

## Advanced Planning: AG business case study

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**Presenter:** Hello and welcome to another AuguStar Financial podcast. My name is Jim Barbee. I'm a member with the Advance Planning team at AuguStar. Today, I'd like to talk about a recent agribusiness case involving a farm.

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**Presenter:** Although I should preface by saying most of the issues, client objectives and solutions in this case are applicable to most types of businesses and industries.

So, the client in this case is a married farmer. He and his wife are both in their mid-fifties and they have two adult children, a son, and a daughter. Unfortunately, the farmer and his wife have not done a very good job of retirement planning or savings, and the farm is the farmer's only real asset. So, when discussing succession planning, the first thought was to simply leave the farm to the children.

The son, however, is a successful dentist with a lucrative practice, and he really doesn't have much interest in owning or running the farm. The daughter, however, is currently managing the farm running day-to-day operations, and is very hopeful that one day she will inherit the farm. And so, when the client came to us, that was the succession plan to just leave the farm to the daughter via the farmer's will.

But this raises two issues for the farmer. First, the farm is the only real source of income for his wife. And so, if he leaves the farm to his daughter, his wife is going to be left without any income, potentially creating a lot of financial problems down the road. The second thing is the farmer would really like to equalize in his gifts at death.

He'd like to leave his wife, daughter, and son things of equal value. And if he leaves the farm to his daughter, he won't be able to do that. In fact, he won't be able to leave anything to his son or wife. So, what do we do? Well, we start by saying, what is this farm actually worth? And you know, how can we divide it?

So, the agent and the client didn't really know. Our next step was to send them a two-page data taker. The agent met with the client. They filled out the form together, and then the agent mailed us back the form with three years of business tax returns. We then generated four different ways to value the farm, and the farmer ultimately chose that his farm was worth roughly \$1.5 million after reviewing the report.

So, then we suggested, well, instead of leaving it to your daughter in your will, why don't you sell it to her in a transaction financed with life insurance? This is how this works.

This is called a one way buy-sell. The daughter will be the owner and beneficiary of a policy on her father's life. With a \$1.5 million death benefit.

At her father's death, she will receive the \$1.5 million income tax free. She can then use it to buy the business interest from the estate. And if the mother is the beneficiary of the estate, that \$1.5 million can flow through to her, satisfying her income needs and potentially staving off any financial problems. Okay, this sounds great, but then the farmer says, well, how is my daughter going to finance these premiums?

I mean, she doesn't have the wherewithal to pay them with the salary that we pay her. Now we pivot to something called an executive bonus. In this type of design, the farm can actually pay the premium for the daughter and deduct it as long as the premium amount is reasonable compensation. And the daughter then pays taxes on the premium amount, and she doesn't pay the premium, just the taxes on it.

This worked out really well for the family, because father was actually in a much higher tax bracket than his daughter, so the savings on his tax return far exceeded the additional tax that she had to pay.

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**Presenter:** So that's problem one resolved. The next issue then is how do we equalize between everyone? Well, this has got a far easier solution.

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**Presenter:** Father took out a policy on his own life and named his son as the beneficiary of it for \$1.5 million. So, let's recap. At father's death, the daughter will receive \$1.5 million income tax free of life insurance benefits.

She then uses it to buy the business interest from the estate, and that money flows through to her mom to take care of income and financial needs. The son will also receive a \$1.5 million death benefit income tax free. And of course, the daughter has the farm worth roughly \$1.5 million. We've now solved the second objective or second issue for the farmer.

Everyone's happy. Everyone's receiving something of value.

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**Presenter:** Roughly \$1.5 million. I do want to note that we used a lot of advanced planning material. In this case, they're all available on our website. I hope you'll check out our website. For example, we use the two-page business valuation data taker. We use advisor only and client-approved pieces on one-way buy-sells, executive bonus, how to equalize an estate with life insurance. And we use several of our new

agribusiness pieces, including a data taker, a legacy succession planning guide and estate planning guide.

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**Presenter:** I hope you've enjoyed this brief discussion of this case, but more so, I hope that you'll call us with your cases so we can talk them through, help you come up with solutions, maybe some marketing materials to use.

Again, my name is Jim Barbee. Thanks for listening. Today.

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