Allianz Life Insurance Company of North America

INDEXED UNIVERSAL LIFE INSURANCE

Buy-sell agreements

Ensuring the continuity of your business

Buy-sell agreements help ensure the smooth continuation of your business after a potentially disruptive event, such as the death of a partner.

Buy-sell agreements can **play a vital part** in your overall business strategy.

A buy-sell agreement is a legally binding contract that, when exercised, allows a business entity, shareholder, or partner to purchase an interest in the business when an owner leaves or dies, or for any other specified event. Typically, buy-sell agreements specify when, to whom, and at what price an interest in the business will be sold.

BENEFITS OF A BUY-SELL AGREEMENT

When properly structured, it can help ensure a smooth transition for the continuation of your business. A buy-sell agreement:

- May be a good fit if you have a specific business succession strategy in mind, or if you want to prevent outsiders from getting control of your business.
- Can be reassuring to your creditors, customers, and employees.
- Can help safeguard the value of your business and support its entity status (if your company is an S corporation or a limited liability company, for example).
- Can help prevent unexpected estate-tax consequences upon the business owner's death.

Before you set up a buy-sell agreement, you should consult a tax advisor and attorney for guidance on your unique situation. To work as intended, buy-sell agreements must be drafted carefully.

Must be accompanied by the "Understanding indexed universal life insurance" consumer brochure (M-3959) or appropriate product consumer brochure.

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

M-5133 (R-7/2024)

Setting up the buy-sell agreement

You'll need to identify what events will trigger the buy-sell agreement, such as:

- Death of a business owner
- Retirement, resignation, or termination of a partner or shareholder
- Long-term disability
- Legal, personal, or financial problems

After you've determined the triggering events, you'll need to establish a purchase price. An independent business valuator can help you determine the fair market value of your business. Keep in mind that valuations may need to be updated periodically.

Using life insurance to fund a buy-sell agreement

There are several ways to fund a buy-sell agreement, such as using cash, redeeming stock, or drafting an installment note. Depending on the size of your business, and your liquid assets, one or a combination of these options could be a good choice.

But if you don't have the necessary funds, there is another option you can consider.

Indexed universal life (IUL) insurance can give you and your business partners death benefit protection, to help address business continuation needs and the surviving family's needs for income, final expenses, estate taxes, and income replacement.

There are many reasons why IUL can be a good choice to fund your buy-sell agreement, including the following:

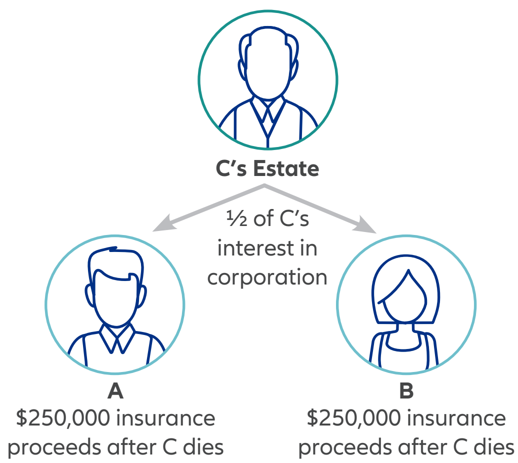
- A death benefit is provided at the time when it is needed to carry out the buy-sell agreement – upon the death of the business owner.
- In most cases the death benefit will be income-tax-free.
- Potential accumulation value is income-tax-deferred.
- Any cash value could be accessed through income-tax-free loans or withdrawals[1] to fund the buy-sell upon other triggering events, such as the insured's disability or retirement.

[1] 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.

Multiple ways that life insurance can fund the buy-sell agreement

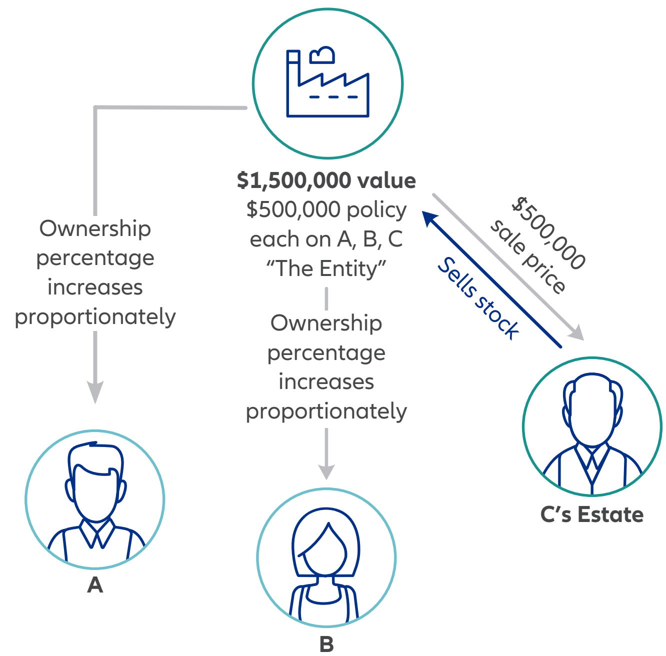
Cross-purchase agreement: Each business owner buys and is the beneficiary of a life insurance policy on the other shareholders. In the example below:[1]

- ABC Corp is valued at $1,500,000. Shareholders A, B, and C each have a one-third ownership of $500,000 in the business.
- Each shareholder buys a $250,000 life insurance policy on the other two – in total, six policies are purchased.
- Owner C passes away; owners A and B each receive the death benefit from their $250,000 policies on C's life.
- Owners A and B use this death benefit to buy out C's interest in the corporation.
- Owners A and B would have an additional $250,000 in basis which could have a positive impact on future tax amounts if the business sold in the future.



Entity purchase (stock redemption) agreement: This may be more appropriate for larger companies that have more shareholders. In the example below:[1]

- The business purchases one policy on each owner that covers owners A, B, and C in equal shares.
- Upon the death of owner C, the business collects the death benefit from the policy.[2]
- The business uses the death benefit funds to "buy out owner C's share" – making a liquidation payment to owner C's estate.
- No increase in basis for owners A and B.



Considerations: When taking policy loans, it is important to carefully manage your policy values to help prevent a lapse. And since life insurance is an underwritten product, any strategy that includes it is contingent on the health underwriting and financial underwriting of the insured. To be successful, there must be funds available to carry out the terms of a buy-sell agreement.

SCAN THE QR CODE FOR FIVE TIPS ON BUY-SELL AGREEMENTS.

→ Then contact your financial professional to discuss your business's needs.

[1] This hypothetical example is provided for illustrative purposes only. It does not depict an actual buy-sell agreement, nor is it intended to serve as a model for establishing such an agreement.

[2] Generally the Internal Revenue Code (IRC § 2703) does not include the death benefit of a company-owned life insurance policy which funds a redemption agreement in the estate of a deceased owner. When the provisions of the agreement are not followed, the death benefit may be included, increasing the value of the business for estate tax purposes. See Estate of Connelly v. United States, USDC ED MO, Case No. 4:19-c-01410, September 21, 2021.

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 a written notice of the life insurance and obtain a written consent from the insured. Consult with an attorney for application of those rules to a specific situation.

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A leading provider of annuities and life insurance, Allianz Life Insurance Company of North America (Allianz) bases each decision on a philosophy of being true: **True to our strength** as a key part of a leading global financial organization. **True to our passion** for making wise investment decisions. **True to building a culture** where everyone feels welcomed, included, and valued. And **true to the people we serve,** each and every day.

Through a line of innovative products and a network of trusted financial professionals, and with 3.9 million contracts issued, Allianz helps people as they seek to achieve their financial and retirement goals. Founded in 1896, Allianz is proud to play a vital role in the success of our global parent, Allianz SE, one of the world's largest financial services companies.

While we are proud of our financial strength, we are made of much more than our balance sheet. By being true to our commitments and keeping our promises, we believe we make a real difference for our clients. It's why so many people rely on Allianz today and count on us for tomorrow – when they need us most.

Products are issued by:

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