

# **Funding a Cross Purchase Agreement With Discounted Dollars**

## **Introduction**

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**

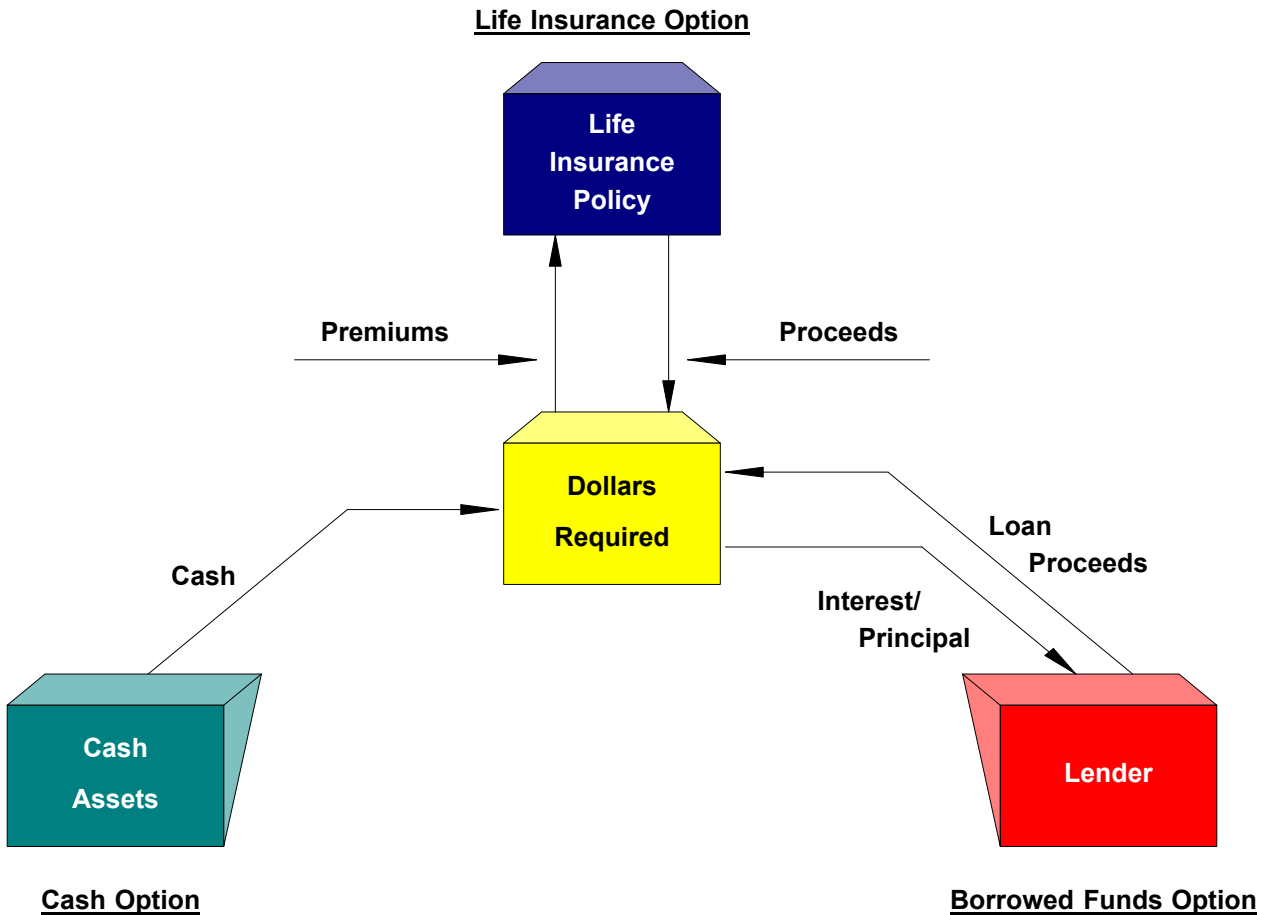
The accompanying analysis compares the three methods of funding, and the calculations examine each method's costs of providing needed dollars at various points in time. In this study, it is apparent that life insurance is consistently the most efficient mechanism for funding the dollars required.

# Funding a Cross Purchase Agreement With Discounted Dollars Using Equity Indexed Universal Life

Presented By: [Licensed user's name appears here]  
Date: [Current date appears here]

Insured: Tom Reynolds  
Purchaser: Bill Baker

## Flow Chart Analysis (Alternative Sources of Funds)



# Funding a Cross Purchase Agreement With Discounted Dollars Using Equity Indexed Universal Life

Life Insurance Analysis Page: 1  
Date: [Current date appears here]

Presented By: [Licensed user's name appears here]

Insured: Tom Reynolds  
Purchaser: Bill Baker

Male Age 45	Purchaser's Tax Bracket 35.00%	Forgone Interest Yield 8.00%	Eq. Indexed UL Interest Rate 8.00%	Initial Payment 10,000	Initial Death Benefit 500,000
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Year	Payment Analysis			Death Benefit Analysis		Living Values	
	(1) Net Payment	(2) Cumulative Net Payments	(3) Effective Cumulative Net Payments***	(4) Death Benefit for Cross Purchase Agreement	(5) Cost per \$1.00 of Funding**	(6) Year End Accum Value*	(7) Year End Cash Value*
1	10,000	10,000	10,520	509,440	2.1 Cents	9,440	2,440
2	10,000	20,000	21,587	519,623	4.2 Cents	19,623	5,623
3	10,000	30,000	33,230	530,560	6.3 Cents	30,560	15,660
4	10,000	40,000	45,478	542,301	8.4 Cents	42,301	27,401
5	10,000	50,000	58,362	554,902	10.5 Cents	54,902	40,002
6	10,000	60,000	71,917	568,431	12.7 Cents	68,431	54,276
7	10,000	70,000	86,177	582,923	14.8 Cents	82,923	69,662
8	10,000	80,000	101,178	598,447	16.9 Cents	98,447	86,229
9	10,000	90,000	116,959	615,065	19.0 Cents	115,065	104,039
10	10,000	100,000	133,561	632,847	21.1 Cents	132,847	123,162
11	10,000	110,000	151,026	651,872	23.2 Cents	151,872	143,677
12	10,000	120,000	169,400	672,221	25.2 Cents	172,221	165,665
13	10,000	130,000	188,729	693,969	27.2 Cents	193,969	189,201
14	10,000	140,000	209,062	717,210	29.1 Cents	217,210	214,379
15	10,000	150,000	230,454	742,040	31.1 Cents	242,040	242,040
16	10,000	160,000	252,957	768,544	32.9 Cents	268,544	268,544
17	10,000	170,000	276,631	796,835	34.7 Cents	296,835	296,835
18	10,000	180,000	301,536	827,019	36.5 Cents	327,019	327,019
19	10,000	190,000	327,736	859,203	38.1 Cents	359,203	359,203
20	10,000	200,000	355,298	893,500	39.8 Cents	393,500	393,500
	200,000						

\*This is an example of an InsMark supplemental illustration for equity indexed universal life. In an actual presentation, this footnote will refer to an accompanying basic illustration from a specific life insurance company with important details, caveats, and guarantees.

\*\*Column (3) divided by column (4) is equal to column (5).  
\*\*\*Including after tax forgone interest on column (2).

# Funding a Cross Purchase Agreement With Discounted Dollars Using Equity Indexed Universal Life

Life Insurance Analysis Page: 2  
Date: [Current date appears here]

Presented By: [Licensed user's name appears here]

Insured: Tom Reynolds  
Purchaser: Bill Baker

Male Age 45	Purchaser's Tax Bracket 35.00%	Forgone Interest Yield 8.00%	Eq. Indexed UL Interest Rate 8.00%	Initial Payment 10,000	Initial Death Benefit 500,000
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Year	Payment Analysis			Death Benefit Analysis		Living Values	
	(1) Net Payment	(2) Cumulative Net Payments	(3) Effective Cumulative Net Payments***	(4) Death Benefit for Cross Purchase Agreement	(5) Cost per \$1.00 of Funding**	(6) Year End Accum Value*	(7) Year End Cash Value*
21	0	200,000	373,773	919,183	40.7 Cents	419,183	419,183
22	0	200,000	393,210	946,303	41.6 Cents	446,303	446,303
23	0	200,000	413,657	974,907	42.4 Cents	474,907	474,907
24	0	200,000	435,167	1,005,052	43.3 Cents	505,052	505,052
25	0	200,000	457,795	1,036,772	44.2 Cents	536,772	536,772
26	0	200,000	481,601	1,070,106	45.0 Cents	570,106	570,106
27	0	200,000	506,644	1,105,092	45.8 Cents	605,092	605,092
28	0	200,000	532,990	1,141,754	46.7 Cents	641,754	641,754
29	0	200,000	560,705	1,180,111	47.5 Cents	680,111	680,111
30	0	200,000	589,862	1,220,163	48.3 Cents	720,163	720,163
31	0	200,000	620,534	1,261,908	49.2 Cents	761,908	761,908
32	0	200,000	652,802	1,305,321	50.0 Cents	805,321	805,321
33	0	200,000	686,748	1,350,360	50.9 Cents	850,360	850,360
34	0	200,000	722,459	1,396,959	51.7 Cents	896,959	896,959
35	0	200,000	760,027	1,445,035	52.6 Cents	945,035	945,035
36	0	200,000	799,548	1,494,478	53.5 Cents	994,478	994,478
37	0	200,000	841,125	1,545,129	54.4 Cents	1,045,129	1,045,129
38	0	200,000	884,863	1,596,806	55.4 Cents	1,096,806	1,096,806
39	0	200,000	930,876	1,649,269	56.4 Cents	1,149,269	1,149,269
40	0	200,000	979,282	1,702,236	57.5 Cents	1,202,236	1,202,236
	200,000						

\*This is an example of an InsMark supplemental illustration for equity indexed universal life. In an actual presentation, this footnote will refer to an accompanying basic illustration from a specific life insurance company with important details, caveats, and guarantees.

\*\*Column (3) divided by column (4) is equal to column (5).  
\*\*\*Including after tax forgone interest on column (2).

# Funding a Cross Purchase Agreement With Discounted Dollars Using Equity Indexed Universal Life

Borrowed Funds Analysis Page: 1  
Date: [Current date appears here]

Presented By: [Licensed user's name appears here]

Insured: Tom Reynolds  
Purchaser: Bill Baker

Purchaser's Tax Bracket 35.00%	Total Dollars Required 500,000	Amount Borrowed 500,000	Term of Loan 10	Loan Interest Rate 10.00%	Interest Deductible Yes	Present Value Interest Rate 8.00%
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	Payment Analysis		Loan Analysis				Cost per \$1.00 Analysis	
Year	(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	500,000	500,000	50,000	50,000	32,500	82,500	529,409	105.9 Cents
2		450,000	50,000	45,000	29,250	79,250		
3		400,000	50,000	40,000	26,000	76,000		
4		350,000	50,000	35,000	22,750	72,750		
5		300,000	50,000	30,000	19,500	69,500		
6		250,000	50,000	25,000	16,250	66,250		
7		200,000	50,000	20,000	13,000	63,000		
8		150,000	50,000	15,000	9,750	59,750		
9		100,000	50,000	10,000	6,500	56,500		
10		50,000	50,000	5,000	3,250	53,250		

500,000	275,000	178,750	678,750
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\*Assumes annual payments at end of year shown.

\*\*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.

Rounding may cause minor math inconsistencies.

# Funding a Cross Purchase Agreement With Discounted Dollars Using Equity Indexed Universal Life

Summary Page: 1  
Date: [Current date appears here]

Presented By: [Licensed user's name appears here]

Insured: Tom Reynolds  
Purchaser: Bill Baker

Male	Purchaser's	Forgone
Age	Tax Bracket	Interest Yield
45	35.00%	8.00%*

Cost per \$1.00 of Funding

Year	(1) Life Insurance	(2) Cash	(3) Borrowed Funds
1	2.1 Cents	100.0 Cents	105.9 Cents
2	4.2 Cents	100.0 Cents	105.9 Cents
3	6.3 Cents	100.0 Cents	105.9 Cents
4	8.4 Cents	100.0 Cents	105.9 Cents
5	10.5 Cents	100.0 Cents	105.9 Cents
6	12.7 Cents	100.0 Cents	105.9 Cents
7	14.8 Cents	100.0 Cents	105.9 Cents
8	16.9 Cents	100.0 Cents	105.9 Cents
9	19.0 Cents	100.0 Cents	105.9 Cents
10	21.1 Cents	100.0 Cents	105.9 Cents
11	23.2 Cents	100.0 Cents	105.9 Cents
12	25.2 Cents	100.0 Cents	105.9 Cents
13	27.2 Cents	100.0 Cents	105.9 Cents
14	29.1 Cents	100.0 Cents	105.9 Cents
15	31.1 Cents	100.0 Cents	105.9 Cents
16	32.9 Cents	100.0 Cents	105.9 Cents
17	34.7 Cents	100.0 Cents	105.9 Cents
18	36.5 Cents	100.0 Cents	105.9 Cents
19	38.1 Cents	100.0 Cents	105.9 Cents
20	39.8 Cents	100.0 Cents	105.9 Cents

### 20 Year Summary

\*on life insurance premiums

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

	Cost per \$1.00 of Funding
Life Insurance	39.8 Cents
Cash	100.0 Cents
Borrowed Funds	105.9 Cents

# Funding a Cross Purchase Agreement With Discounted Dollars Using Equity Indexed Universal Life

Summary Page: 2  
Date: [Current date appears here]

Presented By: [Licensed user's name appears here]

Insured: Tom Reynolds  
Purchaser: Bill Baker

Male	Purchaser's	Forgone
Age	Tax Bracket	Interest Yield
45	35.00%	8.00%*

Cost per \$1.00 of Funding

Year	(1) Life Insurance	(2) Cash	(3) Borrowed Funds
21	40.7 Cents	100.0 Cents	105.9 Cents
22	41.6 Cents	100.0 Cents	105.9 Cents
23	42.4 Cents	100.0 Cents	105.9 Cents
24	43.3 Cents	100.0 Cents	105.9 Cents
25	44.2 Cents	100.0 Cents	105.9 Cents
26	45.0 Cents	100.0 Cents	105.9 Cents
27	45.8 Cents	100.0 Cents	105.9 Cents
28	46.7 Cents	100.0 Cents	105.9 Cents
29	47.5 Cents	100.0 Cents	105.9 Cents
30	48.3 Cents	100.0 Cents	105.9 Cents
31	49.2 Cents	100.0 Cents	105.9 Cents
32	50.0 Cents	100.0 Cents	105.9 Cents
33	50.9 Cents	100.0 Cents	105.9 Cents
34	51.7 Cents	100.0 Cents	105.9 Cents
35	52.6 Cents	100.0 Cents	105.9 Cents
36	53.5 Cents	100.0 Cents	105.9 Cents
37	54.4 Cents	100.0 Cents	105.9 Cents
38	55.4 Cents	100.0 Cents	105.9 Cents
39	56.4 Cents	100.0 Cents	105.9 Cents
40	57.5 Cents	100.0 Cents	105.9 Cents

### 40 Year Summary

\*on life insurance premiums

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

	Cost per \$1.00 of Funding
Life Insurance	57.5 Cents
Cash	100.0 Cents
Borrowed Funds	105.9 Cents

# Funding a Cross Purchase Agreement With Discounted Dollars Using Equity Indexed Universal Life

Presented By: [Licensed user's name appears here]  
Date: [Current date appears here]

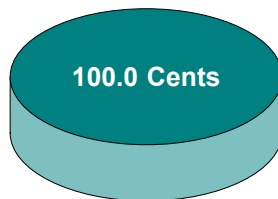
Insured: Tom Reynolds  
Purchaser: Bill Baker

## 40th Year Summary Analysis Cost per \$1.00 of Funding

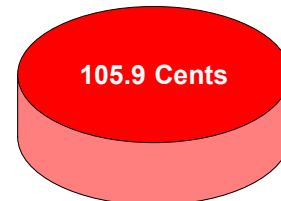
Life Insurance



Cash



Borrowed Funds



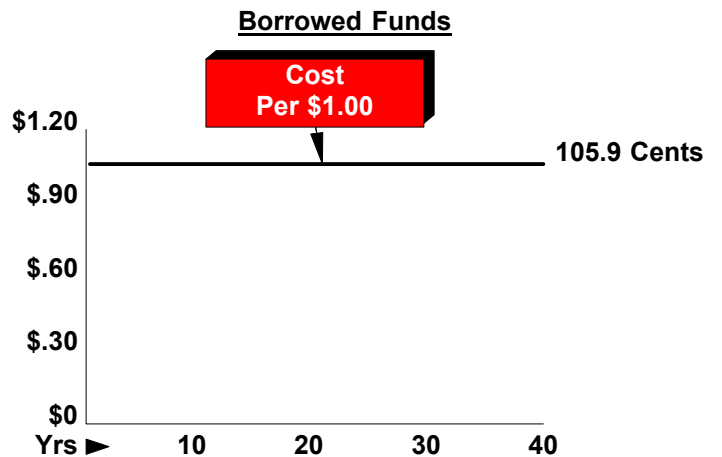
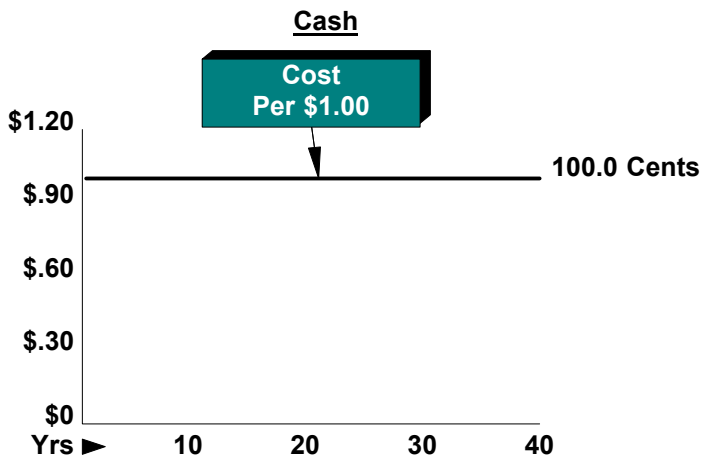
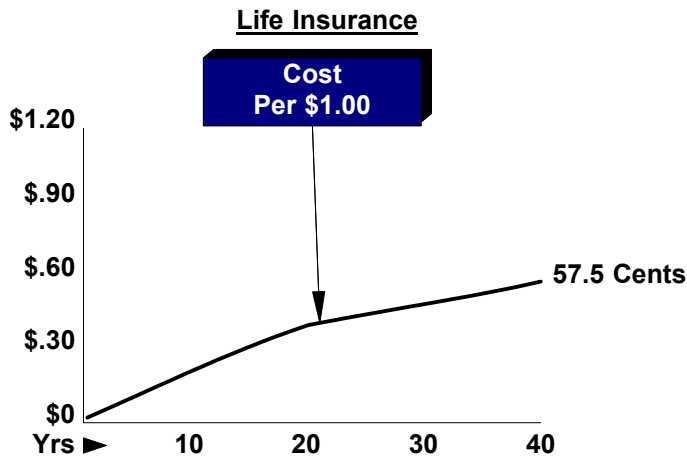
Life insurance analysis includes forgone interest yield on premiums.

# Funding a Cross Purchase Agreement With Discounted Dollars Using Equity Indexed Universal Life

Presented By: [Licensed user's name appears here]  
Date: [Current date appears here]

Insured: Tom Reynolds  
Purchaser: Bill Baker

## 40 Year Graphic Analysis Cost per \$1.00 of Funding



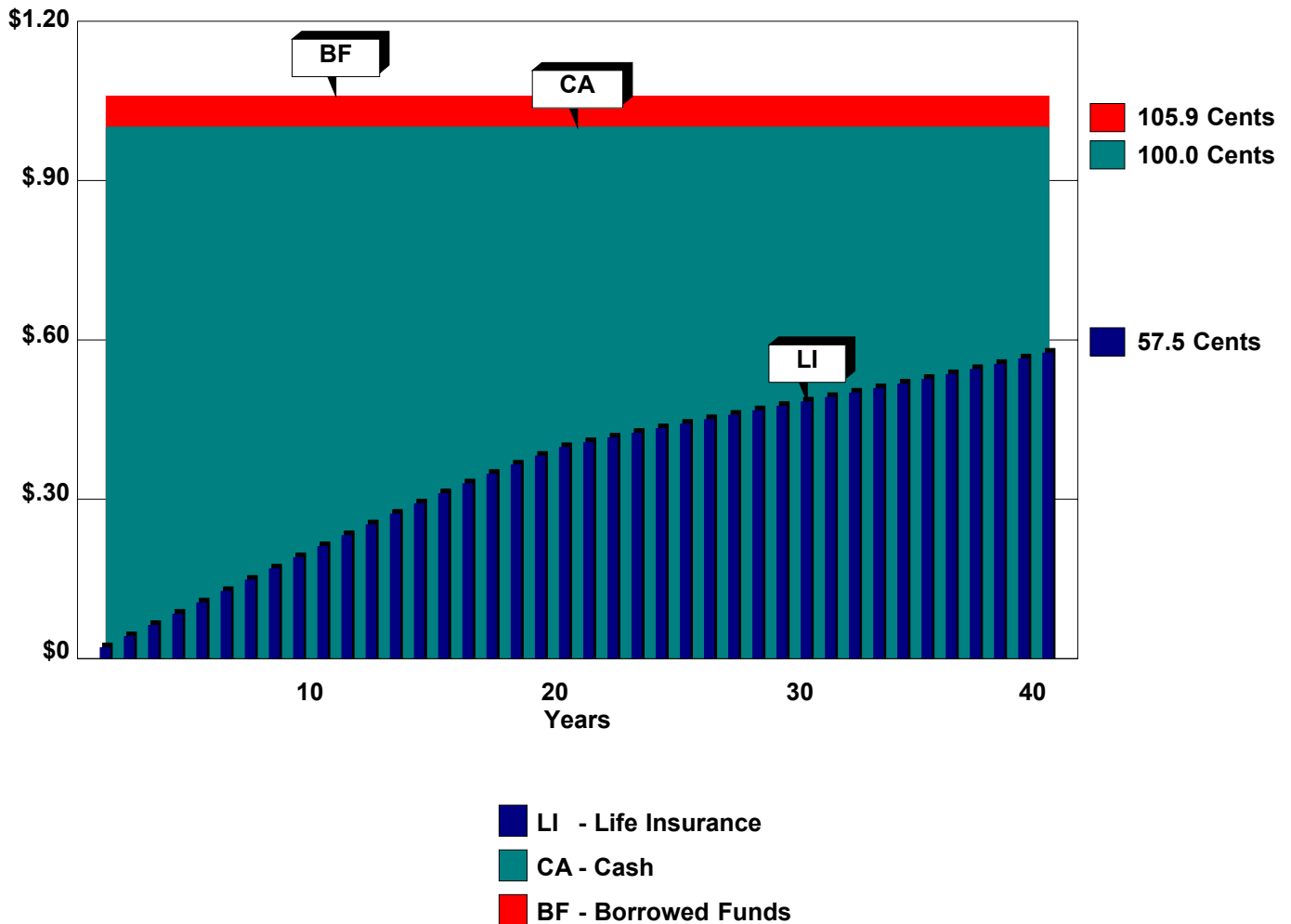
Life insurance analysis includes forgone interest yield on premiums.

# Funding a Cross Purchase Agreement With Discounted Dollars Using Equity Indexed Universal Life

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Date: [Current date appears here]

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## 40 Year Graphic Analysis Cost per \$1.00 of Funding



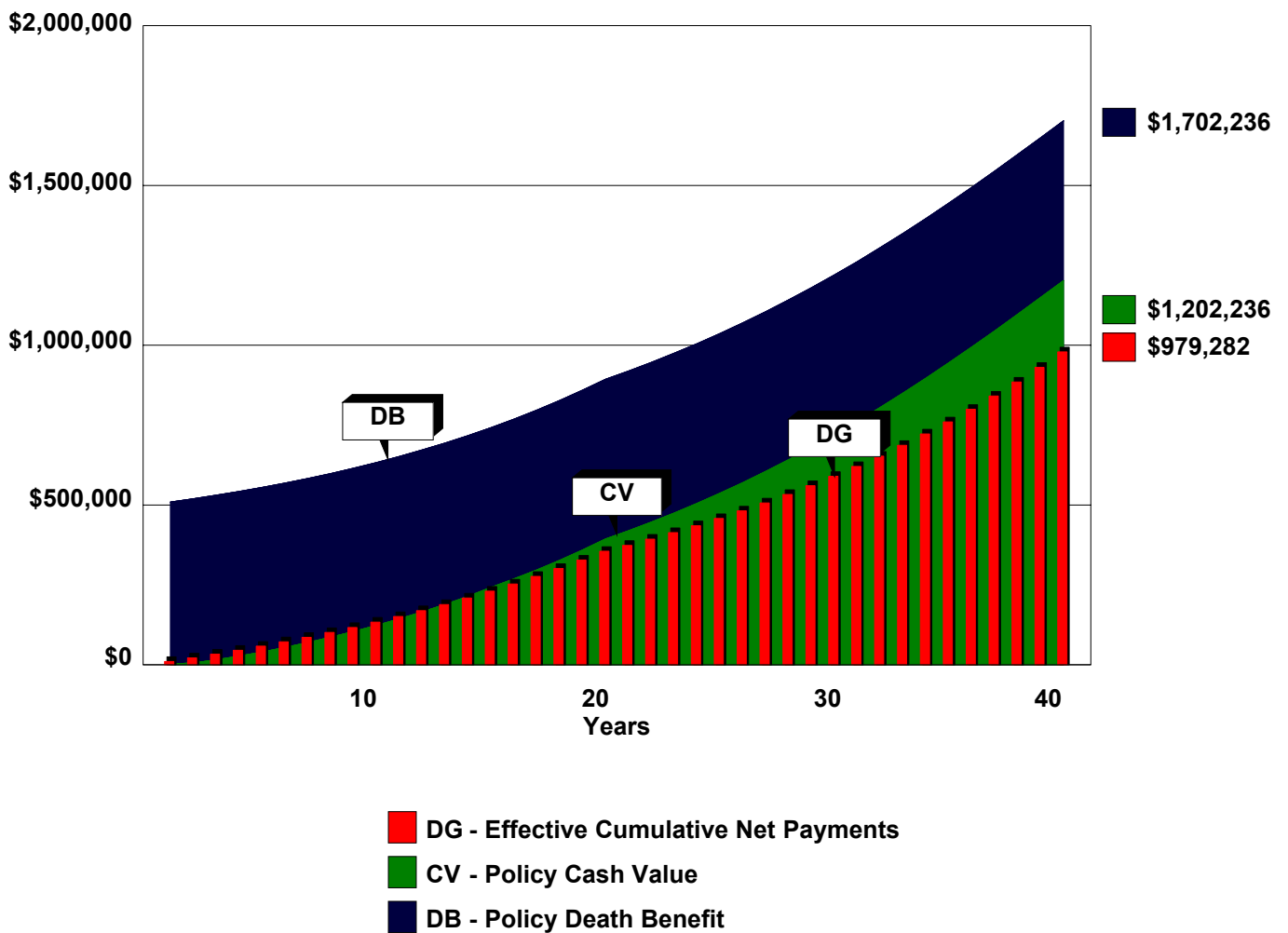
Life insurance analysis includes forgone interest yield on premiums.

# Funding a Cross Purchase Agreement With Discounted Dollars Using Equity Indexed Universal Life

Presented By: [Licensed user's name appears here]  
Date: [Current date appears here]

Insured: Tom Reynolds  
Purchaser: Bill Baker

## 40 Year Graphic Analysis



Life insurance analysis includes forgone interest yield on premiums.