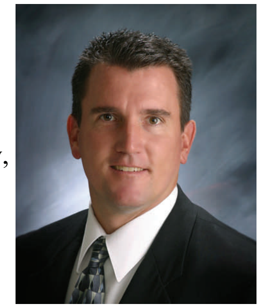
life insurance in credit crisis



it may seem like forever, but it was only a few years ago when credit was easy to obtain. Today, it seems like loans aren't a 'for sure' deal even with great earnings, solid assets, and/or perfect credit scores.

If you are a business owner or partner, there are certain events that could trigger the need for liquidity – assets that can easily be converted into cash.

Typically, liquidity is needed upon the death of an owner of a business. Maybe your business succession plan includes the buyout of your owner(s) or partners but you don't have the necessary cash and you suddenly find out that you can no longer get that much needed loan.

Liquidity may also be needed if you lose a key employee, such as a top sales person or key manager, who are by far some of the hardest employees to replace. In fact, a large share of many companies' revenue is heavily dependent on the performance of just a few of its workers.

If I told you that there were ideal products that provided you with the exact liquidity that you think you will need precisely when you need it, would you want to hear more about it? Here's where 'life insurance' comes into play.

In the event of the untimely death of an owner or key employee, a life insurance policy would provide the instant liquidity that is required to keep a business going. And the proceeds of a life insurance policy are not taxable income to the beneficiary depending on agreements in place.

The business needs to have a Buy/Sell Agreement in place with life insurance as the funding for that agreement. To structure the purchase of corporate life insurance properly there needs to be care given to a number of factors, including:

- Is the corporation a C Corp, S Corp or LLC?
- What is the tax situation of the corporation?
- Does the corporation retain sizeable earnings?

The legal side of the Buy/Sell also needs to be considered. Ideally, the way to do this is to have a joint discussion with your attorney, accountant and life insurance practitioner to make sure the plan is coordinated. These plans should be reviewed every 3-4 years because business conditions change and often times these agreements become outdated.

There are many different ways to design the plans, including:

- Cross-purchase design. Each owner or partner owns a policy on the remaining owner(s) or partners.
- Stock redemption design. The company owns the policy on the owner(s) or partners.
- Non-owner key person design. To protect the company against the loss of a key employee, as a rule, the company is the owner and beneficiary of the policy.

The life insurance transaction should be thought of as a sinking fund. As the policies' cash value grows, the insurance element becomes less. At some point, the cash value equals the death benefit; and could be used to fund buy outs. However, if the insured experiences premature death, the sinking fund self-completes and the money is there to fund buy outs.

In light of this new age of obtaining credit, I know of no other mechanism that can protect a company and its' ownership as well as life insurance can.

For more information, please contact your trusted advisor at Swartzbaugh-Farber – 'Client Centered – Client Advocates™'.

Securities and Investment Advisory Services offered through M Holding Securities, Inc., a Registered Broker/Dealer and Investment Advisor, member FINRA/SIPC. Swartzbaugh-Farber & Associates, Inc. is independently owned and operated.