



Home



Overview



Value of cross endorsement



How it works



What happens next



Personal planning



Value of life insurance



Contact us



# Buy-sell planning: Cross endorsement

## Client guide

Advanced Markets



INSURANCE PRODUCTS	
MAY LOSE VALUE	NOT A DEPOSIT
NOT BANK GUARANTEED	NOT FDIC INSURED
NOT INSURED BY ANY GOVERNMENT AGENCY	



Home



Overview



Value  
of cross  
endorsement



How it works



What happens  
next



Personal  
planning



Value of life  
insurance



Contact us

# The buy-sell plan where you own your policy

Most buy-sell arrangements require someone other than you to be the owner of the life insurance policy on your life. In these arrangements, because you do not own your policy, there are some important considerations:

- **If you retire or leave the business,** your partners or the business itself will own the policy on your life
- **If one of your business partners dies,** and they own a policy on your life, your partner's spouse or estate will own the policy on your life
- **If your health deteriorates,** your life insurance policy is not yours for personal use

Life insurance, like any other asset, can have personal value to you as your needs change. Accordingly, you may prefer to keep that asset in your control and not have it owned by either the business or your partners.





Home



Overview



Value of cross endorsement



How it works



What happens next



Personal planning



Value of life insurance



Contact us

## Value of cross endorsement buy-sell

What if there were a way to have both a funded buy-sell arrangement and the benefits that come with owning your own policy? A cross endorsement buy-sell agreement may be the answer — it is the one type of buy-sell plan that allows you to own your own policy.



The cross endorsement buy-sell agreement is unique because it allows you to own your life insurance policy to cover obligations needed for the buy-sell agreement, in addition to being able to provide for your own personal needs.

By owning your own permanent life insurance policy under this arrangement, you may be able to access the life insurance policy's potential cash value to help fund a lifetime buyout of the business or supplement retirement income if or when the buy-sell agreement is no longer needed. Lastly, the life insurance policy death benefit can help provide financial security to you and your family beyond what is required in the buy-sell plan.



Home



Overview



Value of cross endorsement



How it works



What happens next



Personal planning

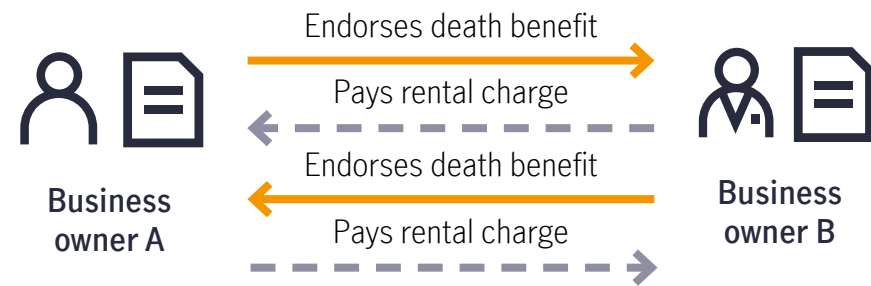


Value of life insurance



Contact us

# How it works



## Step 1

You and your business partners enter into a buy-sell agreement whereby each owner agrees to buy out the other upon a triggering event, such as retirement, disability or death.

## Step 2

To help provide funding for these buy-sell obligations, you purchase a life insurance policy on your life. The death benefit on your policy is, at a minimum, sufficient to meet the needs of the buy-sell agreement.<sup>1</sup>

## Step 3

You enter into an agreement with your business partners to “rent” to them the amount of death benefit needed to satisfy their obligations under the buy-sell agreement. Each partner’s interest in your policy is secured using a policy endorsement.

**Note:** These steps are duplicated with each of your partners. They will each own a life insurance policy on their own life and “rent” the death benefit to the other owners, including you.

## Step 4

Each of your business partners will pay you a rental charge annually for their share of the death benefit that is apportioned to them under the agreement. The rental payment you receive from your partners generally is based on the “Economic Benefit value” of the death benefit being endorsed.

The Economic Benefit value is calculated using either a government or insurance company rate table based on your age. Although these rates increase each year with age, they are generally very low in cost, and do not discriminate for gender or health. See Table 1 for sample rental charges using Economic Benefit rates.

**Table 1:**

Annual rental fee on \$100,000 of death benefit

Insured's age	Based on JH alternative term rates	Based on IRS table 2001 rates
40	\$45	\$110
45	\$59	\$153
50	\$79	\$230
55	\$108	\$415
60	\$117	\$651



Home



Overview



Value  
of cross  
endorsement



How it works



What happens  
next



Personal  
planning



Value of life  
insurance



Contact us

## What happens next

As long as the cross endorsement buy-sell agreement is in force, the amount of death benefit you rent to your partners will be paid to them at your death. Your partners will then use the death benefit proceeds to buy out your interest in the business from your estate/heirs and the obligations under the buy-sell agreement will be satisfied. Thereafter, your partners will now own your share of the business and your family will receive a cash inheritance.

The cross endorsement buy-sell plan can be terminated at any time subject to agreement. Once terminated, rental payments stop and you can use the policy exclusively for your own personal planning needs. This can be a distinct advantage compared to other buy-sell approaches where policies often must be transferred between business owners when the business terminates or there is a change in ownership.



## Built-in flexibility

As the value of the business fluctuates or ownership interests change, so too can the amount of insurance being endorsed to the other owners. **For example,** Allen and Bob are 50/50 owners of a real estate management company. They each own \$1 million of life insurance on their own lives and are each endorsing \$500,000 of death benefit to the other for buy-sell purposes. After a recent business valuation, Allen and Bob need an additional \$200,000 each to satisfy the buy-sell obligations. Pursuant to their cross endorsement buy-sell agreement, each can update the endorsement on their personal policies from \$500,000 to \$700,000 to reflect the appreciation of their respective business interests.



Home



Overview



Value of cross endorsement



How it works



What happens next



Personal planning



Value of life insurance



Contact us

## Combine with personal planning – a key differentiator

The cross endorsement buy-sell agreement is unique because you own the life insurance policy on your life. Therefore, you can combine personal planning with buy-sell planning to create a hybrid plan that satisfies both your personal and business insurance needs.

Under this type of agreement, you can purchase additional death benefit protection to help cover personal needs. For example, if the death benefit needed for the buy-sell plan is \$1 million and you need \$500,000 of death benefit for personal reasons, you could purchase a life insurance policy with a death benefit of \$1.5 million to satisfy both your business and personal needs under one policy.

Another option is to overfund the premium on your life insurance policy to build potentially higher cash value; this cash value may then be accessed after the buy-sell agreement ends to help provide supplemental retirement income.<sup>2</sup>



Interested in seeing a model of the cross endorsement buy-sell plan? Ask your financial professional to request a customized sample from John Hancock.





Home



Overview



Value of cross endorsement



How it works



What happens next



Personal planning



Value of life insurance



Contact us

# Value of life insurance

Life insurance is often used to fund a buy-sell agreement because the policy's death benefit can provide immediate liquidity necessary to buy out your interest in the business upon death, ensuring that your heirs receive a cash inheritance, while allowing the remaining owners to continue to run the business. Moreover, when a permanent life insurance policy is purchased, the potential cash value that accrues inside the policy may be accessed in a tax-efficient manner during life to help fund a lifetime buyout of an owner – for example, at retirement.

## Life insurance generally provides these distinct tax advantages:

- 1 Income tax-free death benefit
- 2 Tax-deferred growth
- 3 Income tax-free access to cash value



## Important considerations

- Cash flow is required to pay the permanent life insurance premiums and rental charges to your partners
- Rental charges increase with age
- Rental income may be taxable
- Accessing the life insurance policy cash value may lower the death benefit
- May not be appropriate for C and S corporation owners due to transfer-for-value rules<sup>3</sup>

Please consult with your financial, legal and tax professionals before determining if a cross endorsement buy-sell agreement is right for you.



Home



Overview



Value of cross endorsement



How it works



What happens next



Personal planning



Value of life insurance



Contact us



Talk to your financial professional about creating and funding a cross endorsement buy-sell agreement as a strategy to help with the succession and transition of your business.

1. A qualified appraisal of the business should be completed.
2. The parties to the cross endorsement buy-sell agreement may wish to restrict access to the policy's cash value either in whole or to the extent that access does not impair the death benefit being endorsed. That is, loans and withdrawals will reduce the death benefit and cash surrender value, which may cause the policy to lapse or become insufficient to satisfy the buy-sell obligation. Additionally, the surrender or lapse of a policy with a loan may cause the recognition of taxable income.
3. The owners may want to consider a partnership or limited liability company (if one does not already exist) between the owners to avoid any transfer-for-value issues with respect to the cross endorsements of the policy death benefits. Clients should consult their tax professionals to discuss this issue.

This material does not constitute tax, legal, investment or accounting advice and is not intended for use by a taxpayer for the purposes of avoiding any IRS penalty. Comments on taxation are based on tax law current as of the time we produced the material. All information and materials provided by John Hancock are to support the marketing and sale of our products and services, and are not intended to be impartial advice or recommendations. John Hancock and its representatives will receive compensation from such sales or services. Anyone interested in these transactions or topics may want to seek advice based on his or her particular circumstances from independent professionals. Comments on taxation are based on John Hancock's understanding of current tax law, which is subject to change. No legal, tax or accounting advice can be given by John Hancock, its agents, employees or licensed agents.

Life insurance death benefit proceeds are generally excludable from the beneficiary's gross income for income tax purposes. There are few exceptions such as when a life insurance policy has been transferred for valuable consideration.

Insurance policies and/or associated riders and features may not be available in all states.

Loans and withdrawals will reduce the death benefit, cash surrender value, and may cause the policy to lapse. Lapse or surrender of a policy with a loan may cause the recognition of taxable income. Policies classified as modified endowment contracts may be subject to tax when a loan or withdrawal is made. A federal tax penalty of 10% may also apply if the loan or withdrawal is taken prior to age 59½.

Insurance products are issued by: John Hancock Life Insurance Company (U.S.A.), Boston, MA 02116 (not licensed in New York) and John Hancock Life Insurance Company of New York, Valhalla, NY 10595.

© 2023 John Hancock. All rights reserved.

MLINY060123771-1

