

Business Planning Strategies

Using the Cash Surrender Value on an Indexed Universal Life Policy



Life insurance can be an important planning tool for business owners. The cash surrender value of an Indexed Universal Life (IUL) policy provides flexible options for business owners who are planning for the future of their company. And the Guaranteed Refund Option (GRO) rider¹ on a fully-underwritten IUL policy provides the business owner with an additional layer of protection.

Here are three scenarios in which the cash surrender value can benefit your business clients:

Key Person Insurance

The loss of a key employee's skills can put a business at serious financial risk. Life insurance plays an important role in protecting a business if the key employee dies unexpectedly.

But, what happens if the employee chooses to leave? With an IUL policy, the business owner has the option to surrender the policy for its cash surrender value.

Cross-Purchase Buy-Sell Arrangements

With a cross-purchase buy-sell, an owner can purchase a deceased owner's share of the business at a previously agreed upon price. When using life insurance to fund the buy-sell agreement, each participating owner purchases a life insurance policy on the other owner's life. At the first owner's death, the other owner uses the life insurance proceeds to purchase the deceased owner's share of the business.

But, what happens after the first owner dies? The remaining policy may no longer be needed. The executor of the estate that holds the other policy can always choose to keep the policy. By using a policy with an accumulation value, like an IUL policy, the business owner has the option to surrender the policy for its cash surrender value.

Business Succession Planning

When a younger person plans to purchase the business from an older owner, oftentimes, there is a buyout plan that is structured using life insurance. The future owner purchases a life insurance policy on the current owner and when the owner dies, the policy proceeds are used to fund the business buyout.

As the business owner gets older, they may reach a point where they want the buyout to occur while they are still living. When using an IUL policy, the person who intends to buy the business has an option to surrender the policy for its cash surrender value. This money could be used toward the purchase of the business.

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For Life Protection Advantage, the GRO rider is not available for clients over age 60 (regardless of risk class), for substandard or tobacco cases under age 50 or for substandard tables 5-16 at ages 50 and above. For Income Advantage, the GRO rider is not available for substandard or tobacco cases under age 50 or for substandard tables 5-16 at ages 50 and above. In order to remain eligible for the rider, the client must continue to make their required premium payments as defined in the rider. Refund is limited to 80% of the policy's lowest specified amount and is reduced by any previous withdrawals and outstanding loans.

The GRO Guarantee

It's important to point out that an IUL policy's cash surrender value is not guaranteed. So, what happens if the cash surrender value does not exceed the total premiums paid? That's where the Guaranteed Refund Option rider comes in. All qualifying Income Advantage IUL and Life Protection Advantage IUL policies come with this feature at no additional charge.¹ The GRO rider provides seven 60-day windows in which the policyowner can surrender their policy and receive their paid premiums back - up to 50 percent at the end of year 15 and up to 100 percent at the end of years 20, 21, 22, 23, 24 and 25.

Give me a call on your next business case to see how an IUL policy can provide additional value for your client.
