

# Using Life Insurance to Meet Business and Personal Objectives

*...An affordable, tax-efficient, and often overlooked financial strategy*

- Presented by Allen Robinson, Liscensed Financial Planner



**A**s the owner of a business or professional practice, you know better than anyone that running your business seldom leaves you enough time to “take care of business” by addressing important financial planning questions such as: is my business moving in a direction with which I’m happy? Am I doing all I can for my key people? Have I structured things such that my family won’t be saddled with business debts if I die prematurely? What about taxes and retirement? Am I doing what’s necessary to assure the success of my business and my personal financial security?

But finding time to reflect on how you’re doing, where you’re going, how you’re going to get there, (and keeping your key people happy along the way) is more than just important - it may also be critical to your business’ long-term success and your family’s financial security. Unfortunately, if you’re like most business owners, in addition to feeling squeezed for time, you probably feel squeezed for money. What’s more, you’re probably convinced there’s not a lot you can do to address the above questions until you have the funds with which to address them.

The reality is - that’s not true. You can get started. And the solution to whichever of those questions is highest on your priority list may be a financial product you have not only overlooked, but possibly even avoided - life insurance. How can life insurance help? There are all sorts of ways.

For starters, life insurance provides both lifetime and death benefits you can use to protect yourself, your key people, and your family, while simultaneously accomplishing important business objectives such as rewarding and retaining key employees, reducing income taxes, accumulating funds for retirement, and assuring an orderly succession of your business at death, disability, or retirement. In many cases, you can use business dollars, often on a tax-deductible basis, to pay for the policies. And you can generally choose from a wide range of plans that allow you accommodate such variables as uneven (or seasonal) cash flow. And that’s just for starters.

Following are just a few of the strategies that are available to you – right now, using life insurance – to meet your financial goals in a tax efficient and affordable manner.

## QUALIFIED RETIREMENT PLANS

If your business offers a qualified retirement plan (for example a 401(k), profit sharing, or pension plan), your contributions / accumulations can be used to buy life insurance on the participants. Premiums would be income tax-deductible to your business, and participants would be taxed each year on a relatively small “economic benefit” provided by the death benefit. The immediate benefits to you include a tax deduction for your business; the ability to provide an extra benefit to yourself and your employees; and protection for loved ones in the event of premature death.

## EXECUTIVE BONUS PLANS

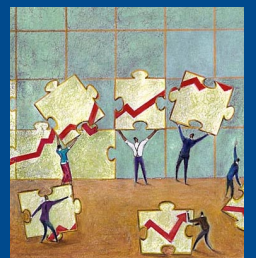
Under these plans, you and/or your key employees can purchase life insurance and your business can pay all or a portion of the premiums. The immediate benefits to you include a tax deduction for your business; the ability to provide an extra benefit to key employees; and the potential for supplemental retirement income (via cash values) down the road. You could also restrict your employee’s access to cash values for a stated period of time, thus creating “golden handcuffs” that make it more attractive for them to remain with your company. While participants will owe income taxes on the amount of premiums paid by the business, you could elect to pay those taxes yourself via a bonus in the amount of taxes due.

## SPLIT DOLLAR PLANS

Split Dollar Plans allow you to share the cost and benefits of a life insurance policy with key employees to whom you want to extend an extra benefit. Depending upon how the plan is structured, your employees may have access to the policy’s cash value, either immediately or at a designated future time; they may be able to name the policy beneficiary; the death benefit could be used to purchase the business interest of a deceased partner or co-owner; and the business may be able to recover all of the plan costs at the death of a covered employee. *(continued on back page)*

## Bottom-Line Benefits

- 1** Life insurance assists you in accomplishing important business objectives by:
  - providing protection through its lifetime *and* death benefits for you, your employees and families
  - rewarding and retaining key employees
  - reducing income taxes
  - accumulating funds for retirement
  - assuring an orderly succession of your business at death, disability, or retirement.
- 2** In many cases business dollars, often on a tax-deductible basis, can be used to pay for the policies.
- 3** There is a wide range of plans from which to choose that allow you to accommodate such variables as uneven (or seasonal) cash flow.



# Using Life Insurance to Meet Business and Personal Objectives *(cont.)*

If your business owns the policy and pays the premiums, the IRS taxes the plan under an "economic benefit regime." Premiums are not tax deductible; the "economic benefit" of the death proceeds is taxable to the employee; but the employee names the beneficiary for the death proceeds in excess of the cash value. If your business pays the premiums, but your employees own their policies, the IRS taxes your plan in the "loan regime" category, and premium payments are essentially treated as a series of loans to your employees. Again, premiums are not tax deductible, but neither are they taxable as income to the employee. Employees, however, are responsible for loan repayment and interest on the loans. Under these plans, employees generally have full access to policy cash values for premium loan repayment. (Note: Withdrawals and policy loans will reduce the amount of the death benefit)

## PASS PLUS

A PASS Plus arrangement involves the creation of a partnership between you, your co-owners (if any), and your business for the purpose of owning life insurance on you and the other partners. Basically, you (and any co-owners) purchase life insurance policies and transfer them to the partnership; your business transfers cash to the partnership, which is used to pay the policy premiums. At the death of an owner, the partnership is dissolved; the business recovers its costs; and the balance of the proceeds is paid to the deceased owner's estate, income tax free. If an owner is disabled or retires, the partnership is dissolved; the business is repaid its cash contributions; and the policy is transferred to the disabled/retired owner who can, in turn, access its cash values via income tax free loans. (Note: policy loans will reduce the amount of the death benefit)

## SECTION 79 PLANS

If your business is set up as a "C" corporation, the IRS allows you to provide your employees with "group term life insurance" using individual cash value policies. Premiums paid by your company are tax deductible and participating employees will be taxed on the value of any insurance protection in excess of \$50,000 as well as all "permanent benefits" provided by the plan. A large portion of the premiums will be considered income taxable to the participants, but because they own their own policies, they retain access to cash values via income tax free loans, and they can name their own beneficiary for the policy proceeds. (Note: policy loans will reduce the amount of the death benefit)

## SECTION 419 PLANS

The potential benefits of a "419 Plan" are many, and include life insurance, disability protection, severance pay, medical benefits, long term care, or illness and accident benefits. Premiums paid by your company are income tax deductible and are not considered taxable as income to the employees. Death benefits are paid income tax free and, in certain cases ("multi employer plans"), there are no stated limits on contributions. (Note: Because of the significant tax advantages and benefits of these plans, they are receiving increased IRS scrutiny.)

As a financial strategy, life insurance is often overlooked and sometimes even avoided. But in the right circumstances, it can be a tax efficient and affordable way to address the challenges you face in building and maintaining a successful business or practice. Whether it's protecting your family, attracting and rewarding key employees, assuring business succession, or maintaining your business' good credit rating, today's life insurance contracts are worth a second look.

This information should not be construed as tax advice applicable to each individual. Please consult a qualified tax advisor at McConnell & Jones LLP regarding your individual circumstances.

A8JC-1020-08



WEALTH SOLUTIONS



C. Allen Robinson, a licensed registered securities representative, is a Sr. V.P. at MJLM Wealth Solutions. MJLM Wealth Solutions is the financial planning division of McConnell Jones Lanier & Murphy LLP.

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As a financial planner, Allen has more than 15 years of experience in providing strategies for clients in wealth development, wealth protection and wealth transfer. With a diverse background and numerous licenses, Allen can provide services related to employee-employer benefits, key-man strategies and outplacement resources.

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