



CASE #3

Scenario:

- Three businessmen equally own a corporation that generates \$24,000,000 in sales.
- They realize that they need key-man/buy-sell insurance.
- The corporation currently uses bonus down shareholder loan-back system; the on-going bonuses are approximately \$300,000 per shareholder per year.
- Currently each shareholder has a \$2,000,000 10 Year Renewable Term policy.

Chart 1

CURRENT INSURANCE COSTS TO AGE 65					
\$ 2,000,000.00 10 YEAR RENEWABLE TERM POLICY					
Shareholder 1		Shareholder 2		Shareholder 3	
Age 56-64	\$ 7,480	Age 52-61	\$ 4,995	Age 46-55	\$ 2,920
Age 65	\$48,720	Age 62-65	\$32,555	Age 56-64	\$18,315
				Age 65	\$48,795
Total cost	\$74,800		\$49,950		\$29,200
Total combined					\$153,950
Average cost per year over 10 years (to age 65)					\$ 15,395

Chart 2

BONUS DOWN SHAREHOLDER LOAN-BACK SYSTEM			
	Bonus	Taxes (49%)	Shareholder loan
Shareholder 1	\$300,000	\$145,800	\$154,200
Shareholder 2	\$300,000	\$145,800	\$154,200
Shareholder 3	\$300,000	\$145,800	\$154,200
Totals	\$900,000	\$437,400	\$462,600
Subtract Corporate Tax (35%)		\$315,000	
Net annual tax		\$122,400	





Chart 3

TOTAL COST COMPARISON			
Current plan			
Annual cost (aver.)	\$ 137,795	Shareholder loan	\$ 462,600
To age 65	\$1,377,950	Total loans	\$4,163,400
Insurance	\$2,000,000 each to age 65		
New Plan			
Annual cost (aver.)	\$ 49,954	Shareholder loan	\$ 844,494
To age 65	\$ 499,547	Total loans	\$7,600,446
Insurance	\$6,000,000 each for life		
Difference			
Cost	Annual (aver.)	\$ 87,841	Additional Shareholder loan per year \$ 381,894
	To age 65	\$878,410	Total additional loans to age 65 \$3,437,046
Insurance	Each shareholder has an additional \$4,000,000 of insurance, paid-up and guaranteed for life		

