

# Buy/Sell Agreements

The **Goal** of Buy/Sell Agreements is simple: satisfy all parties so the business can get on with business. Although a Buy/Sell Agreement is a legal document, it still needs to be properly funded. If it is not, an unexpected crisis could cause serious financial concerns for the business and its owners.

A properly funded Buy/Sell Agreement provides access to adequate funds to facilitate any share purchase obligations contained within the agreement.

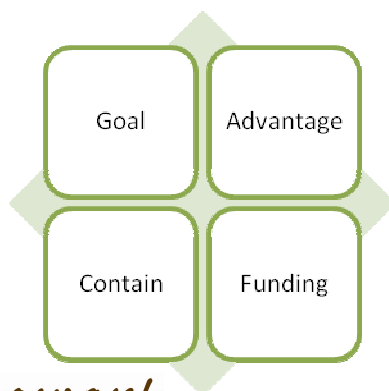
Insurance is the simplest and most economical means of funding a Buy/Sell Agreement.

**Advantages of Buy/Sell Agreements** that are funded by a Life Insurance policy:

- ▶ Heirs obtain a definitive value for the deceased partner's interest.
- ▶ Surviving partners obtain total and unrestricted ownership of the business.
- ▶ With some policies, the longer the policy is in force, the greater the cash surrender value for other business opportunities.
- ▶ Fixed expense protection
- ▶ Suppliers and creditors may be reassured
- ▶ Use the benefit to fund the disability Buy/Sell Agreement in whole or in part
- ▶ Definition of disability for purposes of the Buy/Sell Agreement can be linked to the definition of disability in the Buy/Sell Plan
- ▶ Third party decides whether the definition of disability has been met which helps reduce potential resentment among shareholders or partners.

## A Buy/Sell Agreement **Contains**:

- ▶ Who will buy the shares;
- ▶ What the terms of the sale will be;
- ▶ When the sale will take place;
- ▶ Where the money to buy the shares will come from; and,
- ▶ How much the purchase price of the shares will be.



## **Proper Funding of Buy/Sell Agreements**

should be in place to ensure that money is available to buy the shares of a deceased or disabled owner, should the event occur.

A life insurance policy is a fundamental part of buy/sell agreements because the policy can provide immediate funds to the surviving partners to buy out the deceased or disabled partner.

Life Insurance provides the necessary dollars at a far lower cost than borrowing to fund a buy-out. Funding the buy-out directly from cash flow can be difficult as the loss of the owner has probably already placed strains on the cash flow of the business. The best alternative is to be prepared with Life Insurance.