# BUY/SELL AGREEMENTS
# FUNDED WITH LIFE INSURANCE

## THE NEED

One of the biggest mistakes a business , especially a multi-owner business, can potentially make is not having a buy/sell agreement in place. In the absence of an agreement, many businesses end up closing, after the death of a partner. When a partner dies, without a buy/sell in place, both the surviving owners and heirs of the deceased partners are put in untenable positions. The partners end up having a spouse, or worse, children, as equal partners, who know nothing about the business, care nothing about the business and don't want to be part owner of the business. What they do want is to be bought out. However, without an agreement in place, there is no obligation on the part of the surviving owners to do so. In the final analysis, a buyout is usually agreed to, because it's in both parties interest, but at a negotiated price, usually substantially below value and usually on an installment basis. This is problematic for the heirs, as they would be settling for less than fair value and they would want and may really need the money up front. Also, installment agreements are dependent on the business continuing to be successful and creating the cash flow to make the installment payments.

### THE SOLUTION

Set up a buy/sell agreement funded with life insurance. With the agreement in place, the price and method of the purchase is prearranged and legally guaranteed, to the benefit of all parties. The heirs benefit by getting immediate payment for the full value of the deceased partners business interest. They also avoid the emotional toll that dealing and negotiating with the surviving owners would create. The surviving partners also benefit equally, by retaining 100% ownership of the business, and by avoiding the emotional and financial toll of dealing with absentee owners. However, buy/sell agreements can create a huge cash drain on the surviving owners and can affect the financial viability of the business, which is why buy/sell agreements should be funded with life insurance. That's true, even if one of the owners is uninsurable. Having one buyout being funded with an installment agreement, doesn't negate the value of funding the other buyouts with life insurance.

Deciding to implement a buy/sell agreement is only the first step. The next step is to decide which type of buy/sell agreement to implement. There are four basic types, funded with life insurance. They are cross purchase, stock redemption, "wait and see" and trusteed agreements. The following pages discuss how each one works and the pros and cons of each.