



Chapter 14 Uses of Life Insurance

Business Uses

- **Funding medium** – insurance funds buy/sell agreements
- **Funds Key Person insurance**
- **Funds employee benefits**
 - Split dollar
 - Deferred compensation
 - Salary continuation

Insured Buy/Sell agreements

- **Sole Proprietor**
 - Agreement signed by business owner and someone desiring to buy the business upon death of the owner (usually an employee)
 - An enforceable agreement drafted by an attorney
 - Employee is owner, premium payor, & beneficiary of policy
 - (Receives money tax free at death and uses money to buy the business from the deceased owners' spouse)
- **Partnerships**
 - **Cross-purchase plan**
 - Each partner buys a policy on the others (not on herself)
 - The partners are the owners, premium payor, & beneficiary
 - $(N - 1) \times N = \text{number of policies}$...**N is the total number of partners**
 - Business is NOT a party to the agreement (meaning the biz does not buy the policies)
 - **Entity Plan**
 - The partnership buys a policy on each partner
 - Business IS a party to the agreement (meaning the biz buys the policies)
 - Business is owner, premium payor, & beneficiary

- **Corporations**

- **Cross-purchase plan** (same as above)
 - Each partner buys a policy on the others (not on herself)
 - The partners are the owners, premium payor, & beneficiary
 - $(N - 1) \times N = \text{number of policies}$...**N** is the total number of partners
 - Business is NOT a party to the agreement (meaning the biz does not buy the policies)
- **Stock Redemption Plan** (same as above, just called by another name)
 - The partnership buys a policy on each partner
 - Business IS a party to the agreement (meaning the biz buys the policies)
 - Business is owner, premium payor, & beneficiary
 - Premiums NOT tax deductible

Key Person Insurance

- Business buys a policy on a key employee
- Business is owner, premium payor, & beneficiary
- Cash Value is an ASSET to the business (a reserve fund)
- This is NOT an employee benefit (it protects the business)
- Premiums are NOT tax deductible

Employee Benefit Plans

1. Split Dollar Plans

- Employer & employee share the cost of the premium

2. Deferred Compensation Plans

- Employee is funding through a salary deduction or giving up an annual bonus

3. Salary Continuation

- An additional fringe benefit funded by the employer

- All are non-qualified meaning the business can pick and choose which employees receive these plans
- The idea is to provide a death benefit to the employee's family and a living benefit to the employee in the future by using the cash value to supplement retirement