Success Story

From Complexity to Clarity: Structuring a $600 Million Business Succession Plan Through Life Insurance

Summary

Parents and three children/siblings, all business owners

$600 million net worth | each own 25% of the business

- The clients wanted to establish a business succession plan, but the complexity of the case was heightened by the number of owners involved, the type and amount of insurance, and the intricacies of the existing ownership structure.
- With the assistance of their advisory team:
  - **The siblings established an Insurance LLC that owned a $150 million term life insurance policy on each sibling/business owner.**
  - **The parents purchased a $150 million permanent second-to-die life insurance policy owned by the siblings for one year, which would then be moved to a dynasty trust with enough assets to buy the policy and pay for future premiums. The trustee will use the death benefit to buy the parents' interests in the business after their deaths.**

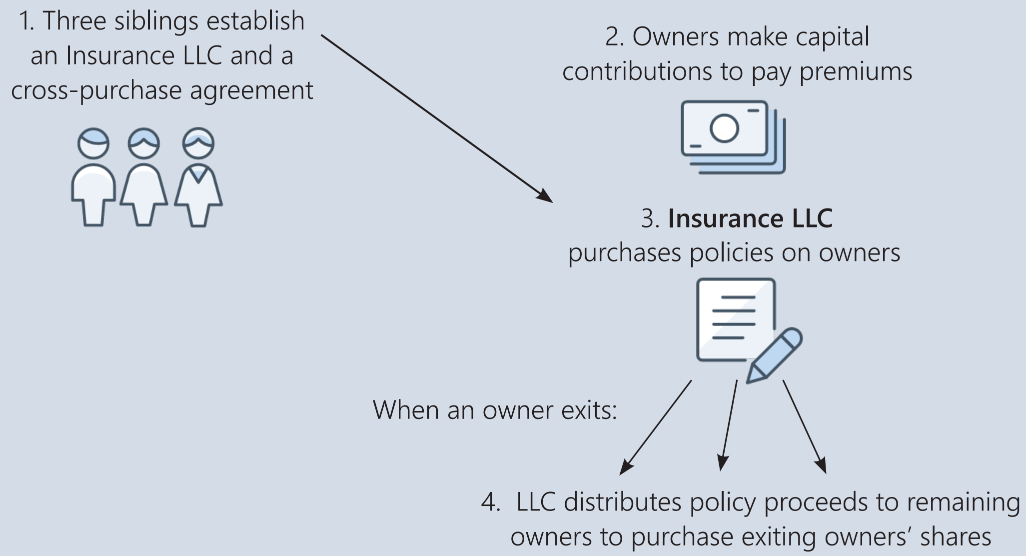
Discovery

- A financial professional (FP) reached out to a Crump representative to help profile clients who had estate and business succession planning needs. They identified clients who were a multi-generational family of business owners. With the parents holding a 25% ownership stake and each of the three children also owning 25% of the business, the planning needed to be both strategic and collaborative.
- To build a comprehensive business succession plan, the FP engaged with the clients and worked closely with their trusted advisory team, including their Chief Financial Officer (CFO), estate and business attorney, and Certified Public Accountant (CPA).
- The clients' goals were to transfer stock from one partner to the rest of the partners in the event of a death in the most tax-efficient manner possible, but to retain the flexibility to use life insurance for personal reasons if the business was sold. They also had to factor in existing prenuptial agreements and other existing estate planning strategies.

Solution

- The initial recommendation was an S corporation that could own buy-sell policies for redemption purposes. However, the timing of this discussion was just a few weeks after the *Connelly v. United States* Supreme Court decision, which held that life insurance could increase the value of the business for estate tax purposes with no mitigating deduction.
- The agreed upon recommendation was to establish an Insurance Limited Liability Company (LLC) that would own multiple life insurance policies, totaling $450 million, on each of the siblings to use for the purchase of their interests. The parents also purchased a $150 million permanent second-to-die life insurance policy owned by the siblings for one year. This policy will eventually be moved to a dynasty trust with enough assets to pay for future premiums and the trustee will use the death benefit to buy the parents' interests at their deaths.
- Although the clients were all healthy, they still faced a challenge with securing $150 million of insurance coverage for each family member as the potential for large payouts can impact a carrier's overall financial stability. To mitigate this risk, the carriers conducted rigorous underwriting, including a deep dive into each insured's financial justification, medical history, and overall insurability.
- This case was completed in just six months from recognition of the opportunity to issuance of the policies — one of the largest in the insurance industry on one family.* From the clients' CFO, CPA, estate attorney, FP, to the Crump representative, VP of Advanced Sales, additional Crump teammates, and multiple insurance carriers — this was a truly collaborative effort all around.
- *How did this solution meet the clients' goals?* The Insurance LLC will hold the policies and buy out an exiting owner. If the business is sold, the policies can be distributed to each owner and used for other purposes. The clients' goals of having a mechanism for buying each other's interests while remaining flexible to address future changes with the company were all achieved. This case also created new opportunities for the FP, including working with the clients' estate attorney to secure his own life insurance policy.

How It Works



Contact your Crump representative to discuss how this strategy might be beneficial for your clients.

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* The largest sale as of March 2025 was a $250 million policy on one person. The previous record was $201 million for one person in 2014. This family totaled $600 million. https://fintech.global/2024/03/05/hsbc-sets-guiness-world-record-with-sale-of-250m-life-insurance-policy/