

Life Insurance Sales Ideas

Targeting Small Business Owners





Sales Ideas

Working With Small Business Owners

Small business owners have unique issues that larger companies do not. Owners often fall-short when endeavoring to make a plan for their business after they die.

It is our job to help them plan for the future by pointing out their liquidity which includes buy-sell agreement funding, key-man coverage for the owner or other key employees, and provisions for children who are not working in the business. Providing for children who are not a part of the family business can be instrumental in eliminating family strife.

The sales ideas contained in this brochure can be instrumental in educating clients per their needs so that they can be certain business as usual can be conducted no matter what is thrown their way.



Buy-Sell Agreements

A buy-sell agreement is a contract that provides for the sale of an owner's share of the business as a result of the owner's retirement, owner's death, death of another owner, bankruptcy or long-term disability.

A well-defined buy-sell agreement will eliminate the chance of being in business with the spouse of an owner who cannot contribute to the business but wants an equal share. If there are no restrictions on who can purchase closely held stock, an estate of an owner could sell the shares to a competitor or someone without any knowledge of the business. The business could be sold far below market value price, leaving heirs without the funds they expected. This then leads to litigation, which means no one comes out whole.

The best way to fund buy-sell agreements is through life insurance. Using discounted dollars to fund this obligation is the most efficient way to provide funding for a buy-sell agreement. It can fund at death or the cash value can be used to help buy-out retiring partners. Another benefit of utilizing life insurance is that it's self completing, in that the day the insurance becomes effective, the plan will fully fund the buy-sell. If they try to create a side fund it could take years to fund, and then they may run into retained earnings issues.

Some of the best clients are business owners themselves. Do you know if your clients have a buy-sell agreement? If so, is it funded by life insurance? If not, you can help them create one.



► Types of Buy-Sell Agreements Funded With Life Insurance

Entity Purchase

A contract is created between the owners and the business, in which the business agrees to purchase the shares of an owner who has to leave the business, and each owner agrees that they will sell their shares to the business.

When life insurance is used to fund the agreement, the business purchases policies on each owner. At death, the business receives the death benefit and uses it to purchase the owner's share of the business from the estate.

Cross Purchase

A contract is created between the owners, in which the owners agree to purchase the shares of an owner who has to leave the business and each owner agrees that they will sell their shares to the remaining owner(s).

When life insurance is used to fund the agreement, the owners purchase policies on each of the other owners. At death, the remaining owner(s) receive the death benefit(s) and use it to purchase the deceased owner's share of the business from the estate.

One-Way

This method is generally used if there is only one owner with a potential buyer that is not an owner.

When life insurance is used to fund the arrangement, the buyer (often a key employee) will purchase, own, and be the beneficiary of a life insurance policy on the life of the business owner. In this situation, because there is generally only one business owner and one designated successor, only one life insurance policy is required to fund the arrangement.

The company will pay an annual bonus to the key employee in the amount of the annual premium, to minimize the employee's out-of-pocket expense. The bonus payments may be tax-deductible to the corporation when they are paid, but the payment will also be taxable to the recipient.

At death, the key employee receives the death benefit and uses it to purchase the owner's share of the business from the estate.

Wait and See (Hybrid)

This method could be considered a hybrid of entity purchase and cross purchase. A contract is created between the owners and the business that can have multiple phases.

Phase 1

The business is given the first right to purchase the shares of the owner leaving the business (similar to an entity purchase).

Phase 2

If the business chooses not to purchase the shares within a certain period of time, the remaining business owners agree to purchase the shares of the owner leaving the business. (similar to a cross purchase)

Phase 3

If the remaining owners do not purchase the shares, or if they only purchase a portion of the shares, the business is then required to purchase the remaining shares of the owner leaving the business.

How the agreement is funded can determine whether the business or business owners purchase the shares of the owner leaving the business. This method can provide flexibility for both the business and the business owners.



Key Person Insurance

Typically, when a business owner is just starting out they are thinking of survival and not working on protecting the business in the event of the premature death of a key owner or employee.

Key person life insurance is insurance on a key person in the business. In a small business this can be a number of people such as: an owner, a key sales person, a machine operator/repair person, or an artisan. Anyone whose absence would place the business in jeopardy or whose loss would damage the revenue stream of the business is a key person.

Advantages of Key Person Insurance

By insuring key employees, the business is assuring itself of capital to help the business get through the loss that will be felt if that employee is lost.

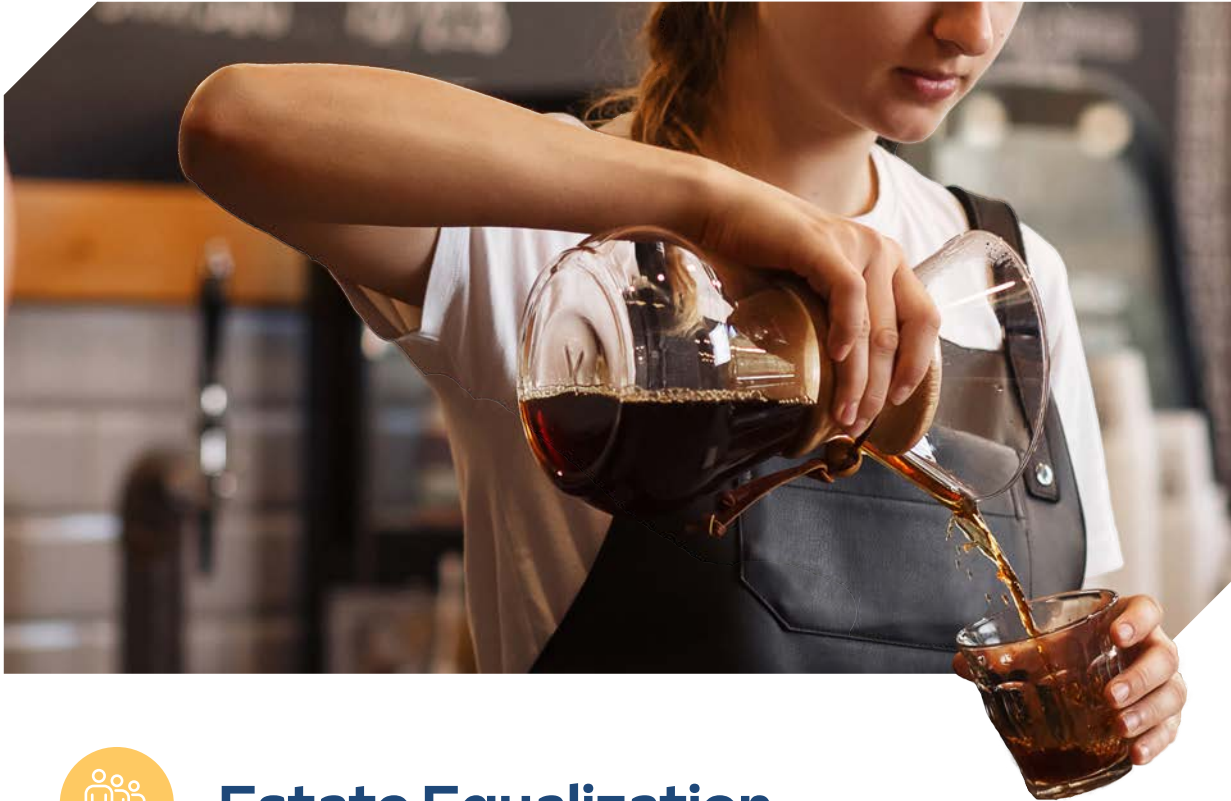
Key person insurance can provide peace of mind for the owners and investors as well as creditors.

- Provides funds for recruiting and training a replacement key employee.
- Pays bills while company stabilizes.
- Helps secure loans and strengthens the company's credit.
- Use to purchase stock from the deceased's estate.
- Salary continuation arrangement for the surviving spouse.

Key Person Insurance compensates a business like a personal life insurance policy compensates a family for the loss of a loved one or main provider. This life insurance can also double as debt protection or revenue protection.

How Much Life Insurance is Enough?

Create a spreadsheet of what would happen if the key employee was no longer available. This will help identify what sales would be lost, which processes could no longer be completed in a timely manner, as well as other important factors needed to keep the business running smoothly in their absence. After placing a dollar amount on each of the items in the list, you will have determined the optimal amount of life insurance to purchase to help the business survive the loss of its key employee.



Estate Equalization

As we talk to our clients who own family businesses about funding a buy-sell agreement to allow the business to continue after the death of the owner, typically there is a child or children who work in the business and the Buy-Sell funded by insurance will provide a smooth transition to the next generation.

However, what about the children who do not work in the business and who may have become a teacher, a nurse or someone who works in a different field? Leaving these family members an interest in the closely held business does those children no favors. Typically, small businesses pay significant salaries but do not pay dividends.

How does a child who does not receive a salary from the business receive a return on the closely held stock investment?

In most cases, they do not receive any dividends and in some cases they receive a K-1 from the business with taxable income pro-rated to their ownership percentage. The family business owner needs to provide a method for equalizing bequests at their death while still passing the family business to those who are participating in the business.

A feasible solution would be the Signature Guaranteed Universal Life Insurance policy which is American National's competitively priced permanent insurance.



162 Executive Bonus Plan

An executive bonus plan or arrangement (IRS Code section 162) can be an effective way to reward key employees or owners while also providing a tax deduction for the closely held business owner.

An executive bonus plan lets the owner or chosen key employees purchase life insurance on their lives. Typically, an Indexed Universal Life policy is purchased by the key employee and funded by the company. If someone is either uninsurable or highly rated, an annuity can be used in place of life insurance.

Besides providing a death benefit in the event of premature death, the cash value build-up can be accessed to meet a key employees needs such as:

- Supplemental retirement income
- Liquid source of funds
- Estate liquidity
- Accelerated Benefit Riders for Critical, Chronic and Terminal Illness
- Provide for other needs such as college funding, down payment on a lake-house or boat, etc.

With an executive bonus plan, the employee takes the bonus into income and the employer receives a current deduction for the premiums paid.



Life Insurance in a Qualified Plan

Life insurance in a qualified plan can result in tax deductible premiums. This is one of the only places where life insurance can be a deductible expense when funded as a contribution to a qualified plan.

The company gets to deduct the contribution to the qualified plan and the individual will not recognize the revenue as income until the asset is removed from the plan.

There are a number of advantages to having a life insurance policy in a qualified plan:

- Tax-free death benefit
- Dividends can be used to reduce premiums
- Portable benefit that can be retained after leaving employer
- Pension asset not subject to claims of creditors
- If paid to surviving spouse, not subject to estate taxes
- By having tax-deductible insurance in plan, less insurance needs to be owned personally
- Life insurance can help complete pension funding for surviving spouse or other beneficiaries
- Allows employer to provide both a retirement benefit and a life insurance benefit under one qualified plan

Although setting up a qualified plan can be a little more complicated, our pension group is there to help you with any and all questions you may have regarding the process. American National's Pension group can provide a proposal showing the benefits of life insurance in a 412(i) qualified plan. Simply contact them at **888-909-6504**.



Loans from a Small Business Administration

One of the best ways for small businesses to acquire capital is through a Small Business Administration loan (SBA). If an individual takes out a loan through the Small Business Administration government agency, they must take out a life insurance policy on their life to cover the amount of the loan. In that way, the SBA can ensure they will be paid back in the event the business owner passes away.

Typically when starting out a business, permanent insurance is a great buy for the business owner. Consider contacting your local bank and asking who handles the SBA loans.



For questions and more information

Call the Life and Annuity Distribution Field Support Center at 888-501-4043 or send an email to LADFieldSupport@AmericanNational.com.

Neither American National nor its agents offer tax or legal advice. Clients should consult their tax and legal advisors.

The Signature Indexed Universal Life Insurance policy is not a registered security or stock market investment and does not directly participate in any stock or equity investments or index. When you buy this policy, you are not buying an ownership interest in any stock or index. American National and its agents do not make any recommendations regarding the selection of indexed strategies.

American National Insurance Company, headquartered in Galveston, Texas is licensed to conduct business in all states except New York. Business is conducted in New York by American National Life Insurance Company of New York, headquartered in Glenmont, New York. Each company has financial responsibility only for the products and services it issues.

Not FDIC/NCUA insured / Not a deposit / Not insured by any federal government agency / No bank/CU guarantee / May lose value

For Agent Use Only; Not for Distribution or Use with Consumers.



AMERICAN NATIONAL INSURANCE COMPANY
AMERICAN NATIONAL LIFE INSURANCE COMPANY OF NEW YORK
888-501-4043 / lad.americannational.com