



4838 Holly Rd., #102, Corpus Christi, TX 78411  
Voice: 800.747.4445 or 361.993.3820  
Email: [moremoney@brownbrown-assoc.com](mailto:moremoney@brownbrown-assoc.com)  
Web: [www.brownbrown-assoc.com](http://www.brownbrown-assoc.com)

## Your Prospects

February 2009  
Volume 35

### *You Can Now Cut 10 To 14 Days From Your App Processing Time And Get Paid Faster!*

It's easy with iGo e-App, our NEW easy to use online, intelligent fillable forms that help you improve efficiency and your "In Good Order" submissions. When using iGo right from our Term Quote Engine, it fills in your plan type, face amount, and carrier information at the click of a button. You are even able to get e-signatures from your clients!

You can see a free, no obligation demo on our web site at [www.brownbrown-assoc.com](http://www.brownbrown-assoc.com) and learn, first hand, how iGo can change the way you submit applications. Simply click on *Supplies & Forms*, and then click the green box to *View Demo*.

**Go Green with  
iGo e-App.**

### *The Rules Have Changed with Employer Owned Life Insurance*

By Cindy Gentry, LUTCF, CLU, ChFC,



One of the smartest ways for a business owner to protect the company from the financial loss of themselves or a key employee is to purchase a life insurance policy on the individual. The business owner may also consider buying life insurance to fund the buy out of their company. If they have considered any life insurance on themselves or key employees that are owned by the employer, read on!

The rules have changed and many employers are not aware of the new requirements. Are you?

Employer owned contracts were addressed in the Pension Protection Act, which stated that any policy owned by an employer issued after August 17, 2006 will be subject to income tax on the death proceeds; however, where specific employee notice and consent requirement are met (certain exception apply) death proceeds can be received income tax-free.

Let's first define an employer owned contract. *An employer owned contract* as defined by the legislation is:

- Owned by a person engaged in a trade or business (applicable policyholder, as defined by the law)
- Under which such person, or related person (as defined by the law), is directly or indirectly a beneficiary, and
- Covering an insured that is an employee of the trade or business of the applicable policyholder on the date the contract is issued.

Basically this defines policies where the business is the owner and beneficiary of the policy. What is not clear is that, under the applicable policyholder and related party definitions, the legislation expands its reach to include individuals and entities such as family members, trusts, and estates.

Luckily congress did recognize that this broad definition would impact the many valid uses life insurance has for a business, so it included several

exceptions to the rule. However, the exceptions only apply where the employee receives notice of and consent to the following in writing prior to the policy issue:

- The applicable policyholder intends to insure the employee's life and specifies the maximum face amount for which the employee will be insured at the time of issue
- The employee consents to being insured and agrees that such coverage may continue after his/her termination from employment
- The applicable policyholder will be the beneficiary of the death proceeds paid.

The critical first step here is the notice and consent requirements to avoid taxation of death benefits applicable to employer owned life insurance contracts. But, this not the only requirement imposed by the legislation. The contracted must also fall within one of these following exceptions.

- **Based on an Insured's Status** – this exception states that the income inclusion rule will not apply to employer owned contracts provided the insured was either:
  - An employee at any time during the 12-month period prior to death, or
  - A director, a highly compensated employee, or a highly compensated individual at the time the contract was issued
- **Based on Who Receives the Death Benefit Proceeds** – the income inclusion rule will not apply to an amount received at the death of the insured to the extent the amount is paid to:
  - An individual, other than an applicable policyholder, which is the designated beneficiary of the insured
  - A family member of the insured
  - The estate of the insured
  - A trust established for the benefit of a family member or designated beneficiary; or

- Where the policy proceeds are used to purchase and interest in the applicable policyholder from such family members, beneficiary, trust, or estate.

So how does the employer abide by all these requirements? They must do an annual reporting of employer owned contracts for each year the contracts are owned. This reporting is provided on IRS Form 8925 and attached to the policyholder's tax return, along with an Acknowledgement and Consent form signed by the insured employee.

So, you can see that careful attention to the new rules for employer owned contracts is the key to successful business planning. Brown & Brown Associates has developed a sales package to help you help your business owner client follow the rules. Ask for your free e-sales package today.

### ***ROP Term – A Good Choice for Key Employee Coverage***

You face many challenges when working with small businesses. One may be selling Key Employee coverage and getting the owner to admit they have key employees. Ask the owner and they will tell you, "*The only key employee is ME.*" Although others may easily recognize Key Employees some may not. So how do you identify who's key in the business?

Some times you have to ask a different way. Give the owner a pen and paper and ask them to write down the names of employees that if they left to join his nearest competitor, the company income would decline by at least 10 percent, or expenses would go up by at least 10 percent. These are their key employees.

Now look at the list, then hand it back to the owner and ask: "*What if they get hit by a car tomorrow?*"

Then tell them, "I have a program to help you with both the car, and the competitor. It's called "Key Employee Insurance." The car is easier to handle than the competitor, but we may be able to help with both in one product.

The car can be handled by term insurance that is owned by the business so if something happens to a key employee it will provide MONEY to the company that can be used to hire and train a replacement. It's also extra cash to fall back on until that new employee is really into the job.

But you can also use the insurance to provide a long-term incentive for that key employee to stay with the company. In the past this was done using cash value life insurance. But the cost of the plan was such that it could only be used for high-end key employees. Plus the guarantees were not so good, and there was still an element of "trust me" in a plan using current cash values.

Now there is an alternative that is lower in cost but higher in guarantees, so all key employees may be covered. It's called **Return of Premium** term. The company gets death benefit coverage for a key employee for a period of 15, 20, or 30 years. The employer may design a plan that at the end of that period the employee is paid a lump sum bonus equal to the return of premium, if they stay with the company. The company can't take a deduction for the premium paid along the way, since the company gets the death benefit - tax free - if the key employee dies, but they can get a deduction

for the bonus they pay at the end. Plus the insurance company provides the money by way of the return of premium to pay the bonus. The only down side is the employee pays taxes on the bonus when they get it. But the employer could take some of the savings of their deduction and double bonus the employee, and pay the tax for them. Remember we are talking 15, 20 or 30 years from now, so who knows what the tax rates will be? So the company gets years of insurance protection, gives the employee a bonus for staying all those years, takes a deduction for the bonus, the money to pay the bonus is paid by the insurance company - tax free - to the employer, and unless the employee dies before the end of the period the money is guaranteed to be there when needed, no matter what. A corporate resolution awarding the bonus is recommended to help ensure this favorable tax treatment. What's not to like?

The idea of an ROP business case is to move money from today to some point in the future on a guaranteed basis and also from the business to the individual. Remember all of these options at the end of the level period when the ROP is paid - are available to both business and individual cases. Ask us for ROP Term Business proposals today.

For more on how to use ROP Term, email or call of for a free copy of our ROP Sales Guide. It's packed it ideas you can use with ROP Term. Call now!

## ***Tools You Can Use – Right at Your Fingertips***

You can get all the Business Insurance information you need 24/7 from The Advanced Markets section of our web site. There is a Genworth Financial **Advanced Marketing Resource Center**. This is a resource of sales, informational and training materials to support you with your business insurance sales. The site is divided into three sections, each with its unique features.

- [Sales Center](#) - Here you will get "Tools and Resources" approved for consumers such as prospecting letters and sample documents.
- [Reference Center](#) – This section helps you prepare to meet with your client with educational material that will keep you informed.
- [Case Design](#) – Here you will find Case Studies, Financial Strategies, Sales Ideas, and calculators to help you bring fresh ideas to your clients when you need just a bit more to make your sale.

Check it out for yourself at [www.brownbrown-assoc.com](http://www.brownbrown-assoc.com), click on Advanced Markets, then the link for the Genworth Financial Advanced Marketing. You will be amazed at what you find! Explore today.



Genworth Financial   
Advanced Marketing

# Your clients Want and Need Long Term Care Insurance

Brown & Brown Associates, P.C. wants to provide you and your clients with the knowledge and skills you deserve with experts in LTC insurance. For that reason we are working with a new partner for LTC insurance - LTCi Partners.

By working with LTCi Partners, you have access to the highest quality long-term care insurance products available, teamed with an expert staff whose sole focus and passion is recommending long-term care planning solutions.

From product education to advice on communicating the need, LTCi Partners will provide you with everything you need to fulfill this crucial portion of your client's complete financial plan.

Let us get you in touch with LTCi Partners –  
Let the experts work for you!  
800.747.4445 or 361.993.3820



**Brown & Brown**  
ASSOCIATES, P.C.  
*We do more for you*

4838 Holly Rd. #102  
Corpus Christi, TX 78411  
800.747.4445 or 361.993.3820  
Fax 877.747.4445 or 361.993.2734  
moremoney@brownbrown-assoc.com  
www.brownbrown-assoc.com

PRSR STD  
U.S. Postage  
**PAID**  
Corpus Christi, TX  
Permit No. 92

**This Months Issue –**

***The Rules Have Changed with  
Employer Owned Life  
Insurance***