



Buy-Sell Planning – Using Life Insurance

Buy-Sell Agreements

A buy-sell agreement is a contract that outlines what will happen to a business interest at retirement, death, or other triggering events. When a buy-sell agreement is funded with life insurance, the policy owner (usually a co-owner of the business or the business itself) uses the policy proceeds to buy your business interest at death. Upon retirement, the cash value of the life insurance policy can provide a down payment and help fund the buy-out of a share of the business.

Advantages of a Buy-Sell Agreement

A well-constructed buy-sell agreement anticipates how the value of a business may change over time and provides for appropriate adjustments in the amount of the buy-out price. The life insurance policy can be designed to vary with the buy-out price so sufficient coverage is maintained. When it's time to leave the business, a properly designed buy-sell agreement can:

- ❖ Help create a market for the business interest.
- ❖ Establish the purchase price of the business interest and possibly set a value for estate tax purposes, while the owner is living.
- ❖ Maintain the “closeness” of the business by restricting the transfer of a business interest to co-owners, family members or key employees who are chosen.
- ❖ Help a family by providing liquidity for the payment of estate taxes and other estate settlement costs.
- ❖ Reduce the business' credit risk by providing a business continuation plan.
- ❖ Help assure that the business continues to provide for family and employees.

Funding a Buy-Sell Agreement

When funding a buy-sell agreement, it's important to make sure that the required amount of cash is available at precisely the time it is needed.

- ❖ May be more cost effective than other funding methods (loans, sinking funds).
- ❖ Allows the purchaser to satisfy the buy-sell obligation without having to deplete business cash flow or personal funds.
- ❖ Normally provides the purchaser with the necessary funds income-tax free (absent a transfer-for-value).
- ❖ Can help fund other sales events, such as disability or retirement.

Many business owners are so busy with the day-to-day operations, that they often forget the importance of putting a plan in place to protect their most valuable asset – the business. Designing a business succession plan is a crucial step... whether one leaves their business by chance, or by choice – the business will be left on track with the proper planning in place. By arranging a buy-sell agreement,