## Advanced Planning Group

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NEW YORK LIFE

New York Life and the Advanced Planning Group can help you with solutions to many complex problems faced by business owners. From protecting revenue against the loss or departure of key contributors, to creating a market for an owner's equity interests, this brochure guides you through the maze of concerns facing businesses of virtually all sizes. Simply click on the boxes below for complete step-by-step explanations of our 6 most useful concepts. To the left on each page is a brief description of where and when to consider that concept. To the right is a procedural diagram demonstrating how it works and how to implement it.

**KEY PERSON PROTECTION WITH LIFE INSURANCE**

**BUY-SELL CROSS-PURCHASE PLAN**

**BUY-SELL REDEMPTION PLAN**

**EXECUTIVE BONUS ARRANGEMENT**

**ECONOMIC BENEFIT ENDORSEMENT SPLIT-DOLLAR ARRANGEMENT**

**NONQUALIFIED SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN**

# Key person protection with life insurance

## WHAT IT IS

A key person policy indemnifies the employer for the loss of one of its most important assets—a key person. It helps protect a business against:

Losses in sales, momentum, and/or credit.

Delays or halts in projects.

Added costs for hiring a new employee.

## HOW IT WORKS

1 | 2 | 3

SHOW ALL STEPS

RESET STEPS

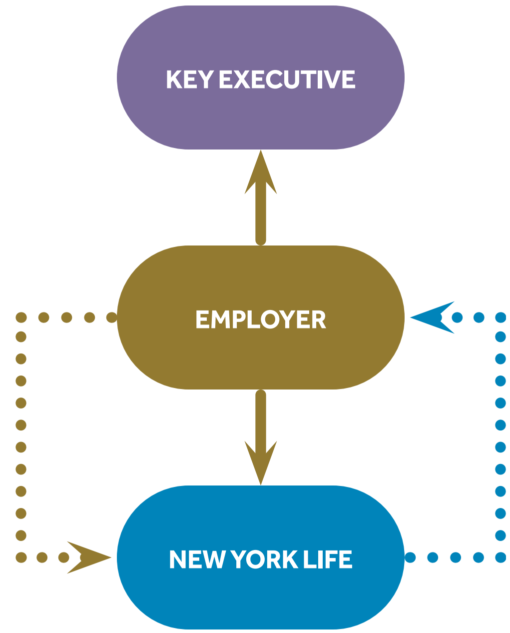
The employer purchases, owns,[†] and is the beneficiary of a life insurance policy on the life of a key person.

The employer pays nondeductible policy premiums.

At death, the proceeds of the policy are paid to the employer, generally free of income tax.[Π]

**The insurance proceeds help:**

- Assure customers and creditors of continuity
- Provide tax-free additions to surplus
- Provide funds to recruit, hire, and train a successor




[†] Employer and executive must comply with notice and consent requirements before the policy is issued, and the employer must file annual reports with the IRS. IRC Sec. 101(j) including Form 8925.

[Π] For proceeds to be income tax free, certain notice and consent requirements must be met, and one of the exceptions of IRC Sec. 101(j)(2) must apply. The exceptions are based on the employment status of the insured or the use of the death proceeds to purchase an interest in the business.

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# Buy-sell cross-purchase plan

## WHAT IT IS

A funded cross-purchase buy-sell plan utilizes life insurance to effect orderly change in the ownership of a close corporation, partnership, LLC, or even a sole proprietorship (one-way purchase) at the death of a stockholder, partner, member, or sole proprietor. It helps:

Create a market for a closely held business.

Establish a price at which parties agree to buy and sell their business interests.

Provide the money to fund the plan.

## HOW IT WORKS

1 | 2 | 3 | 4

SHOW ALL STEPS

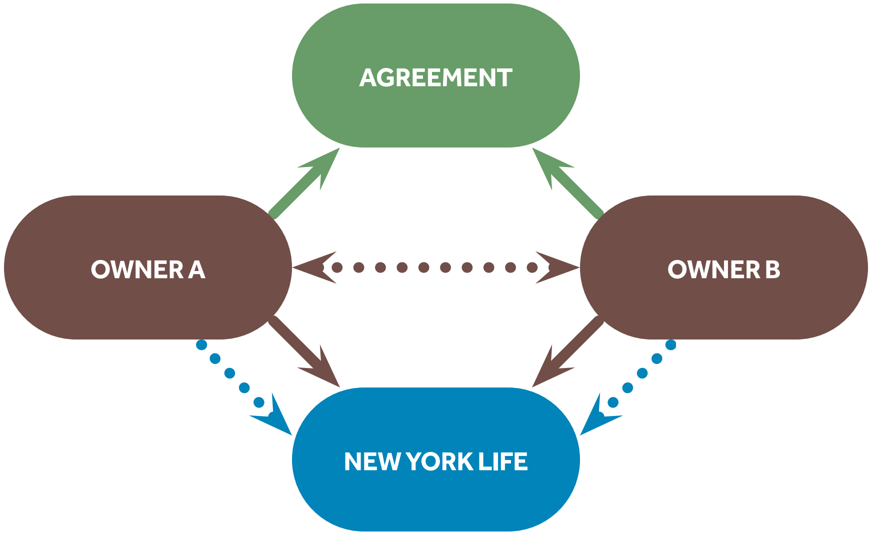
RESET STEPS

The owners establish a cross-purchase buy-sell agreement.

The owners purchase and own a life insurance policy on each of the other owners.

The owners of the policy pay the nondeductible‡ premiums, or the business can pay the premiums, which are deductible to the business as compensation and income to the insurance owner.¥

When Owner A dies, Owner B receives the generally income tax-free death proceeds, and uses them to purchase Owner A's business interest from Owner A's estate.





‡ No deduction for premiums if taxpayer is directly or indirectly a beneficiary. IRC Section 264(a)(1).
¥ In order for the employer to receive an income tax deduction, salary plus bonus should be reasonable compensation. IRC Section 162.

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# Buy-sell redemption plan

## WHAT IT IS

A funded redemption buy-sell plan utilizes life insurance to effect orderly change in the ownership of a close corporation, partnership, or LLC at the death of a stockholder, partner, or member. It helps:

Create a market for a closely held business.

Establish a price at which parties agree to buy and sell their business interests.

Provide the money to fund the plan.

## HOW IT WORKS

1 | 2 | 3 | 4

SHOW ALL STEPS

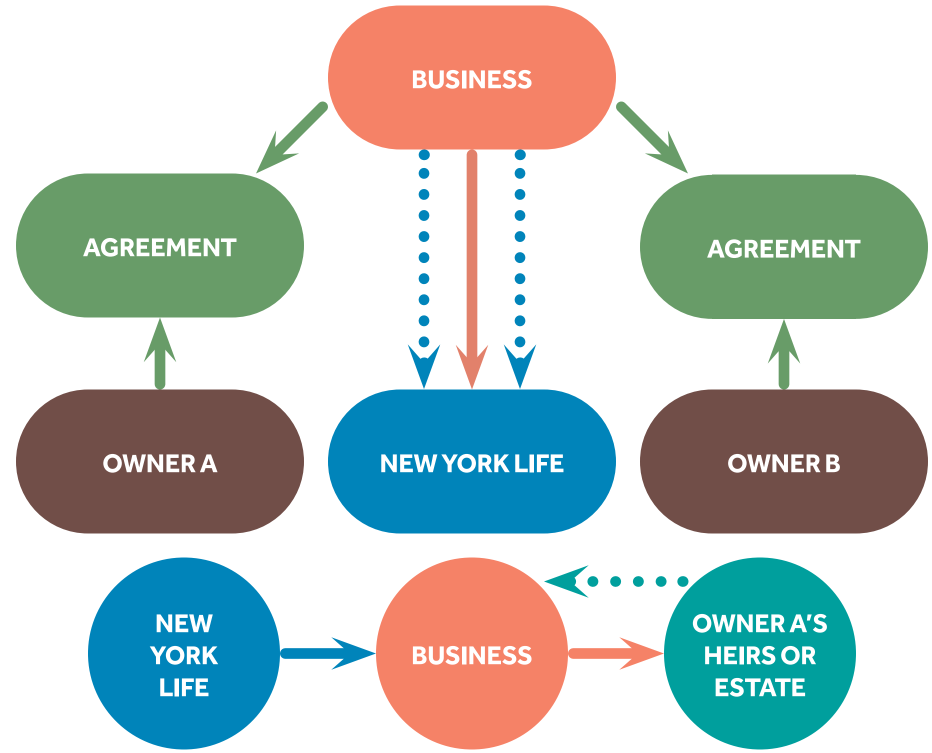
RESET STEPS

The owners and business establish a redemption buy-sell agreement.

The business purchases, owns,† and is the beneficiary of a life insurance policy on each owner.

The business pays nondeductible policy premiums.

At the death of Owner A, the business receives the generally income tax-free death proceeds[Π] and uses them to purchase Owner A's business interest from Owner A's estate.




† Employer and executive must comply with notice and consent requirements before the policy is issued, and the employer must file annual reports with the IRS. IRC Sec. 101(j) including Form 8925.

Π For proceeds to be income tax free, certain notice and consent requirements must be met, and one of the exceptions of IRC Sec. 101(j)(2) must apply. The exceptions are based on the employment status of the insured or the use of the death proceeds to purchase an interest in the business.

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# Executive bonus arrangement

## WHAT IT IS

An executive bonus arrangement allows an employer to attract and retain key executives by offering them needed life insurance.

## HOW IT WORKS

1 | 2 | 3 | 4

SHOW ALL STEPS

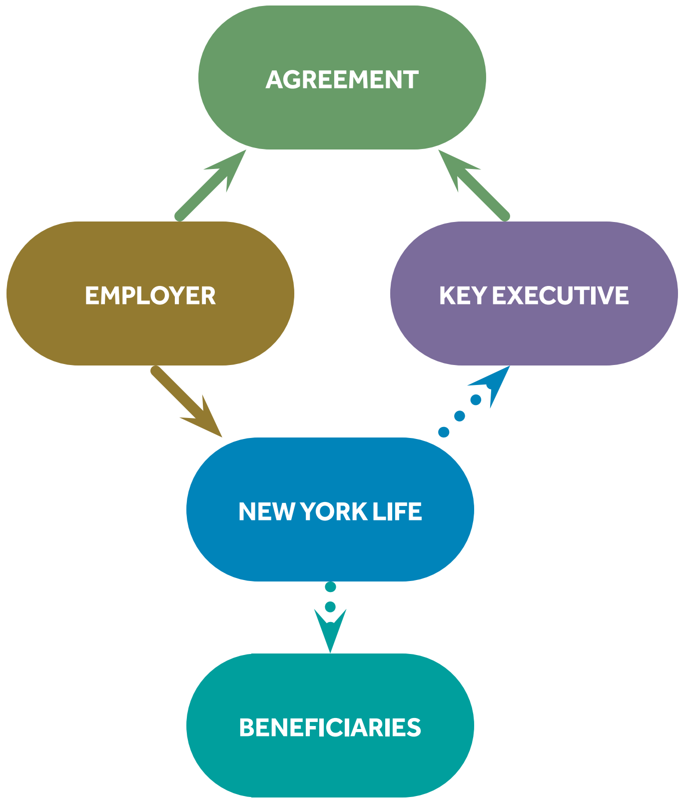
RESET STEPS

The employer enters into an agreement with key executives.

The employer pays the premium on the life insurance policy purchased by the employee. The premium payments are tax deductible[¥] as compensation.

Premium payments are taxable to the executive as a bonus. The executive, as the policy owner, has full control of the life insurance policy.

At the executive's death, beneficiaries receive the generally income tax-free death proceeds.




[¥] In order for the employer to receive an income tax deduction, salary plus bonus should be reasonable compensation. IRC Section 162.

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# Economic benefit endorsement split-dollar arrangement

## WHAT IT IS

An economic benefit endorsement split-dollar arrangement is an employer-funded fringe benefit plan that offers key executives personal insurance protection and can help the employer retain key executives, with minimal effect on current cash flow and surplus.

## HOW IT WORKS

1 | 2 | 3 | 4 | 5

SHOW ALL STEPS

RESET STEPS

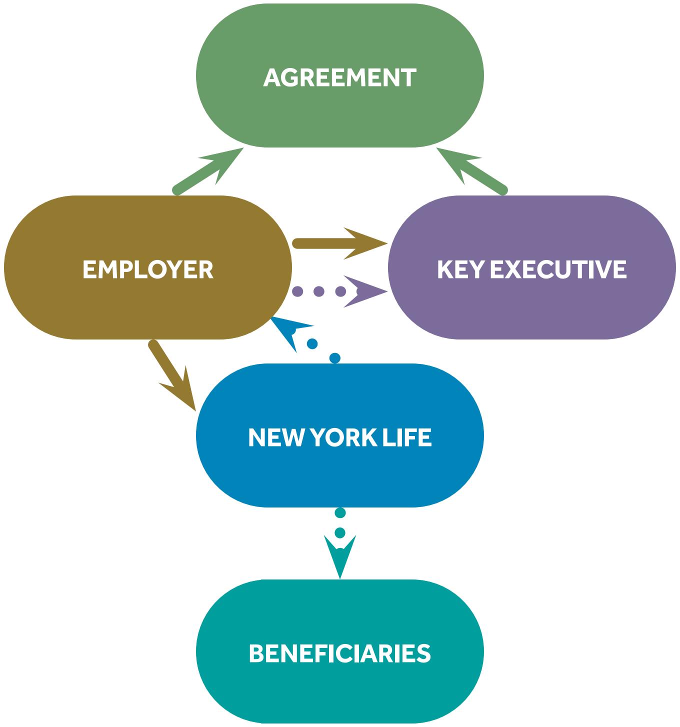
The employer and the executive enter into an endorsement split-dollar agreement, drafted by legal counsel.

The employer purchases and owns† a cash value life insurance policy on the life of the executive and pays nondeductible policy premiums.

The employer endorses to the executive the right to name the beneficiaries for a specified portion of the death benefit. Each year, the employer reports the economic benefit value of the death benefit endorsed to the executive as taxable compensation to the executive.¥

At the executive's death, the employer generally receives a portion of the income tax-free death benefit⊓ equal to the greater of the policy's cash value or a return of the premiums the company paid.

The executive's beneficiaries receive the balance of the policy's death benefit, generally income tax free.




† Employer and executive must comply with notice and consent requirements before the policy is issued, and the employer must file annual reports with the IRS. IRC Sec. 101(j) including Form 8925.

⊓ For proceeds to be income tax free, certain notice and consent requirements must be met, and one of the exceptions of IRC Sec. 101(j)(2) must apply. The exceptions are based on the employment status of the insured or the use of the death proceeds to purchase an interest in the business.

¥ In order for the employer to receive an income tax deduction, salary plus bonus should be reasonable compensation. IRC Section 162.

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# Nonqualified supplemental executive retirement plan

## WHAT IT IS

The nonqualified supplemental executive retirement plan (also referred to as a “salary continuation” plan) utilizing life insurance offers benefits to both the employer and select executives. For the executives, it offers supplemental retirement income or death benefits. For the employer, it offers an incentive plan that can help the employer retain key executives.

## HOW IT WORKS

1 | 2 | 3 | 4 | 5

SHOW ALL STEPS

RESET STEPS

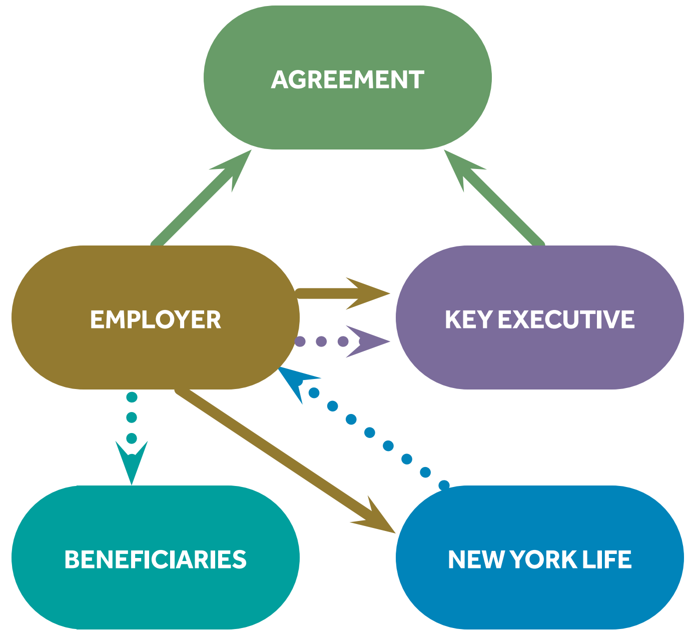
1. The employer and the executive enter into a formal agreement, drafted by legal counsel, that complies with requirements specified in IRC Sec.409A.

2. The employer purchases and owns a cash value life insurance policy on the life of the executive, and the employer pays nondeductible policy premiums to the life insurance company.[‡] The employer can use the cash value of the policy as an informal, tax-efficient vehicle for accumulating funds to pay the future retirement benefits to the executive.

3. On the executive’s retirement, the employer pays retirement benefits to the retiree, deductible to the employer and taxable to the retiree.[¥,π]

4. If the executive dies before retirement, the employer may use the generally income tax-free death benefit proceeds[Π] it receives from the policy to pay survivors’ benefits to the executive’s named beneficiaries, deductible to the employer and taxable to the beneficiaries.

5. On the executive’s death, after the employer’s payment of any survivor benefits, any excess death benefit proceeds can provide a generally income tax-free[3] cost recovery to the employer.




[‡] No deduction for premiums if taxpayer is directly or indirectly a beneficiary. IRC Section 264(a)(1).
[Π] For proceeds to be income tax free, certain notice and consent requirements must be met, and one of the exceptions of IRC Sec. 101(j)(2) must apply. The exceptions are based on the employment status of the insured or the use of the death proceeds to purchase an interest in the business.
[¥] In order for the employer to receive an income tax deduction, salary plus bonus should be reasonable compensation. IRC Section 162.
[π] Supplemental retirement income paid by accessing cash value via policy loans. Loans accrue interest and reduce the death benefit and cash value.

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