

Key Person—Highly Funded Term Alternative

Case background

Siegel & Skalinsky LLP is a design firm based in Indiana with satellite offices in Boston, Atlanta, and San Francisco. The firm has purchased \$1,000,000 of 20 year term life insurance as each associate was made full partner. This Key Person coverage was designed to assist with interrupted or lost cash flow that might result in the event of a partners' death.

Currently there are 14 partners insured and the firm pays an annual composite premium of \$49,890.

The challenge

Since the time it was initiated, there have been some hiccups in the term insurance program. Most notably:

- The insurance company requires that each partner goes through full medical underwriting and the firm, as the owner of the policy, is aware of the final underwriting offer. Many of the partners have expressed their discomfort at having the firm know even general information regarding their health.
- In 2008 one of the partners took an early retirement largely due to health concerns. The firm was willing to change ownership of the policy and transfer it to the partner upon his retirement however there is a good chance that the former executive will outlive the period of the term policy. Once the term period expires, the partner could choose to pay an increasingly exorbitant premium or he could convert his policy to one of the permanent products offered by the insurance carrier. Unfortunately, the insurance carrier was heavily involved in the term market but had few quality permanent products from which to choose.

Possible solution

The insurance broker working with Siegel & Skalinsky was introduced to the Executive UL product through a Sun Life Regional Vice President and immediately recognized a possible fit. The high cash surrender value could put the firm in a better financial position than by funding the term policies. In addition, Guaranteed Issue could alleviate the concerns that the partners felt with risking any disclosure of medical information. Upon retirement, the firm would have numerous options on how best to use the policies:

- Keep them as a cost recovery vehicle
- Bonus them to the partners for estate or personal income planning
- Access the cash value buildup to pay additional retirement income

The broker worked with Sun Life's Advanced Markets Department to run illustrations and was able to have the case reviewed for Guaranteed Issue prior to his next meeting with the firm. Two designs were presented—one with a premium of \$211,253 for 20 years which would fund the policies to endow at age 100 and a second with the maximum non-MEC premium of \$716,370 for 5 years. While this version required a significant increase in cash flow, it maximized the cash value growth and the policies were projected to have cash value in excess of premiums paid beginning in year 2.

Final design

Siegel & Skalinsky ultimately decided on the 20 year annual premium design which accomplished their goals without an overwhelming increase to cash flow.

The following chart shows the projected cumulative impact to earnings of the Sun Executive UL policies compared to the 20 year term program that had previously been in place.

| Year | Sun Executive UL | | | 20 Year Term Policies | | |
|------|--------------------|------------|-------------------------------|-----------------------|-----|-------------------------------|
| | Cumulative Premium | CSV | Cumulative Impact to Earnings | Cumulative Premium | CSV | Cumulative Impact to Earnings |
| 1 | \$211,253 | \$191,771 | \$(19,482) | \$49,890 | \$0 | \$(49,890) |
| 5 | 1,056,265 | 941,133 | (115,132) | 249,450 | 0 | (249,450) |
| 10 | 2,112,530 | 1,955,944 | (156,536) | 498,900 | 0 | (498,900) |
| 20 | 4,225,060 | 5,358,086 | 1,133,026 | 997,800 | 0 | (997,800) |
| 30 | 4,225,060 | 7,630,274 | 3,450,214 | 997,800 | 0 | (997,800) |
| 40 | 4,225,060 | 10,107,532 | 5,882,472 | 997,800 | 0 | (997,800) |

Summary of results

Years ago Siegel & Skalinsky recognized the need for keyperson insurance coverage on the partners in their firm and met that need through term life insurance. While term insurance met their immediate goal, medical underwriting and the temporary nature of the product brought new concerns.

The Sun Executive UL product not only met their keyperson needs, it was able to provide permanent insurance coverage with no medical underwriting. Despite the increase in annual premium, the net effect to the firm was actually less than the term cost when taking Sun Executive UL's cash surrender value into consideration.

For more information, please contact your Sun Life Financial representative.

This illustration assumes that the currently illustrated nonguaranteed elements of interest rates, COLI charges and expense charges will continue for all years shown. This will not occur and actual results will be more or less favorable than illustrated. The nonguaranteed elements will change over time and are dependent on the company's investment, mortality and expense experience. Please refer to a basic illustration for additional information including guaranteed policy values.

This information is for general education of producers and contains references to concepts that have significant legal, accounting, and tax implications. It is not intended as legal, accounting, or tax advice. Clients should consult with a tax advisor regarding the application of these concepts to any particular situation.

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All guarantees are based on the claims-paying ability of the issuing company: either Sun Life Assurance Company of Canada (Wellesley Hills, MA) or, in New York, Sun Life Insurance and Annuity Company of New York (New York, NY). Both are members of the Sun Life Financial group of companies.

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