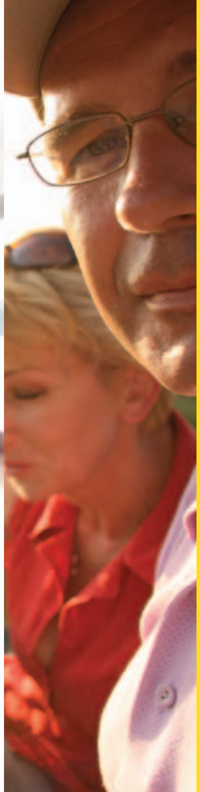
Life Insurance and
Your Business



We are building
insurance around **you**.[SM]

AVIVA

Aviva offers a portfolio of universal life products designed to meet the many needs of your business.

Because of its flexibility, universal life insurance can play a key role in business planning, from startup to exit strategy.

Business continuation

A buy-sell agreement is an essential component of a solid business continuation plan. Most business owners have found that life insurance provides an unparalleled means of funding the obligations under such a plan.

Why universal life insurance

Universal Life offers both value and flexibility to meet your business's changing needs over time.

Death proceeds are received income-tax free and received at just the right time to fulfill the agreement.

The cash value inside a policy grows tax-free (tax-deferred if withdrawals exceed policy basis).

Individually owned policies are generally not subject to the business' creditors.

What will happen to your business if you become disabled, retire or die?

- Will employees lose their jobs?
- Will creditors get nervous from the perception of a weakened company?
- Will surviving owners be able to continue the business?

A business continuation plan is essential to the survival of any business and involves at least two components: A Buy-Sell Agreement and a funding vehicle for the agreement.

A Buy-Sell Agreement provides the proper transfer of ownership of your business to the successors you choose. This written agreement typically specifies buyout provisions in the case of death, disability or retirement.

How it works

Upon an owner's death, disability or departure, the surviving/remaining owner(s), or possibly the business entity itself, agrees to purchase that owner's share of the business.

For example, let's say you are in business with another person. In the event of the premature death of you or the other owner, it is highly likely that the survivor would want to continue the business as the sole owner. In other words, you would probably not want to become co-owners of the business with your deceased partner's spouse, children or estate.

So, you would likely enter into a "cross purchase" buy-sell arrangement in which each of you would promise to buy the other's ownership interest in the event of your death. Life insurance makes that happen - it provides the funds with which to carry out the terms of the agreement.

Each business owner applies for (and is beneficiary of) a life insurance policy insuring the life of the other owner.

Upon the death of an owner the surviving owner receives the death proceeds from the policy and uses those proceeds to purchase the deceased owner's interest for his/her estate.

Upon the departure or retirement of an owner while living, the policy's cash value could be used as a down payment for an installment purchase of the departing/retiring owner.

Alternatively, in an "entity purchase" type of buy-sell agreement, the business entity itself would have the obligation to purchase a deceased or departing/retiring owner's shares, and thus would own the life insurance policies insuring each of the owners.

Buy-sell agreements funded with life insurance are also essential for any family owned business. And, if some children are active in the business while others are not, the role of life insurance can be even more important.

What can a binding Buy-Sell Agreement accomplish?

- Continuation of the business in the event of:
  - The death of an owner
  - The disability of an owner
  - The retirement of an owner
  - The early departure of an owner
- Allow those who are interested in continuing your business to do so without interference from your non-business heirs.
- Provide liquidity for your estate by converting the business interest into cash.
- Establish the value of your business for federal estate tax purposes.

Funding a Buy-Sell Agreement

While there are a number of methods available to fund the purchase obligation – such as using cash reserves or borrowing the funds – life insurance is arguably the most cost-efficient means (often by far) for completing the transaction. It is the only method that can provide cash immediately upon death. It also provides additional benefits:

- Provides security and guarantees for owners and their heirs.
- Provides funding regardless of timing and order of death of owners.
- Neither the owners nor the business are burdened with long-term obligations.
- Policy cash values can be used as down payment for a lifetime buyout.

Key person coverage

Every business has key people that help it remain successful and profitable. Think about the key people in your business and what would happen to your company if one died unexpectedly. Would such a loss:

- Create a void you couldn't fill from within?
- Interrupt the normal flow of business activities?
- Negatively impact credit availability?
- Affect financial control and general management?
- Shrink your customer base?
- Mean losing a specialized skill?
- Halt or delay special projects?

If you answered yes to any of these questions, then key person insurance can help you plan ahead and provide capital when you need it most.

In this type of arrangement, the business purchases and retains all ownership rights to a life insurance policy on each key person. As the beneficiary, the business receives a tax-free death benefit[1] to help the business recover financially from the loss of the key person.

Permanent universal life insurance is the preferred type of policy because of its flexibility. In addition, the policy's cash value can provide potential funds for a variety of business needs.

[1] In some cases, corporate owned life insurance may be subject to Corporate Alternative Minimum Tax.

Executive bonus agreement

This is a way for an employer to create additional rewards for specific individuals, such as company executives for other key employees. In an Executive Bonus Agreement, the employer agrees to pay premiums, in the form of a bonus, on a life insurance policy owned by the executive.

Executive bonus arrangements provide a tax-favored way to reward valued employees on a selective basis, avoiding antidiscrimination rules and giving the recipients added recognition in the form of valuable life insurance protection and other benefits.

How Does It Work?

The employee applies for and owns a life insurance policy on his/her life, and names a personal beneficiary.

The employer pays an annual bonus to the employee either in cash or indirectly as a premium on the life insurance policy. The result is employer-provided life insurance owned by the employee and ultimately benefiting the employee's personally selected beneficiaries. It's used by employers to reward selected key employees for significant contributions to the company's bottom line. (The arrangement is generally not recommended for S corporation owners or partners since those businesses are not separate taxpaying entities.)

As owner of the policy, the employee has access to its cash value. The accumulating, tax-deferred values may exceed the employee's annual tax liability after a few years and can be used to cover those costs if the employee chooses to take loans or partial surrenders. Or they can be left in the policy for unanticipated emergencies or to supplement future retirement income.

Benefits to Employer

1) Reward selected employees
2) Costs are generally income tax deductible
3) No administration costs
4) No IRS approval needed
5) Amounts of insurance can vary between employees
6) Can be terminated without IRS approval

Benefits to Employee

1) Owns the tax deferred cash value
2) Cash available for emergency or retirement
3) Death benefit is in come tax free and can be used to pay estate settlement costs
4) Policy is portable and can be kept if plan terminates

Nonqualified deferred compensation

Under current tax law, it is difficult for employers to find benefit plans that allow them to offer benefits only to selected key employees.

Your business can use universal life insurance to fund an arrangement known as nonqualified deferred compensation, which provides attractive compensation and benefits packages to owner-employees and/or key executives.

Nonqualified deferred compensation is an arrangement employers use to provide retirement income—and often death or disability benefits or both – to a select group of managerial or highly paid employees. When properly set up, the employee can postpone income taxation on the amounts currently being deferred until the benefits are paid.

One of the best ways to fund such an arrangement is to use universal life insurance. The company owns the policy and pays the premiums. When the employee begins receiving the benefits from the arrangement, the company can recover the after-tax costs of the benefit payments from the insurance policy's cash value, subject to federal income tax rules regarding policy withdrawals, loans and surrenders. The other costs (premiums and survivor benefits) associated with the plan can be recovered from the death proceeds of the policy when the employee dies.

The benefits of using life insurance with an NQDC arrangement include:

- A corporation can use the income-tax free death benefit from a life insurance policy to recover its after-tax benefit payment cost and premium outlay.
- The cash value of a life insurance policy accumulates income-tax deferred.
- The cash value is a company asset and is available if there is a need for additional funds.

These examples are meant to highlight the flexibility of the products and are for illustration purposes only. Please discuss your individual situation with your Aviva insurance professional, and seek tax and financial advice from the appropriate advisor.

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Guarantees provided are subject to the financial strength of the issuing insurance company; not guaranteed by any bank or the FDIC.

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