MTL INSURANCE COMPANY®
A member of the MUTUAL TRUST FINANCIAL GROUP

Covenant II

WHOLE LIFE INSURANCE

Take a closer look at Covenant II and discover why MTL is The Whole Life Company."®

Cross-Purchase Buy-Sell Agreements

Covenant II is MTL Insurance Company's leading participating whole life insurance policy. Its design and flexibility offer key advantages for individual as well as business use, such as Cross-Purchase Buy-Sell Agreements.

A Cross-Purchase Buy-Sell Agreement is a plan between partners or shareholders to purchase a deceased partner's or shareholder's interest in the company to assure that "business as usual" continues.

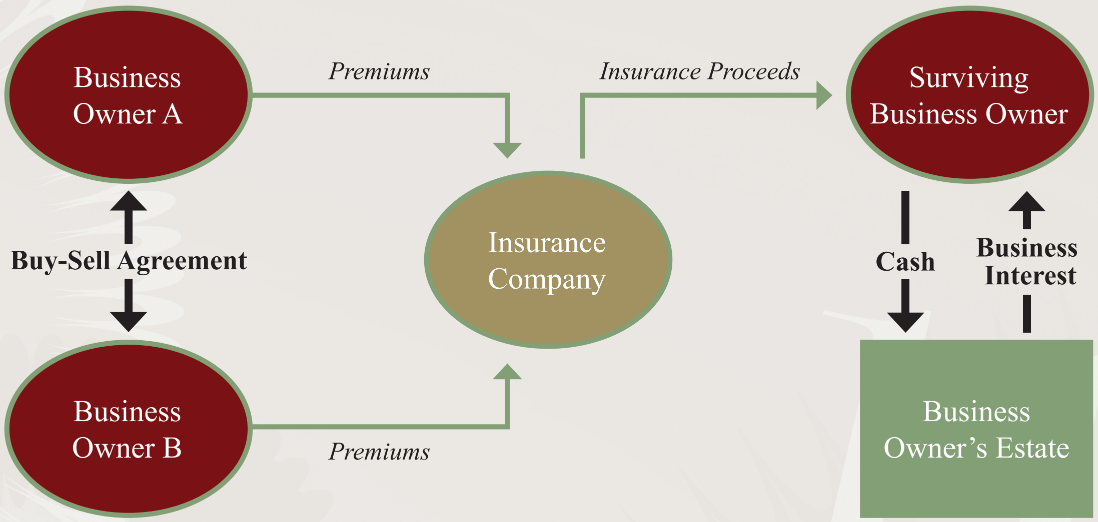
Two concepts stand at the root of all Cross-Purchase Buy-Sell Agreements: *protection* and *fairness*. As a surviving business owner, you want to be protected from interference by outsiders when a co-owner dies. Concurrently, you want to assure fair treatment of your heirs in the event of your untimely death.

Advantages of a Cross-Purchase Buy-Sell Agreement

- The agreement stipulates that a deceased owner's estate must sell the business interest to surviving owners and the surviving owners will buy that interest. For doing this, they typically get a step up in basis on the value of the corporation.
- There are no exceptions—the estate must sell and the survivors must buy.
- The agreement establishes the price to be paid for the deceased owner's business interest by: (1) a definite fixed amount stated in the agreement or (2) a formula by which a definite price can be established. Current tax law has made the second method the more prudent choice in recent years. The agreement should also provide an option for the surviving owners to purchase from the deceased owner's estate the life insurance policies that he or she had owned on their lives.
- While other arrangements can be made, it should be noted that Transfer for Value problems could arise for a purchaser if the policies are sold to anyone other than the insured or business entity.
- A Cross-Purchase Buy-Sell Agreement's distinguishing feature is that each owner buys a policy on the life of every other owner.

The diagram on the reverse side shows how the agreement works.

Cross-Purchase Buy-Sell Agreement



The individual owners agree to buy and commit their estates to sell the business interest for an agreed-upon price. Each owner buys a policy on the life of every other owner. The agreement is funded with life insurance, with each owner paying premiums to the insurance company. When an owner dies, surviving owners receive insurance proceeds. The insurance proceeds are used to help buy the deceased owner's business interest from the estate under the terms of the agreement. The business owners own the insurance on each other's lives, but not on their own lives, in order to avoid a Transfer for Value.

Advantages of Using Whole Life Insurance in a Cross-Purchase Buy-Sell Agreement

Using a whole life insurance policy enables the business owners to build cash value in the policies for possible retirement funds. This also will help avoid the Transfer for Value rules because the policies are being transferred to the insured. However, the business owners may still need to pay taxes on the gain at the time of transfer.

Your MTL Insurance Advisor can discuss these ideas with you. However, he or she is prohibited from giving tax or legal advice. You should consult with a tax or legal professional of your choice for tax and legal advice.

For more information, contact your MTL Insurance Company representative:

Enter Full Name
Enter Agency Name
Enter Phone Number
Enter E-mail

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