

# Dual Security Plan

For: Tom Hardy



Presented By: \_\_\_\_\_

{{Licensed User's name appears here}}

# Dual Security Plan Using Indexed Universal Life

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

Insured: Tom Hardy

Plan Sponsor: Bay Area Engineering, LLC  
Limited Liability Company

## Preface (for Key Members of Limited Liability Companies (LLCs))

### Key Member Life Insurance Coverage for the Benefit of the Limited Liability Company ("LLC") with Subsequent Distribution of the Policy to the Key Member

"Dual Security Plan" involves two sequential benefits for the principals of an LLC:

- 1) Selected members' lives are insured to provide funds for redemption (or cross purchase) of ownership interests at their death. (Some plans also include an additional amount of life insurance to indemnify the LLC for the loss due to the death of a member.)
- 2) At a future date, the policy is transferred to the member by way of a K-1 distribution thereby creating a supplemental retirement asset. If the LLC is taxed as a partnership as most are, the K-1 distribution is tax free to the member (IRC Sec. 731(a)).

#### Features of the coverage for the LLC are:

- a) Discriminatory participation as to the selection of participants;
- b) Income tax free policy death benefits;
- c) No regulatory approval is required.

#### Features of the policy transfer are:

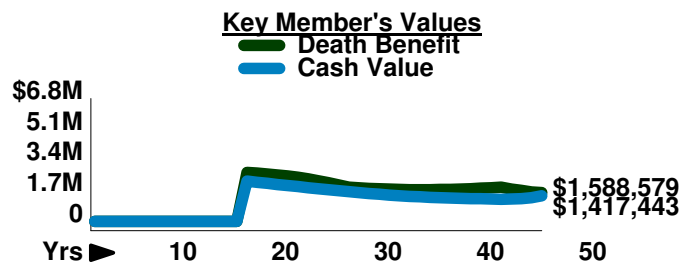
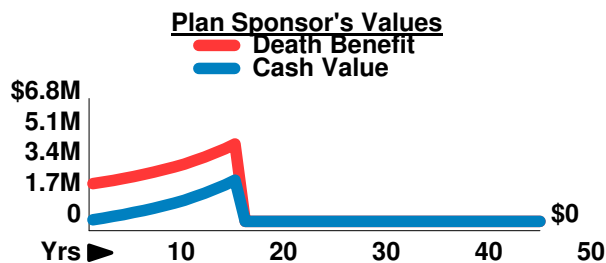
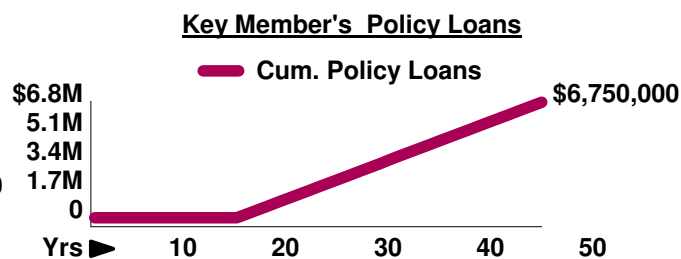
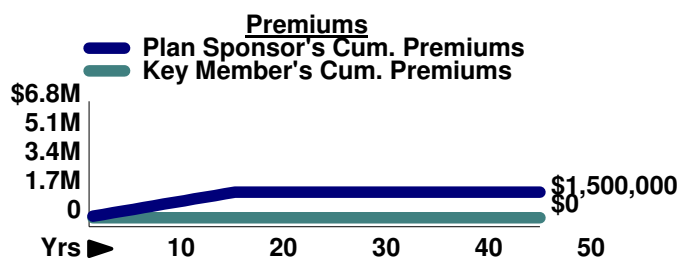
The LLC transfers ownership of the policy to the insured member who, in turn, names personal beneficiaries. This provides the member with:

- a) Policy cash values for use as a supplemental retirement asset;
- b) Income tax free policy death benefits for personal beneficiaries.

#### Conclusion

The "Dual Security Plan" facilitates a nurturing environment that rewards key members while also providing indemnification for the LLC in the event of the untimely death of a covered participant.

Be sure to consult with your own tax advisers before entering into this or any other arrangement involving tax and legal economic considerations.



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.

# Dual Security Plan Using Indexed Universal Life

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

Insured: Tom Hardy

## Illustration of Policy Values Funding the Plan

Plan Sponsor: Bay Area Engineering, LLC  
Limited Liability Company

		Indexed UL Interest Rate 7.00%	Initial Premium 100,000	Initial Death Benefit 2,000,000	LLC's (Key Member's) Tax Bracket 40.00%			
Year	Male Age	(1) Premium Payment	(2) Net Policy Loan Proceeds	(3) Year End Accum Value*	(4) Year End Cash Value*	(4a) Pre-Tax Equivalent Rate of Return of Cash Value*	(5) Policy Death Benefit	(5a) Pre-Tax Equivalent Rate of Return of Death Benefit
1	50	100,000	0	84,340	84,340	-15.66	2,084,340	3307.23
2	51	100,000	0	174,599	174,599	-8.72	2,174,599	531.66
3	52	100,000	0	271,113	271,113	-4.98	2,271,113	238.53
4	53	100,000	0	374,325	374,325	-2.64	2,374,325	143.41
5	54	100,000	0	484,706	484,706	-1.03	2,484,706	98.77
6	55	100,000	0	602,860	602,860	0.23	2,602,860	73.58
7	56	100,000	0	729,503	729,503	1.72	2,729,503	57.74
8	57	100,000	0	865,393	865,393	2.91	2,865,393	47.04
9	58	100,000	0	1,011,240	1,011,240	3.87	3,011,240	39.43
10	59	100,000	0	1,167,811	1,167,811	4.67	3,167,811	33.82
11	60	100,000	0	1,358,471	1,358,471	5.80	3,358,471	29.73
12	61	100,000	0	1,563,886	1,563,886	6.69	3,563,886	26.57
13	62	100,000	0	1,785,128	1,785,128	7.40	3,785,128	24.07
14	63	100,000	0	2,023,408	2,023,408	7.98	4,023,408	22.08
15	64	100,000	0	2,280,050	2,280,050	8.46	4,280,050	20.46
16	65	0	225,000	2,457,772	2,221,522	8.91	2,713,077	12.13
17	66	0	225,000	2,646,648	2,162,335	9.28	2,665,198	12.11
18	67	0	225,000	2,847,388	2,102,610	9.60	2,615,140	12.10
19	68	0	225,000	3,060,760	2,042,493	9.86	2,562,822	12.09
20	69	0	225,000	3,287,576	1,982,146	10.10	2,508,158	12.10
21	70	0	225,000	3,528,688	1,921,736	10.32	2,451,039	12.10
22	71	0	225,000	3,785,422	1,861,872	10.52	2,353,977	12.01
23	72	0	225,000	4,059,012	1,803,035	10.70	2,249,526	11.93
24	73	0	225,000	4,350,835	1,745,810	10.88	2,137,385	11.85
25	74	0	225,000	4,662,464	1,690,936	11.05	2,017,309	11.78
26	75	0	225,000	4,995,432	1,639,078	11.21	1,888,850	11.72
27	76	0	225,000	5,349,712	1,589,291	11.37	1,856,776	11.86
28	77	0	225,000	5,726,639	1,541,947	11.52	1,828,279	11.99
29	78	0	225,000	6,127,641	1,497,464	11.66	1,803,846	12.12
30	79	0	225,000	6,554,211	1,456,275	11.79	1,783,986	12.24
		1,500,000	3,375,000					

### 30 Year Summary

Cum. Premium Payments	1,500,000
Cum. Policy Loan Proceeds	3,375,000
Accum Value	1,456,275
Death Benefit	1,783,986

\*This illustration assumes the nonguaranteed values shown continue in all years. This is not likely, and actual results may be more or less favorable. This illustration is not valid unless accompanied by a basic illustration from the issuing life insurance company.

# Dual Security Plan Using Indexed Universal Life

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

Insured: Tom Hardy

## Illustration of Policy Values Funding the Plan

Plan Sponsor: Bay Area Engineering, LLC  
Limited Liability Company

		Indexed UL Interest Rate 7.00%	Initial Premium 100,000	Initial Death Benefit 2,000,000	LLC's (Key Member's) Tax Bracket 40.00%			
Year	Male Age	(1) Premium Payment	(2) Net Policy Loan Proceeds	(3) Year End Accum Value*	(4) Year End Cash Value*	(4a) Pre-Tax Equivalent Rate of Return of Cash Value*	(5) Policy Death Benefit	(5a) Pre-Tax Equivalent Rate of Return of Death Benefit
31	80	0	225,000	7,007,812	1,418,730	11.92	1,769,121	12.35
32	81	0	225,000	7,489,624	1,384,837	12.04	1,759,318	12.46
33	82	0	225,000	8,001,095	1,354,819	12.16	1,754,874	12.56
34	83	0	225,000	8,543,674	1,328,834	12.27	1,756,018	12.66
35	84	0	225,000	9,118,588	1,306,756	12.38	1,762,685	12.75
36	85	0	225,000	9,726,647	1,287,974	12.48	1,774,306	12.84
37	86	0	225,000	10,369,417	1,272,560	12.57	1,791,031	12.92
38	87	0	225,000	11,047,798	1,259,848	12.65	1,812,238	12.99
39	88	0	225,000	11,762,378	1,248,781	12.73	1,836,900	13.06
40	89	0	225,000	12,513,585	1,238,058	12.80	1,863,737	13.12
41	90	0	225,000	13,301,393	1,225,840	12.87	1,890,910	13.17
42	91	0	225,000	14,144,747	1,229,166	12.94	1,794,956	13.17
43	92	0	225,000	15,052,799	1,255,188	13.00	1,706,772	13.18
44	93	0	225,000	16,037,399	1,313,658	13.08	1,634,406	13.19
45	94	0	225,000	17,113,620	1,417,443	13.16	1,588,579	13.21
		1,500,000	6,750,000					

### 45 Year Summary

Cum. Premium Payments	1,500,000
Cum. Policy Loan Proceeds	6,750,000
Accum Value	1,417,443
Death Benefit	1,588,579

\*This illustration assumes the nonguaranteed values shown continue in all years. This is not likely, and actual results may be more or less favorable. This illustration is not valid unless accompanied by a basic illustration from the issuing life insurance company.

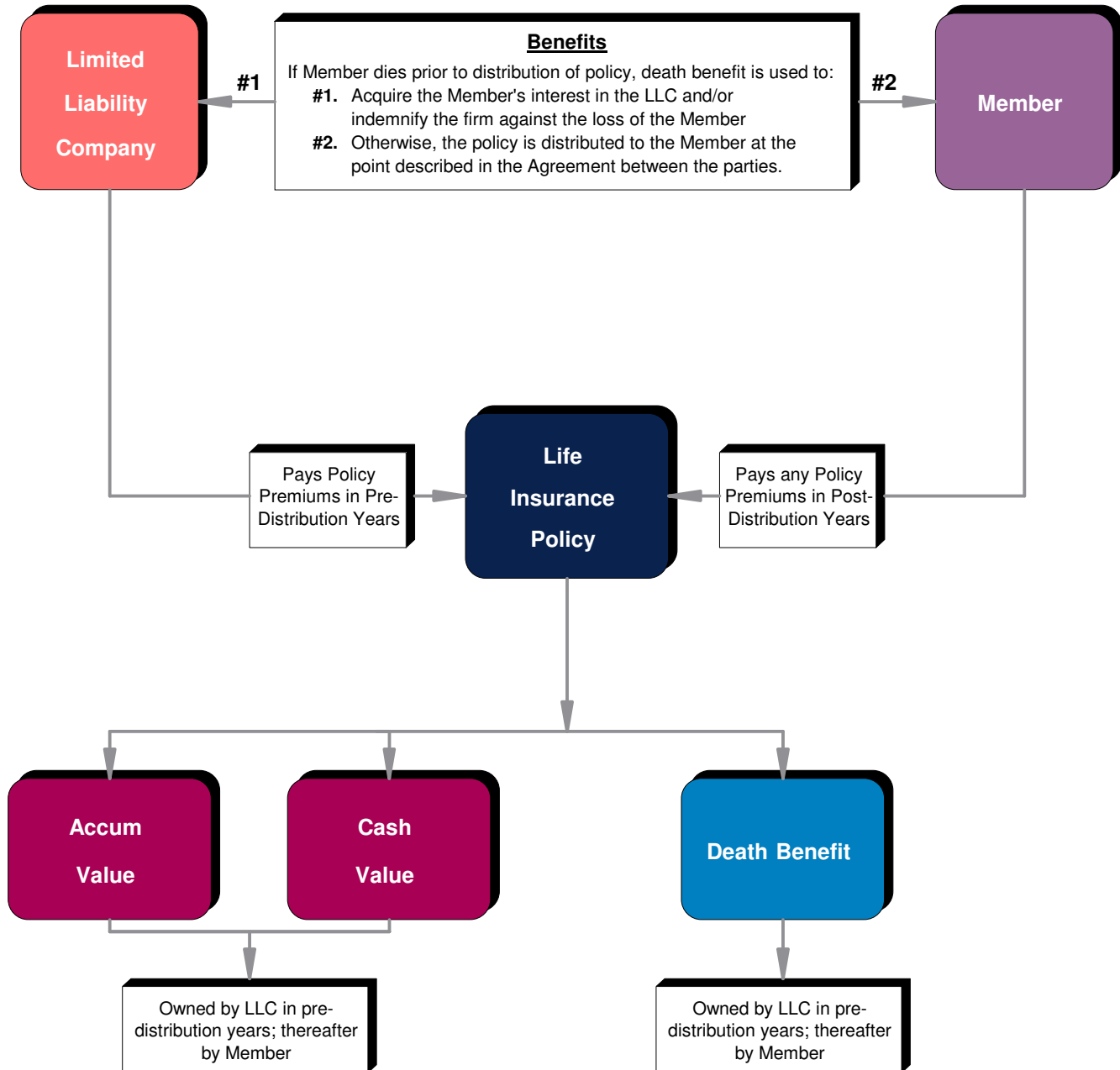
# Dual Security Plan Using Indexed Universal Life

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

Insured: Tom Hardy

## Who Pays What - Who Receives What

Plan Sponsor: Bay Area Engineering, LLC  
Limited Liability Company



When the policy is distributed to the member as a K-1 distribution, no gain or loss need be recognized by the LLC on a distribution of property (a life insurance policy is legally considered property) to a member (IRC Sec. 731(b)). Likewise, no gain or loss need be recognized by the Member receiving the policy, regardless of whether the value of the policy is higher or lower than the adjusted basis in the member's interest in the LLC. (IRC Sec. 731(a)). The basis of property (the policy in this case) distributed by the LLC to a member, other than in liquidation of the member's interest, is its adjusted basis to the LLC immediately before the distribution (which is the sum of the premiums paid by the LLC less any withdrawals made by the LLC prior to the distribution (IRS Rev. Proc. 2005-25)). (If multiple members are insured, the tax consequences of each distributed policy should be the same.)

# Dual Security Plan Using Indexed Universal Life

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

Insured: Tom Hardy

## Plan Sponsor's Summary of Costs and Benefits

Plan Sponsor: Bay Area Engineering, LLC  
Limited Liability Company

		Form of Transaction (Key Member Coverage with Deferred K-1 Distribution of Policy to Key Member)		Policy Distribution to Key Member is Illustrated at Beginning of Year 16		Indexed UL Interest Rate 7.00%			
Year	Male Age	(1) Premium Payment	(2) Cumulative Premium Payments	(3) Policy Accum Value*	(4) Policy Cash Value*	(5) Portion of Policy Death Benefit to Acquire Member's LLC Interest	(6) Portion of Policy Death Benefit to Indemnify the LLC	(7) Total Policy Death Benefit Required (5) + (6)**	(8) Total Policy Death Benefit Provided
1	50	100,000	100,000	84,340	84,340	1,042,170	1,042,170	2,084,340	2,084,340
2	51	100,000	200,000	174,599	174,599	1,087,300	1,087,299	2,174,599	2,174,599
3	52	100,000	300,000	271,113	271,113	1,135,557	1,135,556	2,271,113	2,271,113
4	53	100,000	400,000	374,325	374,325	1,187,163	1,187,162	2,374,325	2,374,325
5	54	100,000	500,000	484,706	484,706	1,242,353	1,242,353	2,484,706	2,484,706
6	55	100,000	600,000	602,860	602,860	1,301,430	1,301,430	2,602,860	2,602,860
7	56	100,000	700,000	729,503	729,503	1,364,752	1,364,751	2,729,503	2,729,503
8	57	100,000	800,000	865,393	865,393	1,432,697	1,432,696	2,865,393	2,865,393
9	58	100,000	900,000	1,011,240	1,011,240	1,505,620	1,505,620	3,011,240	3,011,240
10	59	100,000	1,000,000	1,167,811	1,167,811	1,583,906	1,583,905	3,167,811	3,167,811
11	60	100,000	1,100,000	1,358,471	1,358,471	1,679,236	1,679,235	3,358,471	3,358,471
12	61	100,000	1,200,000	1,563,886	1,563,886	1,781,943	1,781,943	3,563,886	3,563,886
13	62	100,000	1,300,000	1,785,128	1,785,128	1,892,564	1,892,564	3,785,128	3,785,128
14	63	100,000	1,400,000	2,023,408	2,023,408	2,011,704	2,011,704	4,023,408	4,023,408
15	64	100,000	1,500,000	2,280,050	2,280,050	2,140,025	2,140,025	4,280,050	4,280,050
16	65	0	1,500,000	0	0	0	0	0	0
17	66	0	1,500,000	0	0	0	0	0	0
18	67	0	1,500,000	0	0	0	0	0	0
19	68	0	1,500,000	0	0	0	0	0	0
20	69	0	1,500,000	0	0	0	0	0	0
21	70	0	1,500,000	0	0	0	0	0	0
22	71	0	1,500,000	0	0	0	0	0	0
23	72	0	1,500,000	0	0	0	0	0	0
24	73	0	1,500,000	0	0	0	0	0	0
25	74	0	1,500,000	0	0	0	0	0	0
26	75	0	1,500,000	0	0	0	0	0	0
27	76	0	1,500,000	0	0	0	0	0	0
28	77	0	1,500,000	0	0	0	0	0	0
29	78	0	1,500,000	0	0	0	0	0	0
30	79	0	1,500,000	0	0	0	0	0	0
		1,500,000							

\*This illustration assumes the nonguaranteed values shown continue in all years. This is not likely, and actual results may be more or less favorable. This illustration is not valid unless accompanied by a basic illustration from the issuing life insurance company.

\*\*Key Member Coverage is terminated at the beginning of year 16 when the policy is transferred to the Key Member.

# Dual Security Plan Using Indexed Universal Life

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

Insured: Tom Hardy

## Plan Sponsor's Summary of Costs and Benefits

Plan Sponsor: Bay Area Engineering, LLC  
Limited Liability Company

		Form of Transaction (Key Member Coverage with Deferred K-1 Distribution of Policy to Key Member)		Policy Distribution to Key Member is Illustrated at Beginning of Year 16		Indexed UL Interest Rate 7.00%			
Year	Male Age	(1) Premium Payment	(2) Cumulative Premium Payments	(3) Policy Accum Value*	(4) Policy Cash Value*	(5) Portion of Policy Death Benefit to Acquire Member's LLC Interest	(6) Portion of Policy Death Benefit to Indemnify the LLC	(7) Total Policy Death Benefit Required (5) + (6)**	(8) Total Policy Death Benefit Provided
31	80	0	1,500,000	0	0	0	0	0	0
32	81	0	1,500,000	0	0	0	0	0	0
33	82	0	1,500,000	0	0	0	0	0	0
34	83	0	1,500,000	0	0	0	0	0	0
35	84	0	1,500,000	0	0	0	0	0	0
36	85	0	1,500,000	0	0	0	0	0	0
37	86	0	1,500,000	0	0	0	0	0	0
38	87	0	1,500,000	0	0	0	0	0	0
39	88	0	1,500,000	0	0	0	0	0	0
40	89	0	1,500,000	0	0	0	0	0	0
41	90	0	1,500,000	0	0	0	0	0	0
42	91	0	1,500,000	0	0	0	0	0	0
43	92	0	1,500,000	0	0	0	0	0	0
44	93	0	1,500,000	0	0	0	0	0	0
45	94	0	1,500,000	0	0	0	0	0	0

1,500,000

\*This illustration assumes the nonguaranteed values shown continue in all years. This is not likely, and actual results may be more or less favorable. This illustration is not valid unless accompanied by a basic illustration from the issuing life insurance company.

\*\*Key Member Coverage is terminated at the beginning of year 16 when the policy is transferred to the Key Member.



# Dual Security Plan Using Indexed Universal Life

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

Insured: Tom Hardy

## Key Member's Summary of Costs and Benefits

Plan Sponsor: Bay Area Engineering, LLC  
Limited Liability Company

Form of Transaction (Key Member Coverage with Deferred K-1 Distribution of Policy to Key Member)      Policy Distribution to Key Member is Illustrated at Beginning of Year 16      LLC's (Key Member's) Tax Bracket 40.00%      Indexed UL Interest Rate 7.00%

Year	Male Age	(1) Premium Payment	(2) Retirement Income Net Policy Loan Proceeds	(3) Policy Accum Value*	(4) Policy Cash Value*	(5) Policy Death Benefit
1	50	0	0	0	0	0
2	51	0	0	0	0	0
3	52	0	0	0	0	0
4	53	0	0	0	0	0
5	54	0	0	0	0	0
6	55	0	0	0	0	0
7	56	0	0	0	0	0
8	57	0	0	0	0	0
9	58	0	0	0	0	0
10	59	0	0	0	0	0
11	60	0	0	0	0	0
12	61	0	0	0	0	0
13	62	0	0	0	0	0
14	63	0	0	0	0	0
15	64	0	0	0	0	0
16	65	0	225,000	2,457,772	2,221,522	2,713,077
17	66	0	225,000	2,646,648	2,162,335	2,665,198
18	67	0	225,000	2,847,388	2,102,610	2,615,140
19	68	0	225,000	3,060,760	2,042,493	2,562,822
20	69	0	225,000	3,287,576	1,982,146	2,508,158
21	70	0	225,000	3,528,688	1,921,736	2,451,039
22	71	0	225,000	3,785,422	1,861,872	2,353,977
23	72	0	225,000	4,059,012	1,803,035	2,249,526
24	73	0	225,000	4,350,835	1,745,810	2,137,385
25	74	0	225,000	4,662,464	1,690,936	2,017,309
26	75	0	225,000	4,995,432	1,639,078	1,888,850
27	76	0	225,000	5,349,712	1,589,291	1,856,776
28	77	0	225,000	5,726,639	1,541,947	1,828,279
29	78	0	225,000	6,127,641	1,497,464	1,803,846
30	79	0	225,000	6,554,211	1,456,275	1,783,986
		0	3,375,000			

\*This illustration assumes the nonguaranteed values shown continue in all years. This is not likely, and actual results may be more or less favorable. This illustration is not valid unless accompanied by a basic illustration from the issuing life insurance company.



# Dual Security Plan Using Indexed Universal Life

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

Insured: Tom Hardy

## Key Member's Summary of Costs and Benefits

Plan Sponsor: Bay Area Engineering, LLC  
Limited Liability Company

Form of Transaction (Key Member Coverage with Deferred K-1 Distribution of Policy to Key Member)      Policy Distribution to Key Member is Illustrated at Beginning of Year 16      LLC's (Key Member's) Tax Bracket 40.00%      Indexed UL Interest Rate 7.00%

Year	Male Age	(1) Premium Payment	(2) Retirement Income Net Policy Loan Proceeds	(3) Policy Accum Value*	(4) Policy Cash Value*	(5) Policy Death Benefit
31	80	0	225,000	7,007,812	1,418,730	1,769,121
32	81	0	225,000	7,489,624	1,384,837	1,759,318
33	82	0	225,000	8,001,095	1,354,819	1,754,874
34	83	0	225,000	8,543,674	1,328,834	1,756,018
35	84	0	225,000	9,118,588	1,306,756	1,762,685
36	85	0	225,000	9,726,647	1,287,974	1,774,306
37	86	0	225,000	10,369,417	1,272,560	1,791,031
38	87	0	225,000	11,047,798	1,259,848	1,812,238
39	88	0	225,000	11,762,378	1,248,781	1,836,900
40	89	0	225,000	12,513,585	1,238,058	1,863,737
41	90	0	225,000	13,301,393	1,225,840	1,890,910
42	91	0	225,000	14,144,747	1,229,166	1,794,956
43	92	0	225,000	15,052,799	1,255,188	1,706,772
44	93	0	225,000	16,037,399	1,313,658	1,634,406
45	94	0	225,000	17,113,620	1,417,443	1,588,579

0      6,750,000

\*This illustration assumes the nonguaranteed values shown continue in all years. This is not likely, and actual results may be more or less favorable. This illustration is not valid unless accompanied by a basic illustration from the issuing life insurance company.

# Dual Security Plan Using Indexed Universal Life

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

Insured: Tom Hardy

## Benefit Summary

Plan Sponsor: Bay Area Engineering, LLC  
Limited Liability Company

Indexed UL Interest Rate 7.00%	Initial Death Benefit 2,000,000	<u>Policy Owner</u> Business Until Transferred to Member in Year 16	<u>Policy Premiums Prior to Transfer</u> Paid by Business \$100,000 for 1st 15 Yrs	Paid by Member \$0
--------------------------------------	---------------------------------------	---	--	-----------------------

<b>Benefits for Tom Hardy</b>	<b>See Report Entitled</b>
Policy illustrated transferred to the Member at the beginning of year 16.	Member's Summary of Costs and Benefits
Member's out-of-pocket cost for tax on the transfer in year 16: \$0	Member's Cost Analysis
Member's illustrated cash value at end of year 16: \$2,221,522	Member's Summary of Costs and Benefits
Member's illustrated annual retirement cash flow* for 30 years: \$225,000	Member's Summary of Costs and Benefits
Member's illustrated death benefit for family at end of year 16: \$2,713,077	Member's Summary of Costs and Benefits

\*Cash flow is received **income tax free** according to current tax rules assuming it involves withdrawals to basis and/or loans. Withdrawals that exceed cost basis are taxed.

<b>Benefits for Bay Area Engineering, LLC</b>	<b>See Report Entitled</b>
Cash value of life insurance policy owned by the business just prior to transfer of the policy: \$2,280,050	Plan Sponsor's Summary of Costs and Benefits
Lowest illustrated life insurance death benefit to indemnify the business prior to the transfer of the policy: \$2,084,340	Plan Sponsor's Summary of Costs and Benefits
Illustrated tax savings for the business upon transfer of the policy: \$0	Details of the Tax Consequences
Providing the benefits for the Member helps retain a valuable participant in the continuing success of the business.	
Should the Member fail to complete the terms of the agreement associated with the plan, the transfer of the policy is forfeited, and all policy values remain an asset of the business.	

This illustration assumes the nonguaranteed values shown continue in all years. This is not likely, and actual results may be more or less favorable. This illustration is not valid unless accompanied by a basic illustration from the issuing life insurance company.

## Details of the Tax Consequences When the Policy is Distributed to the Key Member

Plan Sponsor: Bay Area Engineering, LLC  
Limited Liability Company

Form of Transaction (Key Member Coverage with Deferred K-1 Distribution of Policy to Key Member)	Policy Distribution to Key Member is Illustrated at Beginning of Year 16
---	---

### **K-1 Distribution Details:**

Year the K-1 Distribution is illustrated: Beginning of year 16  
Accumulation value of policy when distributed: \$2,280,050  
LLC's cumulative premiums prior to distribution: \$1,500,000  
Member's cumulative premiums prior to distribution: \$0

### **Tax Consequences of the K-1 Distribution:**

*(The following taxation remarks apply whether one member or multiple members are insured\*.)*

When the policy is distributed, no gain or loss need be recognized by the Limited Liability Company ("LLC") on a distribution of property (a life insurance policy is legally considered property) to a member (IRC Sec. 731(b)). Likewise, no gain or loss need be recognized by the member receiving the policy, regardless of whether the value of the policy is higher or lower than the member's adjusted basis in the member's interest in the LLC (IRC Sec. 731(a)).

The member's basis in the policy distributed by the LLC to the member is its adjusted basis to the LLC immediately before the distribution (which is the sum of the premiums paid by the LLC less any withdrawals made by the LLC prior to the distribution (IRS Rev. Proc. 2005-25)). The distributee member's basis in the property cannot exceed the adjusted basis of the member's interest in the LLC reduced by any money distributed in the same transaction (IRC Sec. 732(a)). (If multiple members are insured, the tax consequences of each distributed policy should be the same.)

For this case, the member's illustrated basis in the policy at the point of distribution is \$1,500,000.

Any premium payments, increase in policy values, or policy activity (loans, withdrawals, etc.) in the year of distribution are presumed to occur after the distribution takes place.

\*Because the LLC is taxed as a Partnership, it has significant flexibility in how it accounts for assets, and the taxation of policy distributions should be able to be arranged in this manner. (Some states do not allow LLCs with only one member.)

\*LLC accounting is complex and should only be done by a qualified professional. Be sure to consult with your own legal and tax advisers before entering into this or any other arrangement involving legal, tax, and economic considerations.

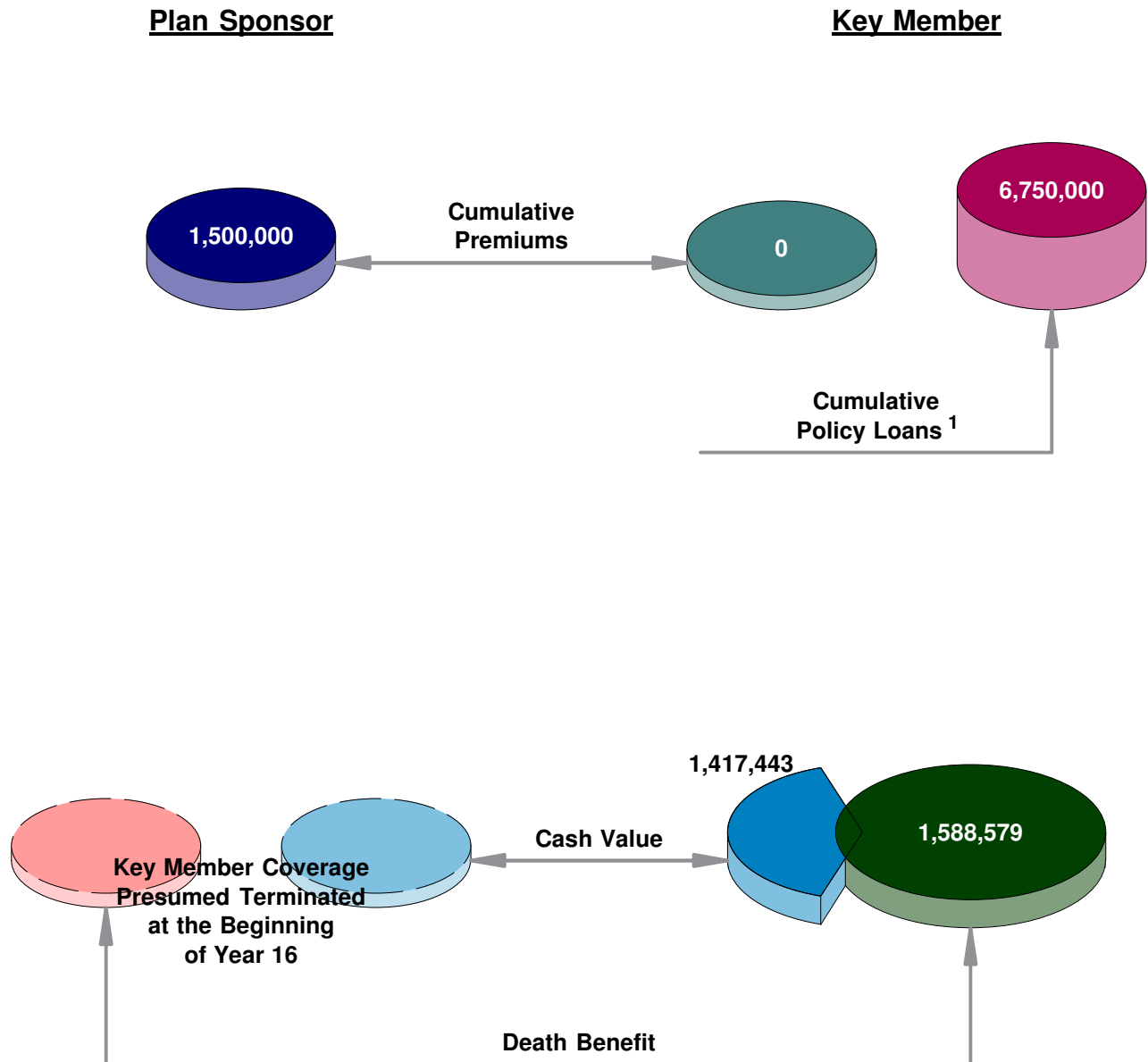
# Dual Security Plan Using Indexed Universal Life

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

Insured: Tom Hardy

A Look at Year 45

Plan Sponsor: Bay Area Engineering, LLC  
Limited Liability Company



<sup>1</sup> For Retirement Income.

# Dual Security Plan Using Indexed Universal Life

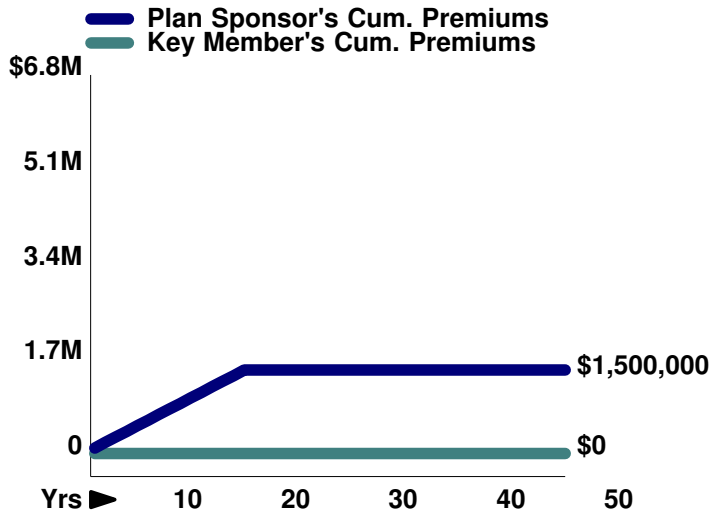
Presented By: [Licensed User's name appears here]

Insured: Tom Hardy

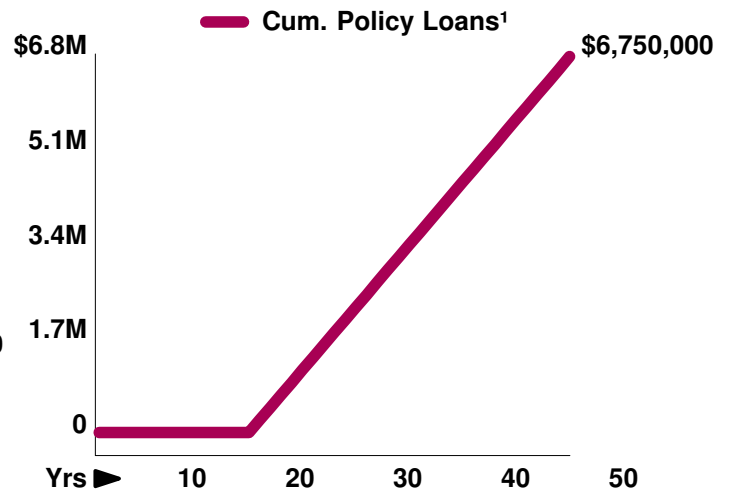
## 45 Year Analysis

Plan Sponsor: Bay Area Engineering, LLC  
Limited Liability Company

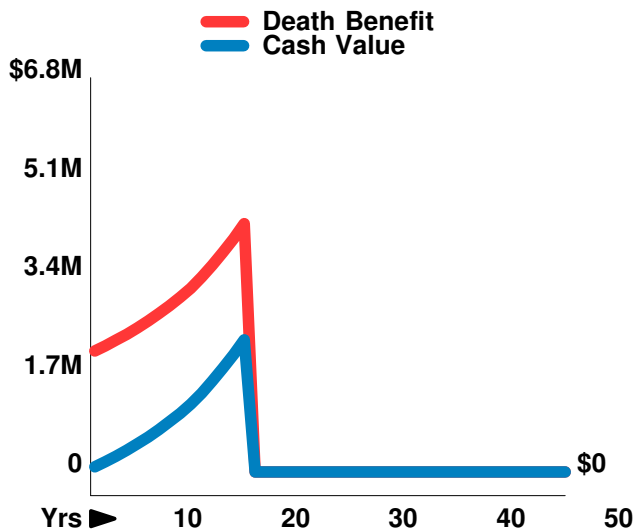
### Premiums



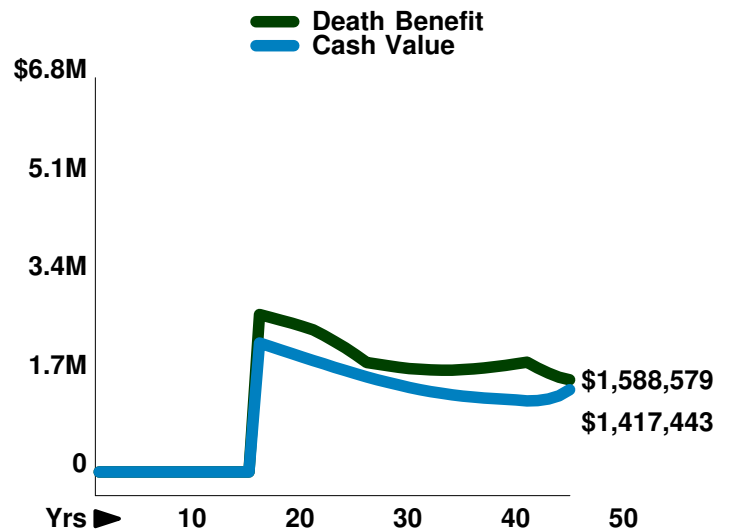
### Key Member's Policy Loans



### Plan Sponsor's Values



### Key Member's Values



<sup>1</sup> For Retirement Income.

## Supplemental Report

Plan Sponsor: Bay Area Engineering, LLC  
Limited Liability Company

### **Important Note**

This material is for educational purposes only. In all cases, the approval of a client's legal and tax advisers must be secured regarding the implementation or modification of any planning technique as well as the applicability and consequences of new cases, rulings, or legislation upon existing or impending plans.