners according to the terms endorsed, and each surviving owner uses his share of the death benefit to purchase the deceased's business interest from the estate as required under the terms of the buy-sell agreement. If alternatively, the business owner retires or otherwise leaves the business, the remaining owners release the endorsement on the departing owner and the departing owner releases his/her interest in the remaining owners' policies.

**How Can DBS Help?** The greatest benefit of this structure is that it gives the business owner control over his/her policy, including the ability to increase the premium level to use the policy for supplemental retirement income. However, the structure does not work in all business structures and raises some tax issues which, with planning, can be avoided. To help you with the design of the own-your-own policy structure, call Terri Getman, JD*, CLU, ChFC, RICP, AEP (Distinguished), DBS's in-house advanced case design resource.