

## What will happen to your business if something happens to you?

---

Owning a business means living with uncertainty. Many business owners, however, have reduced that uncertainty and bolstered their family's financial security by having Buy-Sell Agreements prepared for their businesses.

### What Is A Buy-Sell Agreement?

It's a legal document, drafted by an attorney, to provide for the smooth succession of your business upon the occurrence of a specified event. The agreement spells out the terms under which a designated co-owner, employee, heir and/or other party will buy your interest in the business if you die, retire or become disabled. The intent is to help ensure that the business continues and, most of all, that your beneficiaries receive the fair market price, in full, for your interest in the business.

### Who Needs a Buy-Sell Agreement?

You may if, as a sole proprietor, partner or co-owner of a closely held business, you:

- Want the business to continue if you die, become disabled or retire
- Have a partner, family member, or valued employee able and willing to take over the business
- Have a spouse or other heirs whose financial security you want to ensure

### How Does it Work?

You and your successor(s) enter into a legally binding contract, commonly called a Buy-Sell Agreement, drafted by an attorney. Under the terms of the agreement, when specified events occur (such as your death, disability or retirement), the successor(s) purchase your interest; the agreement generally includes the actual purchase price or provides a formula for determining the price.

Most Buy-Sell Agreements also identify how the agreement will be funded. Funding helps ensure that funds will be available to carry out the terms of the agreement and the purchase. While there are several funding options -- sinking funds, loans, installments--insurance on the owner's life is one of the most popular options, since it helps ensure that beneficiaries will receive the agreed upon price for the business.

### Why Should I Find Out More?

A Buy-Sell Agreement helps protect the interests of your successors, as well as beneficiaries not involved in the business. When life insurance is used as a funding medium, it provides the necessary cash for an immediate buyout. Additionally:

- The full amount of proceeds is available when it is needed most, whether next year or decades from now
- Proceeds are income-tax free in most instances
- The cost of scheduled premium payments is predictable
- In cases when you have a policy that can accumulate a cash value, that value accumulates on a tax-advantaged basis. These cash values may be available to be used to help purchase a buy-out at retirement

### A Buy-Sell Agreement at Work:

Bob and Jeremy landscaped together as equal partners for 10 years. Their business was valued at \$500,000. Both men have families with no interest in the business. They recently met with their attorney to draft a Buy-Sell Agreement calling for one to buy the other's share at a specified price if one dies. They also purchased \$250,000 insurance policies on each other's lives. If Bob dies, Jeremy receives \$250,000 in insurance proceeds which can be used to purchase Bob's share of the business from Bob's widow. Jeremy gets the business, and Bob's family gets the agreed upon price for his share.