The Cincinnati Life Insurance Company

BUSINESS SUCCESSION PLANNING: A CROSS-SELLING SCENARIO

Case Study Series

Client profile:
Current commercial lines client Marquee Machining is an industrial manufacturing company employing approximately 240 people.

Ownership:
Marquee had four owners: Angela, 45, Jacob, 56, Shawn, 49, and Ferdinand, 71. Ferdinand recently retired, and the others remained active.

The situation:
The commercial lines agent partnered with a Cincinnati Life strategic partner to offer individual Voluntary Payroll Deduction life insurance to the Marquee employees. During the enrollment process, the strategic partner met with the owners and asked about any existing business succession plans.

The problem:
Angela and Jacob recently purchased Shawn's company and brought him on as an owner. They also started a six-year buyout of Ferdinand. The strategic partner and the commercial lines agent met to discuss the current buy sell agreement, which consisted of three policies owned by Marquee with the company listed as the beneficiary:

- $700,000 15-year term policy on Ferdinand
- $700,000 20-year term policy on Jacob
- $250,000 20-year term policy on Angela

This arrangement was created nine years ago when Marquee was valued at $1.3 million. With company growth and the new operation, the business was now worth $3.4 million. Despite this, the owners said disposable funds were limited because of buyout and acquisition costs.

The solutions presented:
After discussing current ownership amounts and long-term planning, the agent suggested the owners leave Ferdinand's policy in place. He also suggested purchasing additional insurance to serve as both business continuation and key person coverage, thus allowing flexible planning during the buyout. The two solutions presented were:

1) Purchase an additional $1 million of 20-year term on Angela, an additional $1 million of 15-year term on Jacob and a $750,000 20-year term on Shawn.
2) Replace Angela's policy with a new 20-year term for $1.25 million, replace Jacob's policy with a new 15-year term for $1.75 million and purchase a $750,000 20-year term on Shawn.

The decision:

The owners selected option two. Although the premiums were more expensive, the consistent length of coverage on the full amount of insurance was what they knew they needed. They were also at ease in knowing that they still had coverage on Ferdinand through the buyout period.

The takeaways:

In the end, the commercial lines agent and Cincinnati Life strategic partner met their initial objective, providing Marquee with a way to offer quality life insurance to its employees. In doing so, they implemented a payroll deduction program consisting of a total of 138 policies worth $87,357 in annualized premium. They also were able to sell three new term policies, generating an additional $9,725.00 annually. More importantly, the agent strengthened an existing relationship by providing his clients with the means to protect the future of their company.

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