Allianz Life Insurance Company of North America

LIFE ADVANCED MARKETS CASE STUDY

Key employee compensation strategies and indexed universal life (IUL)

Mia, a small-business owner, has no strategy for retaining the employees essential to her company's success

Mia is in her 50s, married, with two teenage children. She is the primary income earner, supporting the family.

Mia and a business partner jointly own a medical device company. Mia owns 60% of the business; her 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 planning.

Because their success in a competitive industry depends on the performance of their key employees, the business is vulnerable should one or more of those employees choose to leave. Despite this, Mia and her business partner currently have **no strategy in place to aid in the retention of their key employees.**



And though she has substantial net worth from her business, Mia has limited cash resources and no current life insurance policy to protect her family.

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 solely by the financial strength and claims-paying ability of Allianz Life Insurance Company of North America.
Life insurance products are issued by Allianz Life Insurance Company of North America, 5701 Golden Hills Drive, Minneapolis, MN 55416-1297. www.allianzlife.com
This content does not apply in the state of New York.
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STRATEGY 1

Compensating and retaining Mia's key employees

Objective

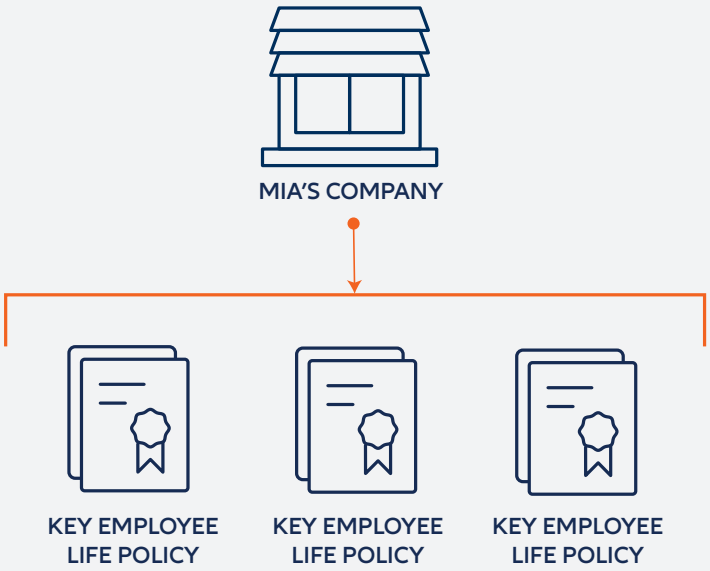
If a key employee in Mia's company were to die unexpectedly, then the business may need to quickly replace the talent and/or unique skills which that deceased person contributed to the business. The need to replace talent quickly can often result in paying extra compensation above the standard market rate to obtain an employee with unique skills, knowledge, experience, or expertise.

Another challenge to the business may occur if Mia or her partner dies. Should that happen, the business may need liquidity to pay "stay" bonuses to the key employees as a financial incentive to retain them during the transitionary period following an owner's death.

Potential solution

The business may consider purchasing a life insurance policy on the life of each employee who is key to the continued successful operation and profitability of the business.

Mia's company can purchase life insurance policies on the life of each key employee



The death benefit amount of each policy will depend on the anticipated cost to replace the unique skills, knowledge, and expertise lost as a result of the death of a key employee; or the amount of "stay" bonuses that may be necessary to retain key employees in the event of an owner's death.

This hypothetical example is provided for illustrative purposes only.

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.

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STRATEGY 2

Financial protection for Mia's family

Objective

Mia would also like affordable life insurance protection for her family, which could potentially serve as income replacement should something happen to her. She's also interested in creating a source of funds from which to draw to help pay unexpected financial obligations.

Potential solution

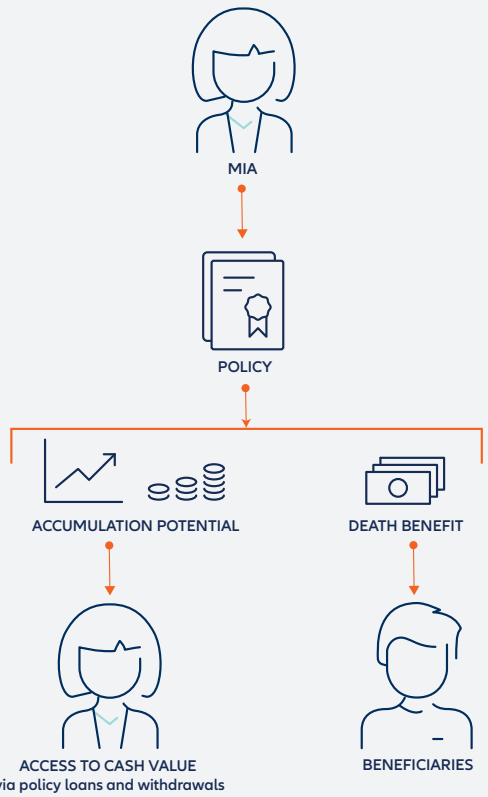
Mia may consider purchasing a life insurance policy on herself with her husband as the primary beneficiary (and should do so while she is healthy). Should Mia die prematurely, the policy's death benefit would provide income replacement for her husband in order to allow her family to maintain their current lifestyle.

Since she is "cash light," she may consider purchasing an Allianz Life Accumulator® Indexed Universal Life Insurance Policy and adding a Supplemental Term Rider, providing the opportunity to add extra term coverage to the policy, which could help keep the overall cost low.[1]

Along with death benefit protection, the IUL policy offers tax-deferred accumulation potential (with protection from market downturns). In retirement, Mia would have the ability to access the policy's cash value through policy loans and withdrawals[2] – that may be income-tax-free, and could be used to potentially supplement her income. It is important to note that there is no guarantee a policy will earn sufficient interest to support a loan strategy. Clients using policy loans and withdrawals should carefully manage policy values so as to not incur a policy lapse or unfavorable tax consequences. In the event of her death, any remaining death benefit would generally pass income-tax-free to her beneficiaries.

HYPOTHETICAL POLICY DETAILS FOR MIA **Nonguaranteed illustrated rate: 6.69%**	
Policy	Allianz Life Accumulator® Indexed Universal Life Insurance Policy
Risk class	54-year-old female, Preferred Plus non-tobacco
Death benefit (level)	$500,000 base $500,000 supplemental term rider
Annual premium	10-year guideline: $28,249.76 Target: $17,520.00
Accumulation value (nonguaranteed)	At age 70: $484,226 At age 80: $984,422
Death benefit (nonguaranteed)	At age 70: $1,000,000 At age 85: $1,491,199 At age 90: $2,039,639

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 79, $118,050; assuming the minimum guaranteed interest rate of 0.10% and no additional premium paid, the policy would lapse at age 76. The Supplemental Term Rider incurs a rider and monthly expense charge.



[1] Supplemental Term Rider incurs a monthly charge.

[2] 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.