Securian FINANCIAL®

Insurance products issued by:
Minnesota Life Insurance Company
Securian Life Insurance Company

Lifecycle buy-sell strategy

The lifecycle buy-sell combines the benefits of the traditional entity redemption and cross purchase buy-sell strategies. Benefits include:

- **One life insurance policy per owner.**
- **Full basis increase to surviving owners.**

It also provides additional benefits not available with cross purchase or entity redemption type buy-sells:

- Ability to transfer life insurance policies funding the arrangement to a departing owner (insured) while keeping the receipt of the policy from being taxable income to the owner, and without recognizing any gain from the policy's cash values exceeding the sum of the life insurance premiums.
- Flexibility in allocating the cost of life insurance premiums among the owners.
- Accumulation of significant dollars on a tax-favored basis, safe from corporate creditors, for supplemental retirement income.
- The simplicity of using a single buy-sell vehicle when several business entities share the same owners.

How does a lifecycle buy-sell strategy work?

1. Partnership agreement

The business owners form a separate partnership to ensure the continuous operation and control of the corporation upon death or retirement of an owner. This separate partnership can also be set up as an LLC (taxed as a partnership).

2. Two buy-sell agreements (partnership and corporation)

Entity	Type of buy-sell	Considerations
Corporation	Wait-and-see buy-sell	Provides that, upon death of an owner, the surviving owners have the option to buy his or her stock. If the surviving shareholders do not buy all of the decedent's stock, the corporation must redeem it.
Partnership	Entity redemption	Partnership must purchase the ownership from the deceased owner's estate.

Initial Lifecycle setup

C Corp value: $2 million

A (40)	B (40)	C (40)
100 shares	100 shares	100 shares

Wait-and-See Buy-Sell Agreement

Business has first option

Survivors have next option

Business must buy stock

Partnership setup

C Corp value: $2 million

A (40)	B (40)	C (40)
100 shares	100 shares	100 shares

Partnership

A	B	C
100 units	100 units	100 units

This is a hypothetical example for illustrative purposes only.

3. Partnership purchases life insurance policies

The partnership purchases life insurance policies on each of the owners to fund both buy-sell agreements. The policies can also be designed to accumulate sufficient cash to provide retirement income to fund a living buyout at retirement. There are two factors to consider when determining how much life insurance to buy:

a. Sufficient death benefit for both buy-sell arrangements. The partnership needs sufficient cash to buy the deceased partner's partnership interest and to distribute enough cash to the survivors to purchase or redeem the decedent's stock.

b. Accumulation. The cash value on each business owner can be accessed for a number of personal and business reasons.

4. Source of premium payments

The policy premiums are paid through a bonus or distributions from the corporation to the owners, which they will contribute to the partnership as a capital contribution. In addition, the partnership can be seeded with cash or other investments and use the income from those investments to pay the premiums.

5. Premium allocation

Premiums can be allocated among the partners as they agree, and payments varied year to year. The amount allocated to any partner doesn't need to match the premium on the life insurance policy insuring that partner. Alternatively, each partner bears the cost of all premiums based on the percent ownership in the corporation.

Example

A, B and C each own one-third of a corporation

- The premiums necessary to insure A, B and C are $14,000, $9,000 and $7,000, respectively. The partners have agreed to allocate the total $30,000 premium equally, $10,000 to each.
- If the corporation pays the premium, each owner will have $10,000 of taxable income, and the corporation will have a $30,000 tax deduction.
- The partners will each have $10,000 deemed contribution of capital to the partnership each year.
- At the end of 10 years, if the policies have $130,000, $110,000 and $90,000 of cash value, respectively (for a total of $330,000), each partner will have an interest in the partnership worth $110,000.

This is a hypothetical example for illustrative purposes only.

Corporation makes bonuses to partners

C Corp value: $2 million

A (40)	**B (40)**	**C (40)**
100 shares	**100 shares**	**100 shares**
Bonus to A	**Bonus to B**	**Bonus to C**
$10,000	**$10,00**	**$10,00**

LLC

A	**B**	**C**
100 units	**100 units**	**100 units**
$10,000 basis	**$10,000 basis**	**$10,000 basis**

LLC pays premiums

Premium payments for each owners are:

A - $14,000

B - $9,000

C - $7,000

But allocate bonuses equally among the owners:

A - $10,000

B - $10,000

C - $10,000

This is a hypothetical example for illustrative purposes only.

LLC pays premiums

C Corp value: $2 million

A (40)	**B (40)**	**C (40)**
100 shares	**100 shares**	**100 shares**
Bonus to A	**Bonus to B**	**Bonus to C**
$10,000	**$10,00**	**$10,00**

LLC value = Cash value of life insurance policies

A	**B**	**C**
100 units	**100 units**	**100 units**
$10,000 basis	**$10,000 basis**	**$10,000 basis**

This is a hypothetical example for illustrative purposes only.

Retirement of an owner

Upon termination of a partner's interest at retirement, the policy insuring the partner may be distributed to him or her in exchange for the partner's partnership interest.

- If the cash value of the policy does not equal the partner's share of the total partnership cash value, adjustments may be made prior to the distribution.
- The adjustment can be accomplished by withdrawing cash from the policy or policies. Such transfers are not income taxable and do not affect the partners' bases.[1]

Tax consequences include:

- There is no transfer for value because the transfer is to the insured.
- There will be no gain or loss to the departing partner (regardless of whether the value of the policy is more or less than the departing partner's adjusted basis in his or her partnership interest).[2]
- There will be no gain or loss recognized by the partnership, regardless of the relationship of the sum of the premiums to the cash value.[3]
- The departing partner will take the policy with a basis equal to the departing partner's adjusted basis in his or her partnership interest immediately before the distribution.[4]

Retirement benefit: A retires from LLC

C Corp value: $3 million

A (50)	B (50)	C (50)
100 shares	100 shares	100 shares

LLC value = Cash value of life insurance policies

A	B	C
100 units	100 units	100 units
$100,000 basis	$100,000 basis	$100,000 basis
$130,000 cash value	$100,000 cash value	$70,000 cash value

This is a hypothetical example for illustrative purposes only.

Retirement benefit: Adjustments to cash value

C Corp value: $3 million

A (50)	B (50)	C (50)
100 shares	100 shares	100 shares

LLC value = Cash value of life insurance policies

A	B	C
100 units	100 units	100 units
$100,000 basis	$100,000 basis	$100,000 basis
$100,000 cash value	$110,000 cash value	$90,000 cash value

This is a hypothetical example for illustrative purposes only.

Retirement benefit: Policy on A's life is distributed to A

C Corp value: $3 million

A (50)	B (50)	C (50)
100 shares	100 shares	100 shares

	LLC value = $200,000	
A	B	C
	100 units	100 units
	$100,000 basis	$100,000 basis
$100,000 cash value	$110,000 cash value	$90,000 cash value

This is a hypothetical example for illustrative purposes only.

Exit and transition strategy — installment note buyout

Under an exit and transition installment note buyout, the retiring owner sells his or her stock and partnership interest to the remaining owners for an installment note.

- The remaining owners use the cash value from the policies to pay installments on the note.
- If the retiring owner dies during the payment period, the death proceeds are used to pay off the installment note.
- After the installment period, the death proceeds can be used to reimburse the partnership for the premium payments.

Death of an owner

When the life insurance proceeds come into the partnership, the deceased partner's interest (in the partnership) will first be purchased by the partnership in accordance with the partnership's buy-sell provisions. The remaining death proceeds are paid to the surviving partners/shareholders to fulfill the obligation to purchase or redeem the decedent's shares of the corporation under the buy-sell agreement.

Life insurance death benefits received by the partnership are income tax-free:[5]

- The proceeds are included in each partner's distributive share as tax-exempt income.[6]
- Each partner's basis in the partnership interest increases by the distributive share of the tax-exempt income.[7]

Distributions from the partnership to a partner are generally nontaxable if the cash distributed does not exceed the partner's basis in the partnership interest.[8] The death benefit should be specially allocated only to the surviving partners to allow them to receive the full basis increase. The surviving partners will then be able to distribute the death benefit to themselves income tax-free, giving them the funds needed to execute the corporate buyout provisions.

A's death benefit paid to LLC

C Corp value: $3 million

A	B	C
100 shares	100 shares	100 shares
$1 million value	$1 million value	$1 million value

LLC value = Cash value of life insurance policies

A	B	C
100 units	100 units	100 units
$100,000 basis	$100,000 basis	$100,000 basis
$1.1 million death benefit	$110,000 cash value	$90,000 cash value

This is a hypothetical example for illustrative purposes only.

A's death: Special allocation

C Corp value: $3 million

A	B	C
100 shares	100 shares	100 shares
$1 million value	$1 million value	$1 million value

LLC value = Cash value of life insurance policies

A	B	C
100 units	100 units	100 units
$100,000 basis	$100,000 basis +$550,000	$100,000 basis +$550,000
$1.1 million death benefit	$110,000 cash value	$90,000 cash value

This is a hypothetical example for illustrative purposes only.

A's death: Increase B and C LLC basis

C Corp value: $3 million

A	B	C
100 shares	100 shares	100 shares
$1 million value	$1 million value	$1 million value

LLC value = Cash value of life insurance policies

A	B	C
100 units	100 units	100 units
$100,000 basis	$650,000 basis	$650,000 basis
	$110,000 cash value	$90,000 cash value

This is a hypothetical example for illustrative purposes only.

A's death: B and C buy A's interest in LLC

C Corp value: $3 million

A	**B**	**C**
100 shares	**100 shares**	**100 shares**
$1 million value	**$1 million value**	**$1 million value**
A's estate	**B**	**C**
100 units	**100 units**	**100 units**
$100,000	**$600,000 basis**	**$600,000 basis**
←	**$50,000**	
←		**$50,000**

This is a hypothetical example for illustrative purposes only.

A's death: B and C buy A's interest in corporation

C Corp value: $3 million

A	**B**	**C**
0 shares	**150 shares**	**150 shares**
	$1.5 million value	**$1.5 million value**
A's estate	**B**	**C**
100 units	**100 units**	**100 units**
$100,000	**$600,000 basis**	**$600,000 basis**
←	**$500,000**	
←		**$500,000**

This is a hypothetical example for illustrative purposes only.

The death proceeds can be loaned or contributed to the corporation, which would then redeem the shares of the decedent.

A's death: B and C buy A's interest in corporation

C Corp value: $3 million

A	**B**	**C**
0 shares	**150 shares**	**150 shares**
A's estate	**B**	**C**
$1 million	**150 units**	**150 units**
$100,000	**$100,000 basis**	**$100,000 basis**

This is a hypothetical example for illustrative purposes only.

1. Assuming no modified endowment contracts and assuming withdrawals do not exceed policy basis.
2. IRC Section 731(a).
3. IRC Section 731(b).
4. IRC Section 732(b).
5. IRC §101(a).
6. Section 702.
7. Section 705(a)(1)(B).
8. Section 731.

Please keep in mind that the primary reason to purchase a life insurance product is the death benefit.

Life insurance products contain fees, such as mortality and expense charges (which may increase over time), and may contain restrictions, such as surrender periods.

Policy loans and withdrawals may create an adverse tax result in the event of lapse or policy surrender, and will reduce both the surrender value and death benefit. Withdrawals may be subject to taxation within the first 15 years of the contract. Clients should consult their tax advisor when considering taking a policy loan or withdrawal.

This material may contain a general analysis of federal tax issues. It is not intended for, nor can it be used by any taxpayer for the purpose of avoiding federal tax penalties. This information is provided to support the promotion or marketing of ideas that may benefit a taxpayer. Taxpayers should seek the advice of their own tax and legal advisors regarding any tax and legal issues applicable to their specific circumstances.

These are general marketing materials and, accordingly, should not be considered investment advice or a recommendation that any particular product or feature is appropriate or suitable for any particular individual. These materials are based on hypothetical scenarios and are not designed for any particular individual or group of individuals (for example, any demographic group by age or occupation). The materials were prepared for financial professionals who are experienced in investment and/or insurance matters. As a result, they should not be reviewed or relied on by any other persons. Securian Financial Group, and its subsidiaries, have a financial interest in the sale of their products.

Insurance products are issued by Minnesota Life Insurance Company in all states except New York. In New York, products are issued by Securian Life Insurance Company, a New York authorized insurer. Minnesota Life is not an authorized New York insurer and does not do insurance business in New York. Both companies are headquartered in St. Paul, MN. Product availability and features may vary by state. Each insurer is solely responsible for the financial obligations under the policies or contracts it issues.

Securian Financial is the marketing name for Securian Financial Group, Inc., and its subsidiaries. Minnesota Life Insurance Company and Securian Life Insurance Company are subsidiaries of Securian Financial Group, Inc.

For financial professional use only. Not for use with the public. This material may not be reproduced in any form where it would be accessible to the general public.

securian FINANCIAL®

INSURANCE
INVESTMENTS
RETIREMENT

securian.com

400 Robert Street North, St. Paul, MN 55101-2098

F71834-132 9-2022 DOFU 9-2022
2380414