Funding a Cross Purchase Agreement With Discounted Dollars

For: Donna James

Presented By:

[Licensed user's name appears here]

Preface

Among all the plans used to fund financial obligations at death, a life insurance policy is usually the most efficient. There are typically three alternatives to fund financial obligations at death.

They are:
1. Life Insurance;
2. Cash;
3. Borrowed Funds.

Using a financial evaluation method called "Discounted Dollars", it is possible to compare the three strategies mathematically in order to establish the preferred choice.

Life Insurance

With life insurance, the sum of the policy's premium, divided by the policy's death benefit, gives a "cost-per-dollar-of-benefit" solution that is useful when analyzing the insurance option.

For example, if the premium for a $100,000 life insurance policy is $1,200, the Discounted Dollars calculation divides the $1,200 by the $100,000. This results in an answer of 1.2 cents, meaning that, with this insured, if death occurs in the first year, each $1.00 of death benefit has cost 1.2 cents.

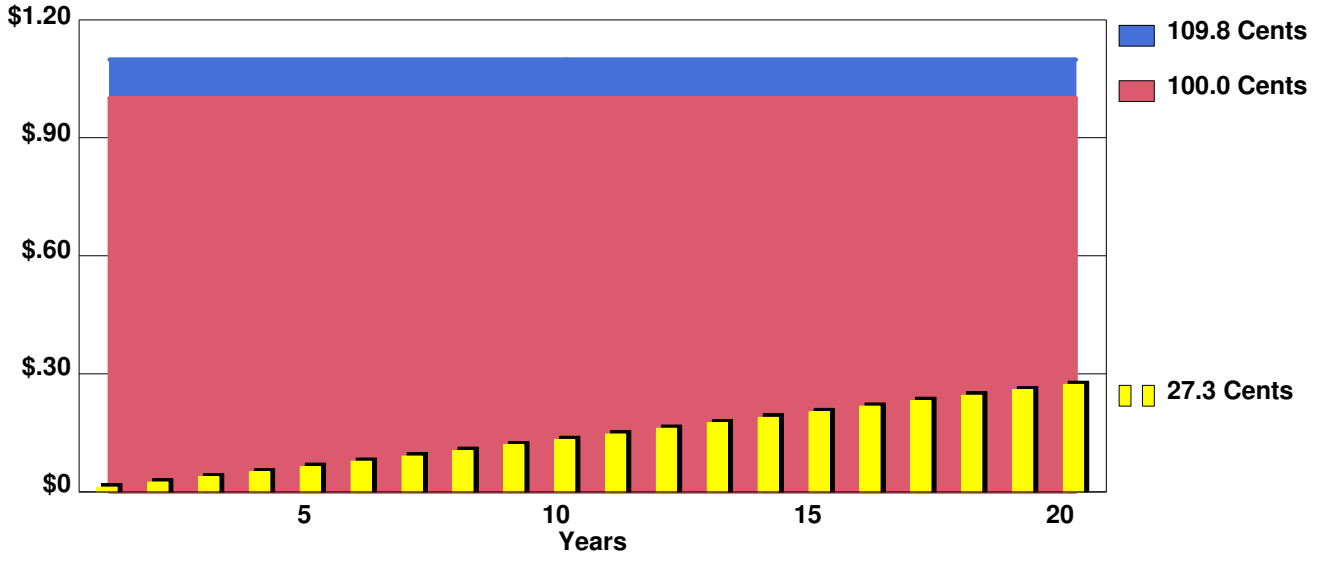
With similar calculations, the costs of delivering each $1.00 of death benefit can be measured through all policy years. A factor for forgone interest is usually part of the overall analysis.

Cash and Borrowed Funds

In all years, $1.00 of cash costs $1.00. Furthermore, each $1.00 of borrowed funds costs more than $1.00 - due to the addition of loan interest costs.

Conclusion

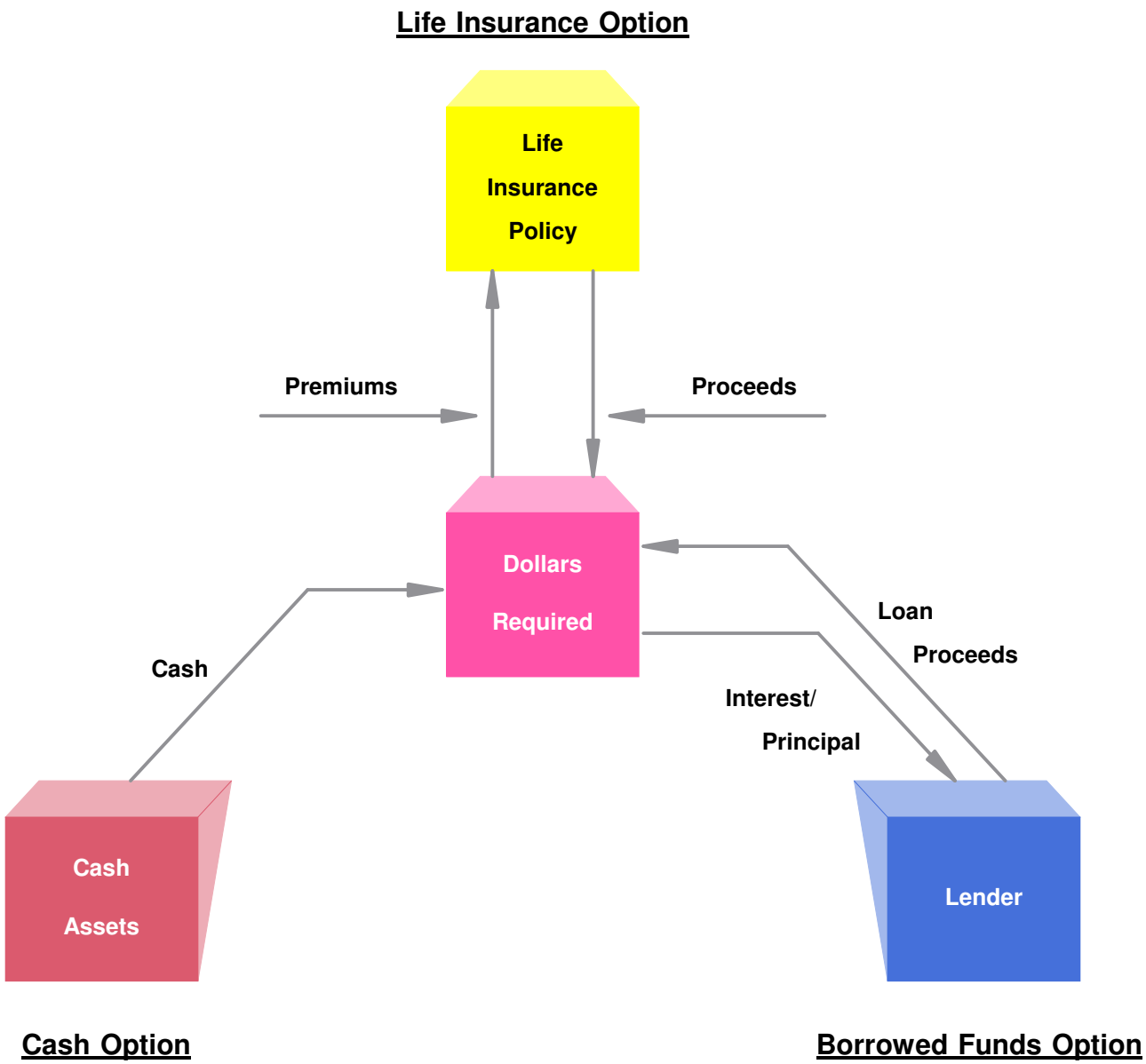
The accompanying analysis compares the three methods of funding, and the calculations examine each method's costs of providing needed dollars at various points in time. In this study, it is apparent that life insurance is consistently the most efficient mechanism for funding the dollars required.



	At Year 20
Cost of Funding each $1.00 of Life Insurance	27.3 Cents
Cost of Funding each $1.00 of Cash	100.0 Cents
Cost of Funding each $1.00 of Borrowed Funds	109.8 Cents

This graphic assumes the non-guaranteed values shown continue in all years. This is not likely, and actual results may be more or less favorable.

Flow Chart
(Alternative Sources of Funds)



Purchaser: Keri Anderson

Summary

Purchaser's Tax Bracket	Forgone Interest Yield	CVI Interest Rate
30.00%	6.00%*	8.50%

		Cost per $1.00 of Funding		
Year	Female Age	(1) Life Insurance	(2) Cash	(3) Borrowed Funds
1	50	1.2 Cents	100.0 Cents	109.8 Cents
2	51	2.5 Cents	100.0 Cents	109.8 Cents
3	52	3.8 Cents	100.0 Cents	109.8 Cents
4	53	5.1 Cents	100.0 Cents	109.8 Cents
5	54	6.4 Cents	100.0 Cents	109.8 Cents
6	55	7.8 Cents	100.0 Cents	109.8 Cents
7	56	9.1 Cents	100.0 Cents	109.8 Cents
8	57	10.5 Cents	100.0 Cents	109.8 Cents
9	58	11.9 Cents	100.0 Cents	109.8 Cents
10	59	13.3 Cents	100.0 Cents	109.8 Cents
11	60	14.7 Cents	100.0 Cents	109.8 Cents
12	61	16.1 Cents	100.0 Cents	109.8 Cents
13	62	17.6 Cents	100.0 Cents	109.8 Cents
14	63	19.0 Cents	100.0 Cents	109.8 Cents
15	64	20.4 Cents	100.0 Cents	109.8 Cents
16	65	21.8 Cents	100.0 Cents	109.8 Cents
17	66	23.2 Cents	100.0 Cents	109.8 Cents
18	67	24.6 Cents	100.0 Cents	109.8 Cents
19	68	25.9 Cents	100.0 Cents	109.8 Cents
20	69	27.3 Cents	100.0 Cents	109.8 Cents

*On the life insurance premium.

See accompanying life insurance analysis and borrowed funds analysis for yearly calculations.

20 Year Summary

	Cost per $1.00 of Funding
Life Insurance	27.3 Cents
Cash	100.0 Cents
Borrowed Funds	109.8 Cents

Purchaser: Keri Anderson

Life Insurance Analysis

Purchaser's Tax Bracket	Forgone Interest Yield	CVI Interest Rate	Initial Payment	Initial Death Benefit
30.00%	6.00%	8.50%	30,000	2,500,000

		Payment Analysis			Death Benefit Analysis		Living Values	
Year	Female Age	(1) Net Payment	(2) Cumulative Net Payments	(3) Effective Cumulative Net Payments***	(4) Death Benefit for Cross Purchase	(5) Cost per $1.00 of Funding**	(6) Year End Accum Value*	(7) Year End Cash Value*
1	50	30,000	30,000	31,260	2,525,266	1.2 Cents	25,266	0
2	51	30,000	60,000	63,833	2,552,343	2.5 Cents	52,343	0
3	52	30,000	90,000	97,774	2,581,230	3.8 Cents	81,229	6,729
4	53	30,000	120,000	133,140	2,612,058	5.1 Cents	112,058	37,558
5	54	30,000	150,000	169,992	2,644,910	6.4 Cents	144,910	70,410
6	55	30,000	180,000	208,392	2,679,936	7.8 Cents	179,936	109,161
7	56	30,000	210,000	248,404	2,717,300	9.1 Cents	217,300	150,995
8	57	30,000	240,000	290,097	2,757,119	10.5 Cents	257,118	196,028
9	58	30,000	270,000	333,542	2,799,519	11.9 Cents	299,519	244,389
10	59	30,000	300,000	378,810	2,844,671	13.3 Cents	344,671	296,246
11	60	30,000	330,000	425,980	2,892,760	14.7 Cents	392,760	351,785
12	61	30,000	360,000	475,131	2,943,957	16.1 Cents	443,957	411,176
13	62	30,000	390,000	526,347	2,998,384	17.6 Cents	498,384	474,544
14	63	30,000	420,000	579,714	3,056,270	19.0 Cents	556,270	542,115
15	64	30,000	450,000	635,322	3,117,802	20.4 Cents	617,802	617,802
16	65	30,000	480,000	693,265	3,183,214	21.8 Cents	683,214	683,214
17	66	30,000	510,000	753,642	3,252,323	23.2 Cents	752,323	752,323
18	67	30,000	540,000	816,555	3,325,243	24.6 Cents	825,243	825,243
19	68	30,000	570,000	882,110	3,402,069	25.9 Cents	902,068	902,068
20	69	30,000	600,000	950,419	3,482,931	27.3 Cents	982,931	982,931
		600,000						

*This is an example of a "supplemental" life insurance illustration. In actual presentations, this footnote will refer you to an accompanying "basic" illustration from a specific life insurance company.

**Column (3) divided by column (4) is equal to column (5).

***Including after tax forgone interest on column (2). (Foregone interest is a hypothetical interest rate that the policy owner could earn if the life insurance is not acquired.)

Purchaser: Keri Anderson

Borrowed Funds Analysis

Purchaser's Tax Bracket	Total Dollars Required	Amount Borrowed	Term of Loan	Loan Interest Rate	Interest Deductible	Present Value Interest Rate
30.00%	2,500,000	2,500,000	10	9.00%	Yes	6.00%

		Payment Analysis	Loan Analysis					Cost per $1.00 Analysis	
Year	Female Age	(1) Amount Borrowed	(2) Beginning of Year Loan Balance	(3) End of Year Loan Repayment*	(4) Annual Loan Interest	(5) After Tax Loan Interest	(6) Total Annual Cost (3) + (5)	(7) After Tax Present Value of Column (6)	(8) Cost per $1.00 of Funding**
1	50	2,500,000	2,500,000	250,000	225,000	157,500	407,500	2,746,157	109.8 Cents
2	51		2,250,000	250,000	202,500	141,750	391,750		
3	52		2,000,000	250,000	180,000	126,000	376,000		
4	53		1,750,000	250,000	157,500	110,250	360,250		
5	54		1,500,000	250,000	135,000	94,500	344,500		
6	55		1,250,000	250,000	112,500	78,750	328,750		
7	56		1,000,000	250,000	90,000	63,000	313,000		
8	57		750,000	250,000	67,500	47,250	297,250		
9	58		500,000	250,000	45,000	31,500	281,500		
10	59		250,000	250,000	22,500	15,750	265,750		
				2,500,000	1,237,500	866,250	3,366,250		

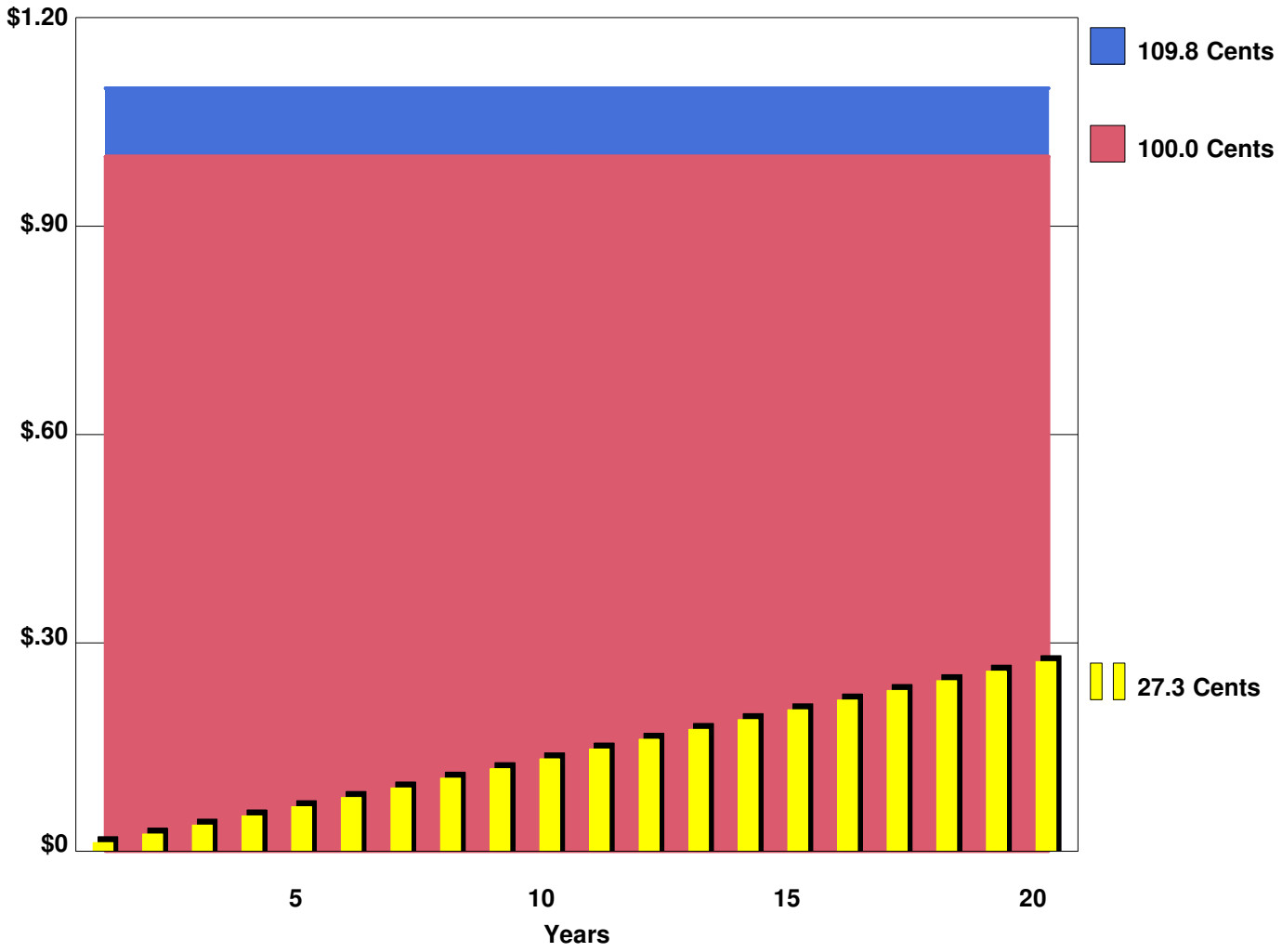
*Assumes annual payments at end of year shown.

Rounding may cause minor math inconsistencies.

**Column (7) divided by the total dollars required equals Column (8). If the total dollars required changes but all other assumptions remain constant, the cost per $1.00 of funding will remain the same.

Purchaser: Keri Anderson

20 Year Analysis
Cost per $1.00 of Funding

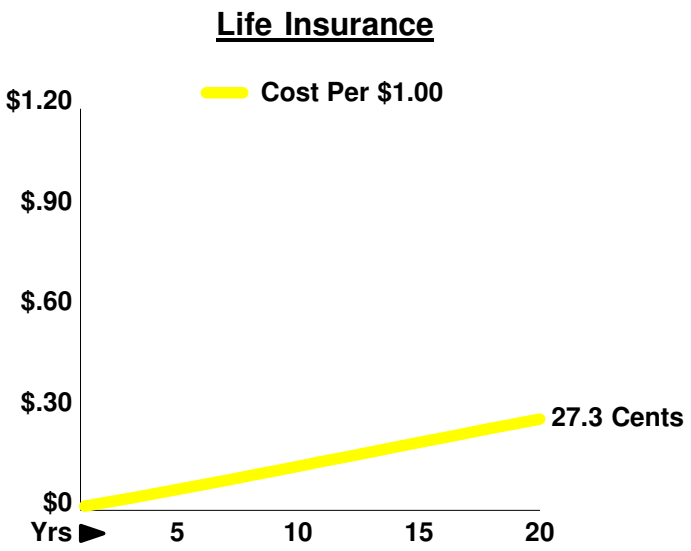


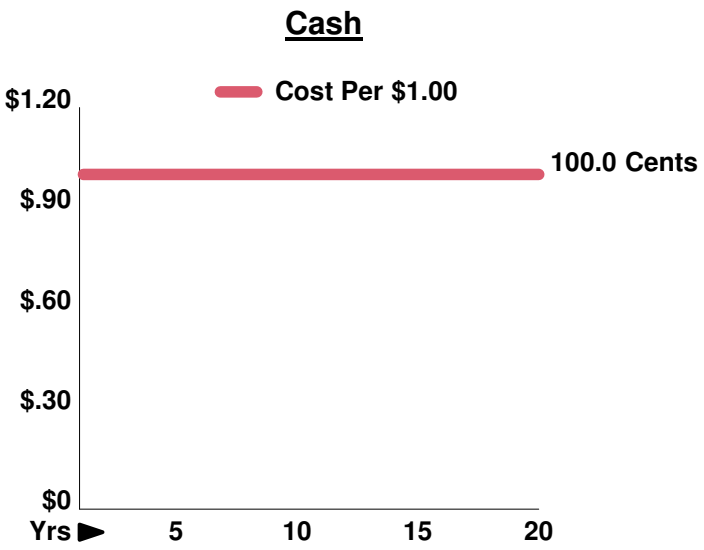
	At Year 20
Cost of Funding each $1.00 of Life Insurance	27.3 Cents
Cost of Funding each $1.00 of Cash	100.0 Cents
Cost of Funding each $1.00 of Borrowed Funds	109.8 Cents

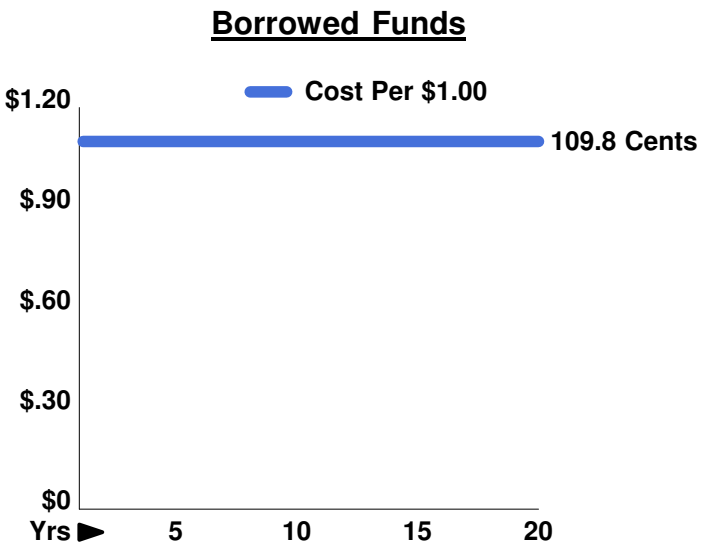
Life insurance analysis includes forgone interest yield on premiums.

Purchaser: Keri Anderson

20 Year Analysis
Cost per $1.00 of Funding







Life insurance analysis includes forgone interest yield on premiums.