



Consulting  
Investment Advisory  
Insurance

## CASE STUDY

A photograph showing a person from the side, wearing a white dress shirt, sitting at a dark desk. They are holding a pen and looking at a document. A laptop is partially visible on the desk to the right. The background is blurred, showing office lights.

# SURETY BOND CAPITAL TRANSFER

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# INTRODUCTION

TD Construction Company is a privately owned regional company with national capabilities. TD Construction is a full service firm with capabilities in architectural design, project management and general construction. TD is a certified Green Builder and a leader for sustainable practices and is recognized for its safety practices. TD is fully bonded, insured and licensed.

Most state and local governments require construction companies to purchase a surety bond for any project valued over \$150,000. Some companies may choose to maintain cash on their balance sheet equal to the value of the surety bond.

Because of TD Construction's large commercial projects, they are required to keep significant liquid assets on their balance sheet. TD Construction is currently holding \$1,000,000 of cash assets for collateral for their surety bonds for outstanding projects. The cash is very liquid and is earning less than 1%.

## CURRENT PLAN:

Year	Age	Cash Assets Beginning of Year	Interest @ 1% Less 35% Taxes	Cash Assets End of Year	Total Assets at Death
1	50	1,000,000	6,500	1,006,500	1,006,500
2	51	1,006,500	6,542	1,013,042	1,013,042
3	52	1,013,042	6,585	1,019,627	1,019,627
4	53	1,019,627	6,628	1,026,255	1,026,255
5	54	1,026,255	6,671	1,032,925	1,032,925
6	55	1,032,925	6,714	1,039,639	1,039,639
7	56	1,039,639	6,758	1,046,397	1,046,397
8	57	1,046,397	6,802	1,053,199	1,053,199
9	58	1,053,199	6,846	1,060,044	1,060,044
10	59	1,060,044	6,890	1,066,935	1,066,935
15	64	1,094,947	7,117	1,102,064	1,102,064
20	69	1,130,998	7,351	1,138,349	1,138,349

# CREATIVE THINKING

Permanent Insurance with high cash values may be an attractive alternative to cash backing the surety bonds. The corporation may have an improved financial position as they can book the cash surrender values as a non-current, liquid asset meeting the surety bond requirements, achieve better current yield than what they can get at the bank, and secured needed life insurance for risk management purposes on its key people.

Year	Age	Cash Assets Beginning of Year	Transfer to Life Insurance	Interest @ 1% Less 35% Taxes	Cash Assets End of Year	Life Ins Cash Value	Total Liquid Business Assets	Life Insurance Death Benefit	Total Liquid Business Assets at Death
1	50	1,000,000	142,857	5,571	862,714	145,283	1,007,997	2,593,970	3,456,684
2	51	862,714	142,857	4,679	724,537	293,423	1,017,960	2,593,970	3,318,507
3	52	724,537	142,857	3,781	585,460	444,051	1,029,511	2,593,970	3,179,430
4	53	585,460	142,857	2,877	445,480	597,179	1,042,659	2,593,970	3,039,450
5	54	445,480	142,857	1,967	304,590	752,561	1,057,151	2,593,970	2,898,560
6	55	304,590	142,857	1,051	162,785	915,860	1,078,645	2,593,970	2,756,755
7	56	162,785	142,857	130	20,057	1,082,893	1,102,950	2,629,532	2,649,589
8	57	20,057	-	130	20,188	1,105,075	1,125,263	2,602,874	2,623,062
9	58	20,188	-	131	20,319	1,127,058	1,147,377	2,575,958	2,596,277
10	59	20,319	-	132	20,451	1,146,459	1,166,910	2,548,719	2,569,170
15	64	20,988	-	136	21,124	1,318,731	1,339,855	2,548,719	2,569,843
20	69	21,679	-	141	21,820	1,565,535	1,587,355	2,649,686	2,671,506

## COMPARISON

Year	Age	Current Plan		Capital Transfer			
		Cash Assets End of Year	Total Assets at Death	Total Liquid Business Assets	Difference	Total Liquid Business Assets at Death	Difference at Death
1	50	1,006,500	1,006,500	1,007,997	1,497	3,456,684	2,450,184
10	59	1,066,935	1,066,935	1,166,910	99,975	2,569,170	1,502,235
20	69	1,138,349	1,138,349	1,587,355	449,005	2,671,506	1,533,156

**Details of the Analysis:** In the first year, TD Construction had \$1,497 more assets on its balance sheet and has provided \$2,450,184 of additional value at death from the life insurance. After 20 years, the corporation has \$449,005 more assets on its balance sheet (a 40% increase) and an additional \$1,533,156 at death.

## CONCLUSION

TD Construction implemented this strategy for its business as it:

- Provided permanent insurance protection for owners/key employees
- Improved its balance sheet and yield on assets
- Maintained liquidity for surety bond requirements
- Added tax deferral with the insurance cash value

## CONTACT US

Thank you for taking the time to review this abbreviated case study.

For a complete analysis of this case, or to discuss your specific situation, contact us.



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