



You're In Charge®

WealthProtection ExpertiseSM

Life insurance playbook

Simplify life for small-business owners with strategies to help them protect and grow their businesses

Not a deposit	Not FDIC-insured	May go down in value
Not insured by any federal government agency		
Not guaranteed by any bank or savings association		

Insurance products issued by:
The Lincoln National Life Insurance Company
Lincoln Life & Annuity Company of New York

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Business protection

Small-business owners need financial protection, employee retention and recruitment strategies, and succession planning. We understand the needs of the small business, and offer comprehensive solutions to help owners protect their business investment and maintain a competitive edge.

Conversation starters

Many times small-business owners don't know they have a need for life insurance, or they may not realize that there are policies that can help them meet short-term and long-term financial goals. To open up a discussion about their needs, ask your clients a few simple questions.

- Are you concerned about losing key employees to competitors?
- Are you looking for key talent and not able to hire qualified applicants?
- How many employees contribute significantly to your profits?
- What is your estimate of the costs of hiring and training a replacement for you, a co-owner, or a key employee?

Lincoln simplifies life

You can expect more from the leader in life sales, including:

- **Case study design** — Assistance with your estate, business and charitable planning, and executive compensation strategies
- **Simplified process** — Ease of doing business for you and your clients with the *LincXpress*® Tele-App process, a lab-free underwriting opportunity, and eDelivery
- **Leading-edge underwriting** — Dedicated teams to support your business and competitive advantages, such as special considerations for non-cigarette tobacco users
- **Enhanced policy management** — Automatic reminders and in-force illustrations to help you better manage your book of business



See our full suite of life insurance solutions and planning strategies to help your clients reach their goals in the Lincoln life insurance playbook. Order code: [LIF-GOAL-BRC001](#)

Who are your clients?



Business owners who want to attract and retain top talent

Examples include: owners in competitive fields, such as electrical engineering, software development, and information security, who are concerned about

- Attracting new talent
- Retaining key talent
- Providing benefits with tax-deductible dollars



Business owners who rely on their key employees

Examples include: owners who have a partner or top executive crucial to the business who may be concerned about or unaware of these risks

- Revenue loss in the event of the death of a key employee
- Business disruption or inability to recover from the loss of a key employee
- Having sufficient capital to recruit and train a replacement

Questions to ask your clients

- What steps have you taken to retain your top talent?
- Are you having difficulty with recruitment?
- Would you be interested in a cost-efficient recruitment and retention package?
- Do you have any employees critical to the success of your business?
- If this employee would unexpectedly die, what would happen to your customers and staff?
- Do you know what it would cost to replace your key employee?

Solutions to consider

For owners who want to attract and retain top talent

An executive bonus plan using *Lincoln WealthAdvantage*® IUL can provide a powerful incentive for top performers

Employer advantages

- A discretionary plan with the owner deciding who can participate
- Easy to establish and administer, no IRS-approval required
- Business has a current tax reduction for bonuses paid*

Employee advantages

- Policy ownership
- Tax-deferred growth opportunities to create a future income tax-free financial resource
- Access to living benefits
- An income tax-free death benefit for their beneficiary

For owners who want financial protection for the unexpected death of a key employee

Key person insurance using *Lincoln WealthAdvantage* IUL can provide

- A source of income to replace profit or capital loss
- A balance sheet advantage with an optional rider that provides high early cash surrender value
- Tax-deferred growth and tax-efficient cash value that can be used to fund other objectives
- Tax-deferred growth opportunities to create a future income tax-free financial resource
- Access to living benefits
- An income tax-free death benefit for their beneficiary



View the interactive business planning white paper.

It has the in-depth technical content financial professionals need in an easy-to-use, dynamic format. Available online at: www.lfg.com/planningstrategiesforbusinessowners



Find more planning strategies for small-business owners

Ask your Lincoln representative for a copy of the business insurance solutions guide.

Order code: **LIF-BI-BRC001**

*The deductibility of the bonus is subject to the reasonable compensation limits established by Internal Revenue Code Section 162(a).

Case study: Retaining top talent with an executive bonus plan

Client:

Phil is the owner of Packaging in Action.

Key employee:

Greg, age 45, is Phil's top-notch plant manager.

Financial situation:

Greg joined the firm 10 years ago. Phil realizes that Greg is an innovator who helps his firm keep its leading edge and maintain a healthy profit margin. Because Phil doesn't want to lose Greg to a competitor, he wants to reward him with a benefit that will encourage him to stay employed at Packaging in Action until he retires.

Goals for the business:

- Maintain its competitive edge
- Establish a simple, tax-advantaged way to reward and retain key employees
- Ease of plan implementation and administration

Goal for Greg's benefits package:

- Provide a significant future retirement benefit and an attractive benefit for today

52% of owners say they're hiring or trying to hire new talent, but 45% of these employers claimed that there are few or no qualified applicants for the positions they're trying to fill.

Source: "NFIB Small Business Economic Trends," www.nfib.com, January 2016.

The solution:

To help ensure that Packaging in Action keeps key talent like Greg, Phil's advisor recommends an executive bonus plan using life insurance. The strategy gives Phil's corporation a cost-efficient way to provide Greg an attractive benefit package with added advantages. Packaging in Action agrees to pay an annual tax-deductible bonus in the amount of \$10,000 for a life insurance premium where Greg will be both the insured and policyowner.*

A *Lincoln WealthAdvantage*® Indexed UL policy is purchased on Greg's life. Greg names his wife, Karen, as the policy beneficiary. The advisor recommends this product because it can provide valuable death benefit protection and has the potential to accumulate significant cash value, which can supplement Greg's retirement income.

How an executive bonus plan works:

- Unlike qualified plans, an owner has total discretion regarding which employees to include in the plan.
- The selected employee purchases a life insurance policy, and the employee is now the owner of the policy and names his beneficiary.
- The premium is paid by the company and is typically made directly to the insurance company. The premium is treated as a "bonus" to the employee, and it will be taxed as ordinary income to the employee.
- The company can generally take a current tax reduction for any annual bonuses paid.*
- There are many design options. The owner might simply choose to bonus the premium paid, or they may decide to "double bonus" the employee, providing the initial bonus (premium) and taxes due on the bonus.

*The deductibility of the bonus is subject to the reasonable compensation limits established by Internal Revenue Code Section 162(a).

Case study: Retaining top talent with an executive bonus plan

The outcome:

Benefits for Greg

- Access to cash value and an income tax-free death benefit for his wife
- Tax-deferred growth opportunities to create a financial resource for his future
- No required distributions at age 70½ and no early withdrawal penalties before age 59½ when properly designed

Total out-of-pocket expense over 20 years to pay taxes on his bonus	-\$56,000
Total amount of money Greg can take as income tax-free loans to supplement his retirement income	+\$630,700
Greg's death benefit at age 85	+\$169,621
Net benefit to Greg at age 85	\$744,321

Benefits for the business

- A valuable key employee with an attractive benefit that provides financial protection and a retirement supplement
- A plan that's easy to implement and maintain with no IRS-approval needed

Total bonus paid to Greg to age 65	+\$200,000 (\$10,000 per year for 20 years)
Total tax reductions for bonuses paid*	-\$68,000 (\$3,400 per year for 20 years)
Total after-tax cost of the benefit*	\$132,000

*The deductibility of the bonus is subject to the reasonable compensation limits established by Internal Revenue Code Section 162(a).

This hypothetical example assumes a male, age 45, standard nontobacco, tax bracket 28%, *Lincoln WealthAdvantage*® Indexed UL, solve for a minimum non-MEC death benefit with a \$10,000 annual premium paid for 20 years, increasing by cash death benefit option for 20 years then switch to a level death benefit option, solve for maximum annualized participating loans from ages 66 through 85 with \$1 at maturity and 6% assumed index crediting. **At 1% with guaranteed crediting and distributions, policy lapses at age 70.**

Case study: Protecting the business with key employee coverage

Client:

Vince is the owner of a large construction company.

Business key person:

Mark, a healthy nonsmoker, is age 45.

Financial situation:

Mark is a well-respected civil engineer and general sales manager hired by Vince in 2008 to take his commercial construction company to the next level. Since then, Mark has continued to generate considerable sales. Mark is vital to the company's success, and his unexpected death would expose Vince's business to financial risk.

A key employee may be a partner, a top executive, or an important member of an organization with unique talents, experience or skills. Key-employee protection can help maintain business continuity and solvency in the event of a key employee's death. Often financial institutions and investors require that companies carry this coverage to protect their business loans and investments.

Goals:

- Replace lost revenue in the event of Mark's death
- Provide liquidity to recruit and train Mark's successor
- Maintain business continuity for Vince's clients, creditors and employees

The solution:

Vince's business purchases a *Lincoln WealthAdvantage*[®] IUL policy, with Mark as the insured.

- The business is the owner, premium payer, and beneficiary of the life insurance policy.
- By adding the optional Surrender Value Enhancement Endorsement to the policy, surrender charges are waived in all years, which allows for potentially higher early cash value.* This can be especially valuable to a business with balance sheet sensitivity, such as Vince's.

How the strategy works:

- | | |
|---|-------------------------|
| • The business pays a \$10,000 annual premium for 20 years: | \$200,000 total premium |
| • Key person protection with death benefit: | \$1 million |
| • Policy cash value when the owners are age 65: | \$236,287 |

Hypothetical example assumes a male, age 45, preferred nontobacco, *Lincoln WealthAdvantage*[®] IUL, \$1,000,000 level death benefit, \$10,000 annual premium paid for 20 years, assumed interest rate 6%, state of North Carolina, **assuming 1% guaranteed charges and distributions, policy lapses at age 67/year 22.**

*The Surrender Value Enhancement Endorsement is available for an additional cost.

Advantages of *Lincoln WealthAdvantage* IUL in the key person strategy

- 1 Cash values that can be accessed by the construction company through policy loans and withdrawals¹
- 2 Higher early cash value potential for the balance sheet with the Surrender Value Enhancement Endorsement, which waives surrender charges in all years*
- 3 Tax-deferred cash value growth potential
- 4 Financial flexibility at retirement or termination of employment with the option to:
 - A. Keep or surrender the policy
 - B. Transfer the policy to the insured employee
 - C. Use policy values for informal funding of executive compensation arrangement

Some owners may not be aware of the financial risk they face. The death of a key employee could lead to business disruption, loss of profits, and the costs of recruiting and training a suitable replacement.

The outcome:

In the event of Mark's death, the business can use the \$1 million death benefit proceeds to help sustain its operations.²

¹Loans and withdrawals will reduce the policy's cash value and death benefit, may cause the policy to lapse, and may have tax implications. If amounts are withdrawn from the indexed accounts prior to the end of the term, any interest earned for that term will be forfeited. (In New York, value withdrawn from unmaturing indexed segments will receive a prorated 1% interest credit.)

²If the requirements of IRC §101(j) are not met, the life insurance proceeds received by the employer will be subject to income tax to the extent that the proceeds exceed the employer's cost basis in the policy.

Identify owners in your book of business who could benefit from strategies and solutions to help them protect and grow their businesses.

Client name

Telephone/Email

For more information about planning with life insurance, contact your Lincoln representative. Visit us online at: LFG.com/SimplifyLife.

The strength of Lincoln

Additional information is available at LincolnFinancial.com. Click About us and Financial strength to find the "Key Facts" flier.

The Lincoln National Life Insurance Company (Fort Wayne, IN)			Lincoln Life & Annuity Company of New York (Syracuse, NY)		
Rating agency	Rating	Ranking	Rating agency	Rating	Ranking
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Standard & Poor's	AA-	4th highest of 21	Standard & Poor's	AA-	4th highest of 21
Moody's	A1	5th highest of 21	Moody's	A1	5th highest of 21
Fitch	A+	5th highest of 19	Fitch	A+	5th highest of 19

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