Nationwide®
is on your side

NATIONWIDE® BUSINESS SOLUTIONS GROUP

More opportunities with business succession

Funding a buy/sell plan with a cash-value policy

Succession planning is critical for all businesses, and especially for those with more than one owner. It provides continuity for the business and helps the owners efficiently transfer the business among themselves.

A buy/sell arrangement is a valuable strategy to employ, and it's important to fund it appropriately. While term insurance is a common choice for this, consider using high-cash-value universal life for clients needing significant liquidity for future ownership transfers, as well as death benefit protection.

Review a sample case

A manufacturing company equally owned and operated by four partners executed an entity-purchase buy/sell agreement 10 years ago. To fund it and provide liquidity upon an owner's death, the company bought a $2.5 million life insurance policy on each owner. The business was fairly new and cash flow was limited, so the partners chose 10-year level term.

Now that the premiums on the four original policies will begin to increase, the owners want to replace them.

- The company has a current market value of $10 million
- The owners want four new 10-year level term policies
- The annual premiums on all four total $12,675

Consider a new way to fund the agreement

Since the company has been successful and now has substantial liquid assets, the owners could instead replace the term policies with Nationwide® Future Executive Universal Life and do even more with their buy/sell arrangement. They could:

- Fund the buy/sell arrangement with permanent life insurance
- Book the cash value of the new policies as assets
- Potentially realize a net gain through a better rate of return on liquid business assets
- Assign the policies to the owner/insureds in the future to help transfer the business or generate additional retirement income

Take a closer look at the numbers

The company moved forward and funded its buy/sell arrangement with $10 million of Nationwide Future Executive UL coverage. It paid a $514,310 annual premium for seven years, repositioning a total of $3,600,173 and earning a higher rate of return on it.

		GUARANTEED Guaranteed interest rate: 2.00% Guaranteed charges		NON-GUARANTEED Current interest rate: 4.00% Current charges		
Year	**Net outlay**	**Cash surrender value**	**Net death benefit**	**Cash surrender value**	**Net death benefit**	**Accumulated IRR**
1	$514,310	$340,236	$10,000,000	$522,577	$10,000,000	1.61%
2	$514,310	$684,438	$10,000,000	$1,055,043	$10,000,000	1.70%
3	$514,310	$1,034,401	$10,000,000	$1,596,016	$10,000,000	1.70%
4	$514,310	$1,389,871	$10,000,000	$2,145,147	$10,000,000	1.68%
5	$514,310	$1,750,725	$10,000,000	$2,702,695	$10,000,000	1.66%
6	$514,310	$2,169,686	$10,000,000	$3,287,610	$10,000,000	1.81%
7	$514,310	$2,595,455	$10,000,000	$3,885,070	$10,095,679	1.90%
8	0	$2,553,056	$10,000,000	$3,960,421	$10,043,842	1.91%
9	0	$2,504,920	$10,000,000	$4,034,207	$10,019,140	1.90%
10	0	$2,450,234	$10,000,000	$4,099,254	$10,000,000	1.86%
11	0	$2,388,125	$10,000,000	$4,170,818	$10,000,000	1.85%
12	0	$2,317,661	$10,000,000	$4,252,264	$10,000,000	1.86%
13	0	$2,237,865	$10,000,000	$4,387,996	$10,000,000	1.99%
14	0	$2,147,771	$10,000,000	$4,528,751	$10,000,000	2.10%
15	0	$2,045,912	$10,000,000	$4,674,727	$10,000,000	2.19%
16	0	$1,930,491	$10,000,000	$4,826,129	$10,015,267	2.27%
17	0	$1,799,253	$10,000,000	$4,982,158	$10,036,506	2.34%
18	0	$1,649,784	$10,000,000	$5,142,207	$10,058,736	2.40%
19	0	$1,479,931	$10,000,000	$5,306,088	$10,082,060	2.45%
20	0	$1,286,783	$10,000,000	$5,473,570	$10,106,120	2.49%
Total	**$3,600,173**					

These hypothetical numbers are based on a composite illustration for four male insureds, ages 40, 45, 50 and 55, using the Nationwide Future Executive UL, which is not available in every state. The illustration reflects Death Benefit Option 1 (Level), an Enhancement Benefit, a 100% Accumulation Component and a 0% Death Benefit Component.

Remember this important information in the event of a transfer:

Generally, life insurance death benefit proceeds that are distributed to the named beneficiary are not subject to income tax. The proceeds will become subject to income taxation if the policy is sold or transferred. This is known as the "transfer for value" rule, but there are exceptions to it. One of them includes a scenario where the policy is actually transferred to the original insured on the policy. Such a transfer will not violate the transfer for value rule, and the death benefit proceeds will continue to pass free of income taxation.

Listen for business succession opportunities

As you meet with current and prospective clients, listen for cues that they may be ready to discuss business succession planning with you:

- Business owners who say they want to transfer their interest to their children or grandchildren in the future
- Owners of partnerships who express concern about the premature death or disability of a partner, or the dissolution of the relationship

Get the conversation started

Here are some general questions you can ask clients to help them understand the need for business succession planning and get them talking about it:

- Have you selected a successor for your business?
- Does anyone in your family, or your partner's family, have the expertise to run the business, or will you need to look for someone else to take over?
- Is your succession plan in writing?
- Without a succession plan, might your partner neglect your family's interest?

Let us help you

When you find a client with business succession planning needs, contact your Nationwide wholesaler or call **Nationwide Business Solutions Group** at **1-877-351-8808** for assistance.

Nationwide®

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Be sure to choose a strategy and product that are suitable for the long-term goals of both the business and its employees. Life insurance has fees and charges associated with it, which include costs of insurance and administration fees.

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