Individual Life Insurance

Business Succession

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

Entity redemption buy-sell

Prepare for the unexpected loss of a business partner

Your challenge

If your business partner died tomorrow, you could be faced with a possible downturn of revenue, possible diminished marketability and a new business relationship with your partner's family.

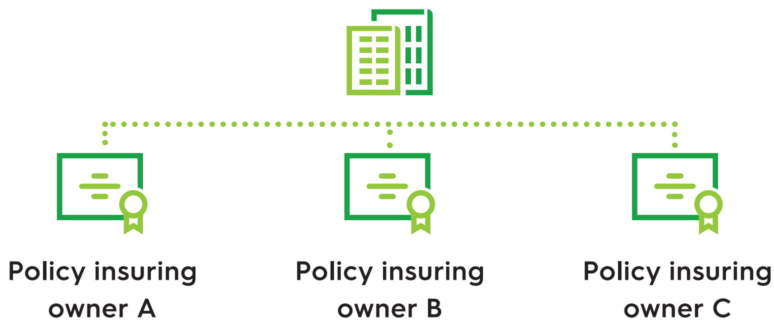
A potential solution[1]

You may need a large quantity of money in a short amount of time if your partner passes away. With an entity redemption buy-sell arrangement funded through life insurance policies, your company could have an instant asset at its disposal to help buy out your partner's family.

Because your business is your life

How does an entity redemption buy-sell arrangement work?

1. Multiple owners of a business enter into an agreement (prepared by an attorney) that, should any owner die, the company will purchase the shares from that owner's heirs.
2. The business purchases a life insurance policy on each owner, which will serve as the source of funds the business will use to redeem the deceased owner's shares. The business is the owner and beneficiary of all the policies.



3. When Owner A dies, the business receives the death benefit from A's policy income tax-free.[1]
4. The business purchases the shares from that owner's heirs with the policy's death benefit, and retires them.

The subsequent decrease in the number of shares outstanding increases the value of the shares for the surviving owners. Owners B and C now each own 50 percent of the business, and Owner A's estate has cash from the sale of the business interest.

Why life insurance?

Permanent life insurance is a long-term financial tool that can provide an immediate source of funds with which to buy out your partner's survivors.

Why use an entity redemption buy-sell?

Benefits

- Works well with three or more owners of a business
- Requires only one policy per owner
- Total premium payments can be equalized among owners
- Not subject to personal creditors
- Allows business to own and control the life insurance policies funding the agreement
- Easier to administer policy transfer upon unwinding the business

Why not use an entity redemption buy-sell?

Considerations

- Does not increase basis for surviving owners of a C corporation
- Not safe from corporate creditors
- Owner retirement benefits are taxable if a cash value life insurance policy is used
- EOLI written notice and consent rules apply
- Health of owners could affect insurability
- Premiums are not income tax-deductible by the business

Learn more

To learn how you can implement an entity redemption buy-sell arrangement to help ensure business continuity, contact your financial professional today.

1. The U.S. Supreme Court decided the Connelly case (Estate of Connelly v. US, 144 US 1406 (2024) which fundamentally affects all business owners who have or are considering a life insurance funded buy-sell arrangement. Arrangements commonly referred to as "entity purchases" or "stock redemptions" are most affected. The US Supreme Court unanimously held that the corporation's redemption obligation is not a liability that reduces the estate tax value of the decedent's shares and that the death proceeds received by the corporation must be included as part of the estate tax valuation of the business. It is critical to remember that when contemplating a buy/sell arrangement that stock redemptions or entity purchases funded with life insurance will produce higher date of death valuations than other types of arrangements.

2. The life insurance death benefit is income tax-free to the business if the business, at the time of purchase, had met the requirements of Internal Revenue Code Section 101(j). This includes providing the insured with advance notice, obtaining the insured's prior consent to be insured and meeting insured's executive income requirements.

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

Life insurance products contain charges, such as Cost of Insurance Charge, Cash Extra Charge, and Additional Agreements Charge (which we refer to as mortality charges), and Premium Charge, Monthly Policy Charge, Policy Issue Charge, Transaction Charge, Index Segment Charge, and Surrender Charge (which we refer to as expense charges). These charges may increase over time, and these policies may contain restrictions, such as surrender periods. Policyholders could lose money in these products.

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 fifteen years of the contract. You should consult your tax advisor when considering taking a policy loan or withdrawal.

The policy design you choose may impact the tax status of your policy. If you pay too much premium, your policy could become a modified endowment contract (MEC). Distributions from a MEC may be taxable and if the taxpayer is under the age of 59½, may also be subject to an additional 10% penalty tax.

This information is a general discussion of the relevant federal tax laws provided to promote ideas that may benefit a taxpayer. It is not intended for, nor can it be used by, any taxpayer for the purpose of voiding federal tax penalties. Taxpayers should seek the advice of their own advisors regarding any tax and legal issues specific to their situation.

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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.

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F71834-44 Rev 4-2025 DOFU 4-2025
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