

# The “Personally Owned Policy” (POP) Buy-Sell

## OPPORTUNITY FINDER — BUSINESS PLANNING

### CLIENT PROFILE

- Business partners
  - › Especially those with a difference in age or health
- Business value greater than \$500,000 per partner
- Strong company cashflow
  - › Especially if partners have maxed out Qualified Retirement Plan (QRP) contributions

### CONCEPT BRIEF

Business partners usually own term life insurance policies on each other to fund their buy-sell agreement. They figure the buy-sell need is temporary and will go away once either partner retires, but there are potential problems:

- Younger or healthier owners are forced to pay much higher premiums on older or less healthy partners.
- The policy on an owner’s life is controlled by the other partners. If the owner leaves the business and needs that coverage for personal planning, acquiring it may be difficult or even impossible.
- Term premiums may be low, but they are pure expense since there is no possibility of building equity in the policy.

These problems can be avoided if each partner owns his/her own policy personally.

Suppose each partner owned his/her own policy and “rented” the death benefit needed to fund the buy-sell to the other owners. The benefits:

- **One policy per owner** – No need for multiple policies on each owner.
- **Personal ownership and control** – Each owner makes decisions concerning his/her own policy subject to the buy-sell agreement. An owner leaving the business before death already owns the policy on his/her life, so there is no need to attempt to acquire it from another owner.
- **Personal death benefit coverage** – Any death benefit in excess of the amount needed under the buy-sell agreement can be used for the owner’s personal protection and wealth transfer planning.
- **Set own premium level** – Owners decide how much premium to pay; they may opt to over-fund the policy to create a Roth-like vehicle for retirement accumulation.
- **Personal and wealth transfer planning** – After an owner leaves the business, he/she has the option to reposition the death benefit to meet his/her personal needs. This avoids going back through underwriting, with potentially increased premiums or insurability problems.

ADVANCED  
MARKETS



### Risks:

- Younger, healthier owners pay higher premiums on older, less healthy partners
- Owner’s policy is controlled by the other partners
- Term policies do not allow for equity building in policy

### Solution:

- Each owner needs to own their own policy

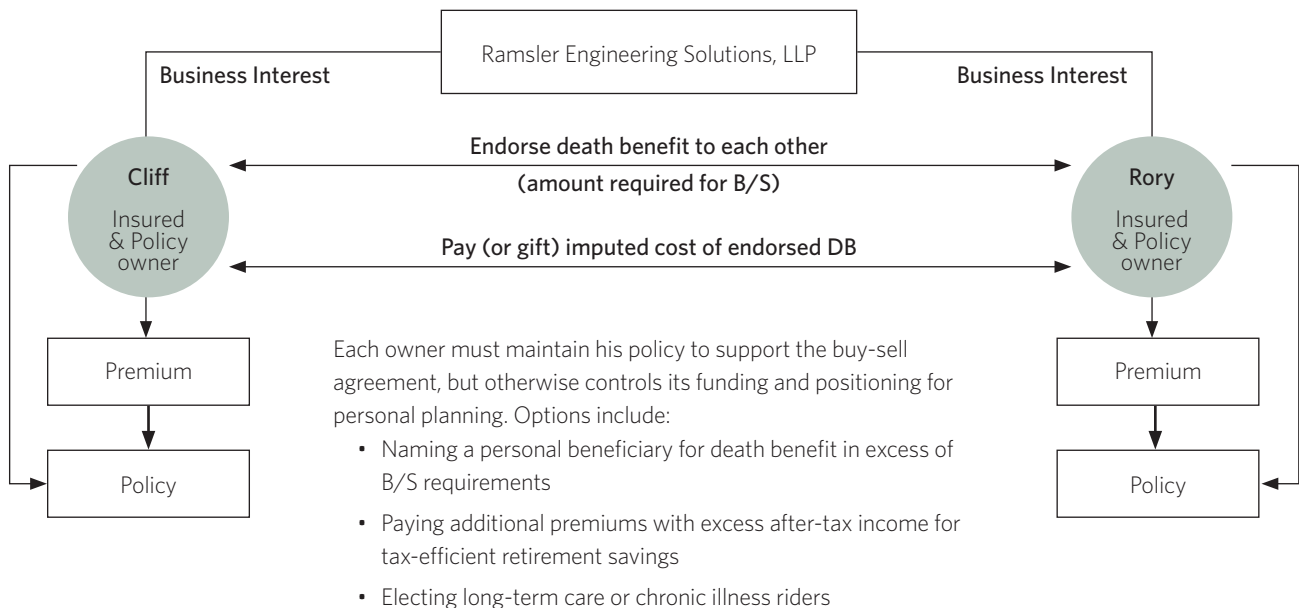
## CONVERSATION STARTER

"A crucial part of making sure your buy-sell agreement works is having life insurance in place; however, the way the policies are owned often limits your personal use and control. Depending on the specifics of your business, you may be able to set up your buy-sell so that both your personal and business needs are met. Plus, it could let you turn a pure expense into a tax-efficient asset. Would you be interested in seeing if this approach could work for your business?"

## CASE STUDY

Cliff Ramsey (age 50) and Rory Bassler (55) each own 50 percent of Ramsler Engineering Solutions, LLP, which creates machine learning solutions for the aerospace industry. The company is currently worth \$4 million and is growing by 15 percent annually. It is also highly profitable – both partners say they're earning at least \$100,000 more per year than their lifestyles require.

Cliff and Rory want to make sure funds are available to buy out the other partner's share of the business from his surviving spouse if one of them dies prematurely. They also want flexibility in case one of them wants to be bought out before retirement, or in the event they sell their company to a competitor like Boeing.



## NEXT STEPS

1. Identify your clients who are partners in a closely held business.
2. If your files show you haven't discussed their buy-sell arrangement in the previous three to five years, ask for an appointment.
3. If you learn during your fact-finding that the business consistently generates significant taxable income for the owners, use the Conversation Starter and gauge their reaction.
4. If they express interest, send a buy-sell review request to Palladium Group and include a note asking to see whether the owners are good candidates for a personally owned policy buy-sell.