



QUICK TIP
on Case Design

Managing Business Risk with Key-Person Insurance

MassMutual's Honeymoon Provision Enhances the Balance Sheet

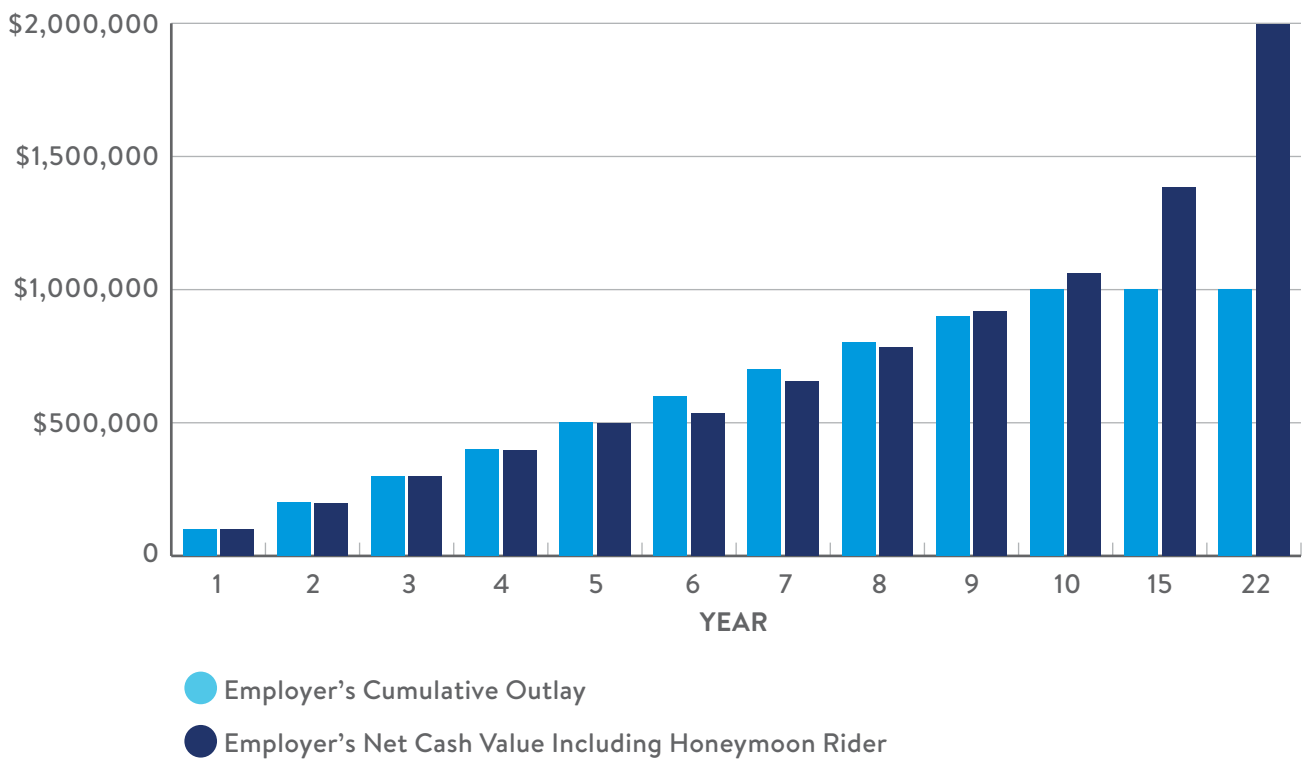
Behind highly successful companies are select key contributors who drive company growth. A major risk to the business is the loss of a key person. To manage the risk, a business can purchase life insurance on the life of a key employee to ensure the company has sufficient liquidity to keep the business running in the event of premature death, or early departure. The liquidity can help offset lost profits, provide assurances to creditors of financial viability, and help fund a replacement.

The value of permanent insurance for a business. Although the premiums of a whole life insurance policy will likely be higher than those of term insurance up-front, the cash values are an asset on the corporate balance sheet that can help offset the longer-term impact of the premium expense. **A MassMutual® policy can be designed to close the gap almost entirely in the first 5 years to minimize the impact to the balance sheet.**

Maintaining a Healthy Balance Sheet with MassMutual's Honeymoon Provision

MassMutual's honeymoon provision, formally known as the *Exchange to Term Endorsement*, can enhance the balance sheet values. Chart A is a summary of cash values when the MassMutual's honeymoon provision is included in the policy. Note that this honeymoon provision is only available for employer-owned policies.

CHART A: WHOLE LIFE 10 POLICY



The example in Chart A above¹ reflects a Whole Life 10 policy on a Male, Age 42, Select Preferred Non-Tobacco with 10 annual premiums of \$100,000 and an initial death benefit of \$1,481,262. It includes the honeymoon provision for a one-time fee of \$150 in year 1.

¹ The illustrated amounts are not guaranteed. They include dividends, which are neither estimates nor guarantees, that have been applied to purchase paid-up additions based on the 2023 dividend schedule. The dividend schedule is reviewed annually, and it is likely that dividends in future years will be lower or higher depending on the company's actual experience. For this reason, we strongly recommend that you look at a lower dividend schedule illustration. Refer to the basic illustration for guaranteed elements, assumptions, explanations, and other important information. [Basic illustration](#)

NOT A BANK OR CREDIT UNION DEPOSIT OR OBLIGATION • NOT FDIC OR NCUA-INSURED • NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY • NOT GUARANTEED BY ANY BANK OR CREDIT UNION

FOR FINANCIAL PROFESSIONALS. NOT FOR USE WITH THE PUBLIC.



Managing Business Risk with Key-Person Insurance

THE HONEYMOON SOLUTION IN ACTION: When the honeymoon provision² is included in MassMutual's Whole Life 10 policy, it can be particularly suited for a Key-Person Insurance Plan from a balance sheet perspective. Whole Life 10 with the honeymoon provision not only offers the company an insurance contract that does not fluctuate as a result of events in the financial markets, but it minimizes the impact of insuring that risk to a company's balance sheet.

Using the same example from Chart A, Chart B illustrates how the Key-Person Insurance plan works. The key-person is endorsed \$500,000 of the policy death benefit annually with the remaining death benefit going to the employer, along with all the cash value. The employee will pay tax on the economic value of the endorsed death benefit amount. The example also assumes that the employer transfers the policy to the executive in year 23 when he is age 65 in the form of a single bonus. The employer takes a tax deduction based on a 21% tax rate for the value of the bonus, which is assumed to be the end of year 22 cash value of the policy. The employee makes a distribution from the policy to pay the taxes on the bonus. The full policy values at that time (the net death benefit and cash value) transfer to the employee in year 23.

CHART B: KEY-PERSON INSURANCE PLAN USING MASSMUTUAL WL10 WITH HONEYMOON PROVISION

Yr	Age	Employer's After-Tax Outlay End Year	Employer's Cumulative Outlay	Employer's Net Cash Value End Year	Exchange Credit Value	Employer's Net Death Benefit End Year	Employer Tax Savings on Policy Transfer (21%)	Policy Distribution to Pay Employee Tax on Transfer (25%)	Death Benefit Endorsed/ Transferred to Employee	Employee's Policy Net Cash Value After Transfer
1	43	\$100,150	\$100,150	\$37,046	\$99,448	\$990,349	\$0	\$0	\$500,000	\$0
2	44	\$100,000	\$200,150	\$102,557	\$198,800	\$1,007,227	\$0	\$0	\$500,000	\$0
3	45	\$100,000	\$300,150	\$200,771	\$298,036	\$1,032,177	\$0	\$0	\$500,000	\$0
4	46	\$100,000	\$400,150	\$305,489	\$397,147	\$1,065,455	\$0	\$0	\$500,000	\$0
5	47	\$100,000	\$500,150	\$417,031	\$496,108	\$1,107,200	\$0	\$0	\$500,000	\$0
6	48	\$100,000	\$600,150	\$533,805	\$0	\$1,153,758	\$0	\$0	\$500,000	\$0
7	49	\$100,000	\$700,150	\$656,136	\$0	\$1,205,311	\$0	\$0	\$500,000	\$0
8	50	\$100,000	\$800,150	\$784,247	\$0	\$1,261,969	\$0	\$0	\$500,000	\$0
9	51	\$100,000	\$900,150	\$918,482	\$0	\$1,323,916	\$0	\$0	\$500,000	\$0
10	52	\$100,000	\$1,000,150	\$1,059,186	\$0	\$1,391,403	\$0	\$0	\$500,000	\$0
22	64	\$0	\$1,000,150	\$1,995,828	\$0	\$2,419,072	\$0	\$0	\$500,000	\$0
23	65	\$0	\$0	\$0	\$0	\$0	\$419,124	\$498,957	\$1,968,402	\$1,367,454

Executive takes tax-advantaged policy distributions of \$90,000 beginning in year 24 (age 66 – 85)

The Exchange Credit Value is the Exchange of Term Insurance Endorsement, also known as the Honeymoon Provision, which provides that during the first five policy years, the policy to which the endorsement is attached may be exchanged for an annually renewable convertible term policy on the insured. This means the business can exchange the policy for a convertible term policy and would get back the difference between the actual premiums paid and what the term premiums would have been, an amount that is generally greater than the policy cash value. The cash values shown for the first 5 years are payable only if the policy is surrendered under the terms of the endorsement. Since the policy death benefit has an effect on the exchange credit, changes in dividends would affect the exchange credit amount. Higher policy amounts could produce a lower exchange credit amount. There is a fee to add the endorsement to the contract. Click here to view the [Exchange to term insurance endorsement](#) supplemental illustration that is not valid without the [Basic illustration](#).

RESULTS: In the first 5 years of the policy, 99% of the premiums are recouped. Although the cash values dip in year 6 to 88% of premiums paid, the company gets back up to above 100% of premiums paid by year 9. The honeymoon provision allows the employer to avoid a substantial hit to earnings in all years, while maintaining a cash asset on the books to be used to manage business risks.

A key-person insurance plan can be designed in any number of ways including having a portion or all of the death benefit endorsed to the employee, having the policy transferred in the form of a single or double bonus, or not transferred at all. The policy may or may not be used by the employee to pay taxes. The policy may also be retained by the employer where permitted. In this example, we also assume that the employee takes \$90,000 of distributions from the policy beginning in year 24, age 66. Please see attached [Simplify client presentation](#).

² The honeymoon provision refers to the Exchange to Term Insurance Endorsement that is added to a policy for a fee. The endorsement is only in effect for the first 5 policy years and is subject to underwriting approval. The policy to which the endorsement is attached may be exchanged for an annually renewable convertible term policy on the insured. The cash value enhancement from the endorsement is not accessible unless the policy is surrendered and exchanged for term insurance. See page 2 for additional information. Click [the Exchange to term insurance endorsement](#) supplemental illustration to view the endorsement which is not valid unless accompanied by the [Basic illustration](#).



Contact your Managing Director or Advanced Sales at
1-800-601-9983 Option #2
MMSDAdvancedSales@MassMutual.com

The information provided is not intended as specific tax or legal advice. MassMutual, its subsidiaries, employees, and representatives are not authorized to give tax or legal advice. Individuals are encouraged to seek advice from their own tax or legal counsel.

Whole Life Legacy series policies ((Policy Forms: MMWL-2018 and ICC18-MMWL in certain states, including North Carolina)/ (MMWLA-2018 and ICC18-MMWLA in certain states, including North Carolina)) and MassMutual Whole Life series policies on the digital platform (Policy Forms: WL-2018 and ICC18WL in certain states, including North Carolina) are level-premium, participating, permanent life insurance policies issued by Massachusetts Mutual Life Insurance Company (MassMutual), Springfield, MA 01111-0001.

Vantage Term life series policies (Policy Forms: TL-2018 and ICC18TL in certain states, including North Carolina) and MassMutual Convertible Term life series policies on the digital platform (Policy Forms: SCT, TFC, and ICC18TFC in certain states, including North Carolina), are non-participating, annually renewable term life insurance policies issued by Massachusetts Mutual Life Insurance Company (MassMutual), Springfield, MA 01111-0001.

NOT A BANK OR CREDIT UNION DEPOSIT OR OBLIGATION • NOT FDIC OR NCUA-INSURED • NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY • NOT GUARANTEED BY ANY BANK OR CREDIT UNION

