

# Business life insurance overview

## It's good business to plan ahead.

### **MORE THAN HALF OF SMALL BUSINESSES**

do not offer any type of executive benefits.<sup>1</sup>

Small-business owners, particularly affluent small-business owners, represent a lucrative market with favorable demographics. Specifically, they:

- are at the prime buying age for life insurance products
- possess significant assets to purchase these products
- most likely have families, which translates to a need for life insurance coverage
- need to protect their business

This provides a significant opportunity for you.

More than half of small businesses do not offer any type of executive benefits. Of these, two-thirds have not been approached by an advisor in the past year.<sup>1</sup>

You may be surprised to discover the many ways in which the death benefit protection and potential cash value accumulation of fixed index universal life insurance can help your clients ensure the long-term viability of their business. This brochure provides an overview of a few of the business solutions you can offer your clients.

Since life insurance is an underwritten product, any strategy that includes it is contingent on the health underwriting of the insured and, in some cases, financial underwriting.

For all that's ahead.<sup>SM</sup>

**Allianz** 

<sup>1</sup> "Behind the Eight Ball: Is the Future Bright for Individual Life Insurance?" LIMRA International, 2010.

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	Highlights	Purposes	Appropriate business entity	Owner/employer benefits	Employee benefits	Additional considerations	Premium payor	Owner and beneficiary	Income tax	Estate tax	Allianz potential solutions
<b>Executive bonus 162 bonus</b>	Employer pays premium to provide life insurance coverage to key employees and owners	Provides tax-free death benefit protection and tax-deferred cash value accumulation potential, and may help retain valuable employees	<ul style="list-style-type: none"> <li>• Sole proprietorship</li> <li>• Partnership</li> <li>• C corporation</li> <li>• S corporation</li> <li>• Limited liability company</li> </ul>	<ul style="list-style-type: none"> <li>• Easy to implement</li> <li>• Freedom to favor select employees</li> <li>• Fringe benefit to key contributors</li> <li>• Tax-deductible premium to business</li> </ul>	<ul style="list-style-type: none"> <li>• Very low- or no-cost life insurance protection</li> <li>• Tax-deferred cash value accumulation potential</li> <li>• Completely portable</li> </ul>	<ul style="list-style-type: none"> <li>• Premium bonus is taxable income to employee</li> <li>• Premium bonus may place employee in higher individual income bracket</li> </ul>	<ul style="list-style-type: none"> <li>• Employer; employee reports premium as bonus</li> <li>• Double bonus can cover employee's tax</li> </ul>	Employee owns policy and designates their beneficiary	<ul style="list-style-type: none"> <li>• Premium tax-deductible by business if overall compensation is reasonable</li> <li>• Premium bonus included in employee's taxable earnings</li> <li>• Income-tax-free death benefit</li> </ul>	Insurance included in employee's estate	<ul style="list-style-type: none"> <li>• Allianz Life Pro+<sup>SM</sup></li> </ul>
<b>Restricted executive bonus arrangement</b>	Employer pays premium to provide life insurance coverage for key employees. The employee cannot access the cash value without the employer's consent. Generally not used with the business owner(s)	Helps retain valuable employees and provides tax-free death benefit protection and tax-deferred cash value accumulation potential	<ul style="list-style-type: none"> <li>• Sole proprietorship</li> <li>• Partnership</li> <li>• C corporation</li> <li>• S corporation</li> <li>• Limited liability company</li> </ul>	<ul style="list-style-type: none"> <li>• Helps retain key employees</li> <li>• Freedom to favor select employees</li> <li>• Fringe benefit to key contributors</li> <li>• Tax-deductible premium to business</li> </ul>	<ul style="list-style-type: none"> <li>• Very low- or no-cost life insurance protection</li> <li>• Tax-deferred cash value accumulation potential</li> </ul>	<ul style="list-style-type: none"> <li>• Premium bonus is taxable income to employee</li> <li>• Premium bonus may place employee in higher individual income tax bracket</li> <li>• Requires signed Restricted Policy Agreement AZL form NB6066</li> </ul>	<ul style="list-style-type: none"> <li>• Employer pays premium for convenience OR employer pays cash to employee who pays premium</li> <li>• Employee reports premium as bonus</li> <li>• Double bonus can cover employee's tax</li> </ul>	<ul style="list-style-type: none"> <li>• Employee owns policy and designates the beneficiary</li> <li>• Employer and Employee sign Allianz form NB6066</li> </ul>	<ul style="list-style-type: none"> <li>• Premium tax-deductible by business if overall compensation is reasonable</li> <li>• Premium bonus included in employee's taxable income</li> <li>• Income-tax-free death benefit</li> </ul>	Insurance included in employee's taxable estate	<ul style="list-style-type: none"> <li>• Allianz Life Pro+</li> <li>• GenDex Foundation®</li> <li>• GenDex Survivor®</li> <li>• Generation Planner II®</li> </ul>
<b>Nonqualified deferred compensation (NQDC)</b>	Provides life insurance coverage with cash value accumulation potential to key employees	Personal insurance funds the corporation's obligations to pay benefits to key employees.	<ul style="list-style-type: none"> <li>• C corporation</li> <li>• S corporation</li> </ul>	<ul style="list-style-type: none"> <li>• Helps retain key employees</li> <li>• Must favor select employees</li> <li>• Employer may recover all costs</li> <li>• Easy to establish and administer</li> <li>• No IRS approval needed</li> </ul>	<ul style="list-style-type: none"> <li>• Supplement retirement income by accessing the cash value through loans and withdrawals<sup>1</sup></li> <li>• Benefits can be designed specifically for each participant</li> <li>• No reportable income until benefits received</li> <li>• May provide survivorship benefits</li> </ul>	<ul style="list-style-type: none"> <li>• Employer deduction is delayed until benefits are actually paid</li> <li>• Taxable to employee once benefits are received</li> <li>• Survivorship benefits are taxable income to employee's family</li> </ul>	Corporation	Corporation is owner and beneficiary	<ul style="list-style-type: none"> <li>• Employer premium not deductible</li> <li>• Employer contributions not taxable to employee</li> <li>• Death benefits taxable to employee and/or beneficiary when paid out</li> <li>• Benefit payments deductible by corporation</li> <li>• Life insurance cash value or proceeds may be subject to corporate alternative minimum tax (AMT)</li> <li>• Before policy is issued, insured must sign consent and be given written notice of the policy to obtain an income-tax-free death benefit to the business</li> </ul>	Present value of benefit included in employee's estate	<ul style="list-style-type: none"> <li>• Allianz Life Pro+</li> </ul>
<b>Key person</b>	Protects business against financial loss in case of a key person's death	Tax-free money to reimburse business so it can recruit, hire, and train a replacement	<ul style="list-style-type: none"> <li>• Sole proprietorship</li> <li>• Partnership</li> <li>• C corporation</li> <li>• S corporation</li> <li>• Limited liability company</li> </ul>	<ul style="list-style-type: none"> <li>• Insurance proceeds received income-tax-free by business</li> <li>• Helps offset financial loss</li> <li>• Cash value accumulation potential may offset cost of premium</li> </ul>	If employee retires, business can use policy to fund nonqualified salary continuation plan at retirement for employees, or fund a death benefit plan for employee's family	Premium paid with after-tax employer money	Business	Business is owner and beneficiary	<ul style="list-style-type: none"> <li>• Income-tax-free death benefit to the business</li> <li>• Premium not deductible by employer</li> <li>• Premium not taxable to employee</li> <li>• Life insurance cash value or proceeds may be subject to corporate AMT</li> <li>• Distributions to employee or family may be subject to income tax</li> <li>• Before policy is issued, insured must sign consent and be given written notice of the policy to obtain an income-tax-free death benefit to the business</li> </ul>	<ul style="list-style-type: none"> <li>• May increase value of business interest included in estate of key owner</li> </ul>	<ul style="list-style-type: none"> <li>• Allianz Life Pro+</li> </ul>
<b>Buy-sell cross-purchase</b>	Each owner purchases life insurance on the other owner(s) to buy and sell their respective business interests	Insurance proceeds used to buy business interest from deceased owner's estate	<ul style="list-style-type: none"> <li>• Partnership</li> <li>• C corporation</li> <li>• S corporation</li> <li>• Limited liability company</li> </ul>	<ul style="list-style-type: none"> <li>• Helps prevent forced liquidation of business</li> <li>• Fair market value for business guaranteed</li> <li>• Assures continuation of business</li> <li>• Keeps ownership of business from heirs or outsiders</li> </ul>	<ul style="list-style-type: none"> <li>• Provides a ready market for business upon death</li> <li>• Management continuity</li> <li>• Discounted money used to fund ownership obligations</li> <li>• Beneficiaries receive a step-up in business cost basis upon death</li> <li>• Buyers of the business interest receive new basis</li> </ul>	<ul style="list-style-type: none"> <li>• A business with several owners will require multiple policies</li> <li>• Wide age differences among owners will create disparity in premium</li> </ul>	Each partner or shareholder pays for policy on life of the other partner(s) or shareholders(s)	Each partner or shareholder is owner and beneficiary of policy on the life of the other owner partner(s) or shareholder(s)	<ul style="list-style-type: none"> <li>• Premium not deductible</li> <li>• Upon death of owner, appreciated ownership interests in business receive a stepped-up basis, with no income tax to decedent's family</li> <li>• Surviving business owners get basis for the purchase of deceased owner's interest</li> <li>• Death benefit received income-tax-free by other partner(s) or shareholder(s)</li> </ul>	<ul style="list-style-type: none"> <li>• Purchase price paid for business interest included in deceased partner's or shareholder's estate, if agreement is at arm's length</li> <li>• IRS may find buy-sell value unacceptable in inter-family sales for estate valuations</li> </ul>	<ul style="list-style-type: none"> <li>• Allianz Life Pro+</li> </ul>
<b>Buy-sell entity purchase</b>	Business purchases life insurance on the owners to redeem deceased owners' business interests	Insurance proceeds used to buy business interest from deceased owner's estate	<ul style="list-style-type: none"> <li>• C corporation</li> <li>• S corporation</li> <li>• Limited liability company</li> <li>• Partnership</li> </ul>	<ul style="list-style-type: none"> <li>• Avoids forced liquidation of business</li> <li>• Fair market value for business</li> <li>• Keeps ownership of business from heirs or outsiders</li> <li>• Only purchase one policy per owner</li> <li>• Business pre-funds its obligations with discounted money</li> </ul>	<ul style="list-style-type: none"> <li>• Provides a ready market for business upon death</li> <li>• Management continuity</li> <li>• Value of stock (not the basis) owned by surviving owner(s) increases if corporation retires stock</li> </ul>	<ul style="list-style-type: none"> <li>• Life insurance cash value or proceeds may be subject to corporate AMT</li> <li>• There may be no increase in cost basis for surviving owner(s)</li> </ul>	Business	Business is owner and beneficiary	<ul style="list-style-type: none"> <li>• Premium not deductible</li> <li>• Upon death of owner, appreciated business assets receive a stepped-up basis, with no income tax to decedent's family</li> <li>• Before policy is issued, insured must sign consent and be given written notice of the policy to obtain an income-tax-free death benefit to the business</li> <li>• Death benefit received income-tax-free to the business</li> </ul>	<ul style="list-style-type: none"> <li>• Purchase price paid for business interest included in deceased partner's or shareholder's estate, if agreement is at arm's length</li> <li>• When owners are family members, the IRS may find the buy-sell value unacceptable for estate valuation</li> </ul>	<ul style="list-style-type: none"> <li>• Allianz Life Pro+</li> <li>• GenDex Survivor</li> </ul>
<b>Partnership buy-sell agreement</b>	Existing C or S corporation with 3 or more owners establishes a new partnership (or LLC taxed as a partnership) to purchase cash value life insurance for business continuation purposes.	Insurance death benefits distributed from partnership to surviving partners are used to purchase C or S corporate stock and the partnership interest of deceased owner. Insurance policy is transferred to an owner upon retirement for personal use of policy and cash values.	<ul style="list-style-type: none"> <li>• C corporation</li> <li>• S corporation</li> </ul>	<ul style="list-style-type: none"> <li>• Avoids forced liquidation of business</li> <li>• Buy-sell sets value of the business</li> <li>• Keeps ownership of business from heirs or outsiders</li> <li>• Only purchase one policy per owner</li> </ul>	<ul style="list-style-type: none"> <li>• Buyers of business interest upon insured's death receive a stepped-up basis</li> <li>• Distribution of life insurance policy from partnership to a retiring partner is not a taxable event</li> <li>• Tax-deferred cash value accumulation for retirement</li> </ul>	<ul style="list-style-type: none"> <li>• For existing C or S corporation with more than 3 owners, a new partnership (or new LLC taxed as a partnership) is used to own the life insurance policies.</li> <li>• For existing partnership or LLC taxed as a partnership, the existing entity is used to own the life insurance. See buy-sell entity purchase column.</li> </ul>	Existing C or S corporation pays the premium on behalf of the partnership. Premium is considered a taxable bonus to the owners and a contribution by the owners to the partnership.	Partnership or LLC taxed as a partnership is owner and beneficiary of the life insurance policies.	<ul style="list-style-type: none"> <li>• To obtain an income-tax-free death benefit, the new partnership or LLC taxed as a partnership must give insured written notice and obtain written consent from insured before policy is issued.</li> <li>• Payment of premium by existing C or S corporation is taxable income to the insured owner.</li> <li>• Insured owner makes a contribution to the partnership or LLC taxed as a partnership equal to policy premium.</li> <li>• If insured owner lives until retirement, his/her life insurance policy is transferred from the partnership or LLC taxed as a partnership, to the insured income-tax-free.</li> </ul>	<ul style="list-style-type: none"> <li>• Purchase price paid for business interests included in deceased shareholder/partner's estate if agreement is at arm's length</li> <li>• IRS may find buy-sell value unacceptable in inter-family sales for estate valuations</li> </ul>	<ul style="list-style-type: none"> <li>• Allianz Life Pro+</li> <li>• GenDex Foundation</li> <li>• GenDex Survivor</li> <li>• Generation Planner II</li> </ul>

<sup>1</sup> Policy loans will reduce available cash values and death benefits and may cause the policy to lapse, or affect guarantees against lapse. 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. Tax laws are subject to change and your clients should consult their tax professional.



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Through a line of innovative products and a network of trusted financial professionals, and with over 2.2 million contracts issued, Allianz helps millions of people as they seek to achieve their financial and retirement goals. Founded in 1896, Allianz is now 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 pride ourselves on our financial strength, we're made of much more than our balance sheet. We believe in making a difference with our clients by being true to our commitments and keeping our promises. People rely on Allianz today and count on us for tomorrow – when they need us most.

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