

## Key-man/Funded Buyout

### Situation

Advisor's clients were having a board meeting to discuss current and future issues surrounding a life insurance product that was purchased to fund a buyout of his intellectual capital. The company was under contract to provide the former owner with a \$2,000,000 life insurance policy until full repayment of the contract was complete.

The issues included at the meeting were:

- Should they continue to fund the premiums out of current cash flow
- What alternatives did they have for funding premiums
- Were there other alternatives they could implement

### Client Snap Shot

Insured is a male, age 71

\$2,000,000 Guaranteed Universal Life policy

\$55,440 annual premium with a guarantee to the insured age 90

### Strategy/Concept/Recommendations

1. We first recommended that we complete our **Policy Review Process** to give us detailed look at the policy and the options available with it.
2. Reviewed and analyzed the contract to ensure that any recommendations would not be in conflict with any of the contract language.
3. Recommended the client undergo an insurance exam to explore the opportunity to get a new policy issued at better rates or cost.
4. Once completed, provide a detailed summary of all the options available to the company to meet their objectives and adhere to their contract

### Results

- **Policy Review Process** revealed that the current \$2,000,000 policy had a rider that would allow the policy to remain in force for 4 more years with **NO ADDITIONAL PREMIUMS**.
- Underwriting analysis provided us with a rating that allowed the company to purchase a new, \$2,000,000 10 Year Guaranteed Level Term policy for a premium of \$35,985, saving the company \$19,455 of annual cash flow.
- We recommended they review both of the insurance policies in 2 years and evaluate them in the secondary markets. Our analysis concluded that if one of the policies was sold for market value, the resulting funds could support the other policy for as many 5-8 more years, further reducing their annual cash flow.
- Our recommendations were so appreciated that the company also asked us evaluate their current president for a \$2,000,000 Key Man policy (issued as a tobacco user), which we were able to accomplish and at a better rating than their current policy (negotiated a non-tobacco rating), thus further reducing their annual cash flow.