Allianz Life Insurance Company of North America

LIFE ADVANCED MARKETS CASE STUDY

Small-business succession planning and indexed universal life (IUL)

David, a small-business owner, has no strategy in place should an ownership transition become necessary

David is in his mid-50s, married, with two teenage children. He is the primary income earner, supporting the family.

David and a business partner jointly own an industrial supply company. David owns 60% of the business; his partner owns 40%. Both are officers of the company (and authorized to make insurance-related decisions) with voting rights. Like many small-business owners, they have been focusing more on day-to-day operations than on long-term succession planning.

David is concerned that they have **no strategy in place to help ensure a smooth transition of ownership** should he or his partner die or leave the business. And though he has substantial net worth from his business, David has limited cash resources and no current life insurance policy to protect his family.



IUL can be part of strategies to help address both of David's needs. Keep reading to see how.

Material must be accompanied by the appropriate Allianz Life Accumulator ® Indexed Universal Life Insurance Policy consumer brochure. (M-8819)

Product and feature availability may vary by state and broker/dealer.

Guarantees are backed by the financial strength and claims-paying ability of Allianz Life Insurance Company of North America.

Products are issued solely by Allianz Life Insurance Company of North America, 5701 Golden Hills Drive, Minneapolis, MN 55416-1297. 800.950.1962. www.allianzlife.com

This content does not apply in the state of New York.

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STRATEGY 1

Planning for business succession

Objective

Ensure that the business can continue to operate while at the same time concentrating ownership among a pre-determined group (e.g., the surviving owners) if one owner dies or retires, or another adverse event occurs (e.g., divorce, disability, owner's personal bankruptcy, etc.)

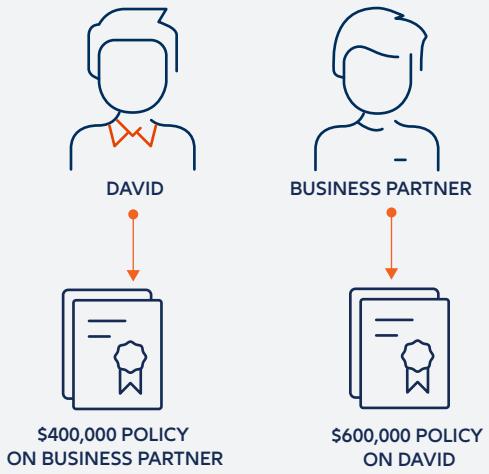
Potential solution

David may want to consider implementing a buy-sell agreement to ensure that there is a predetermined process for purchasing the exiting owner's interest upon the occurrence of death, retirement, or other triggering event.

This buy-sell agreement can be funded via life insurance in one of two ways:

CROSS-PURCHASE AGREEMENT

Each owner purchases a policy insuring each of the other owners, with the purchasing owner as the beneficiary.

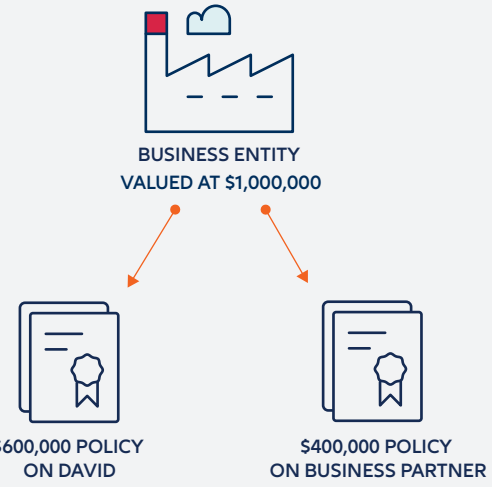


If David or his business partner dies, the death benefit funds (which are generally paid to beneficiaries income-tax-free) can allow the surviving owner (beneficiary) or the business to purchase the ownership interest from the deceased owner's estate.

This hypothetical example is provided for illustrative purposes only.

ENTITY-PURCHASE AGREEMENT

The business purchases, owns, and is the beneficiary of a life insurance policy on each owner.[1]



The death benefit amount of each policy will depend on the value of the business and the size of each owner's share. In this case, since there are two owners and the business' worth is estimated to be $1M, then there should be two policies, one with a death benefit of $600,000 (for David, who owns 60% of the company) and the other, $400,000 (for his partner, who owns 40%).

IUL

For the policies, Allianz Life Accumulator® Indexed Universal Life Insurance Policy offers many features:

- Policy values can be accessed or leveraged for a business succession strategy.
- It offers tax-deferred growth of accumulation value.
- It provides downside market protection – if an underlying index (e.g., S&P 500® Index) loses value, the policy's cash value is not reduced by market losses. This means in a down market year, David's or his company's policies would receive 0% interest rather than a negative interest credit.[2]
- Flexible premium options to meet changing business cash flow.

[1] Company-owned life insurance proceeds increase a company's value for estate tax. The company's obligation to purchase stock of a deceased owner does not offset the increase in value. See *Connelly v. United States*, 602 U.S. 257 (2024).

[2] While the interest credited cannot be less than 0%, policy charges and fees are still deducted, which can reduce cash value.

An employer-owned life insurance policy may be subject to the requirements of Internal Revenue Code 101(j) in order to obtain an income-tax-free death benefit. In general, those rules require that before the policy is issued, the employer must provide the insured with written notice of the life insurance and obtain written consent from the insured. Consult with an attorney for application of those rules to a specific situation.

STRATEGY 2

Financial protection for David's family

Objective

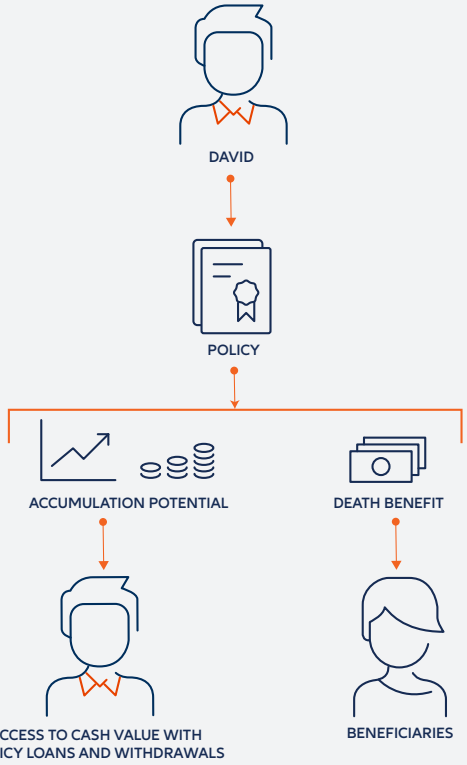
In addition to a business succession plan, David would like life insurance protection for his family that could potentially serve as income replacement should something happen to him. He's also interested in the opportunity to create a source of funds that could be accessed to help with unexpected financial obligations.

Potential solution

David may consider purchasing a life insurance policy on himself with the Supplemental Term Rider, with his wife as the primary beneficiary; to help ensure underwriting qualifications are met, David should purchase the policy while he is healthy. Should he die prematurely, the policy's death benefit will provide income replacement for his wife in order to help allow David's family to maintain their current lifestyle.

Along with death benefit protection, the IUL policy offers tax-deferred accumulation potential (with protection from market downturns). In retirement, David would have the ability to draw on the policy's available cash value, potentially supplementing his income via policy loans and withdrawals that may be income-tax-free. In the event of his death, any remaining death benefit would pass income-tax-free to his beneficiaries. Clients utilizing a loan strategy should carefully manage policy values to help prevent a policy lapse and unintended tax consequences.

HYPOTHETICAL POLICY DETAILS FOR DAVID **Nonguranteed illustrated rate: 6.69%**	
Policy	Allianz Life Accumulator® Indexed Universal Life Insurance Policy
Risk class	54-year-old male, Preferred Plus non-tobacco
Death benefit (level)	$500,000 base $500,000 Supplemental Term Rider
Annual premium	10-year guideline: $30,955.21 Target: $20,027.50
Accumulation value (nongauranteed)	At age 70: $519,038 At age 80: $1,054,115
Death benefit (nongauranteed)	At age 70: $1,000,000 At age 85: $1,595,562 At age 90: $2,287,038



Note that, regarding both these strategies, David should consult with his tax advisor and/or attorney to discuss his specific situation.

This hypothetical example is provided for illustrative purposes only and is not intended to represent or project the results of a specific product or policy. The example assumes a nonguaranteed illustrated rate of 6.69%. Guaranteed accumulation value – age 70, $104,246; assuming the minimum guaranteed interest rate of 0.10% and no additional premium paid, the policy would lapse at age 75. The Supplemental Term Rider incurs a rider and monthly expense charge.

Policy loans and withdrawals will reduce the available cash value and death benefit and may cause the policy to lapse, or affect guarantees against lapse. Withdrawals in excess of premiums paid will be subject to ordinary income tax. Additional premium payments may be required to keep the policy in force. In the event of a lapse, outstanding policy loans in excess of unrecovered cost basis will be subject to ordinary income tax. If a policy is a modified endowment contract (MEC), policy loans and withdrawals will be taxable as ordinary income to the extent there are earnings in the policy. If any of these features are exercised prior to age 59½ on a MEC, a 10% federal additional tax may be imposed. Tax laws are subject to change and you should consult a tax professional.

Indexed universal life (IUL) insurance provides a death benefit that is generally paid income-tax-free to beneficiaries and the potential to build accumulation value.

IUL is not a source of guaranteed income in retirement. There is no guarantee that a policy will earn sufficient interest to support a loan strategy.

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