Advantages of a Buy-Sell Agreement

If you own a closely held business and are concerned about how the death, disability or retirement of a co-owner might affect its operation, a fully funded buy-sell agreement can help you rest easily knowing that you will be able to:

- Purchase your partner’s share
- Avoid disruption of the business after an owner’s death
- Avoid the dilemma of being in business with your partner's survivors
- Restrict outsiders from obtaining an interest in the business or control of the business
- Use the insurance death benefit as a means to provide estate liquidity and cash to beneficiaries not involved in the business

Buy – Sell Agreements provide an orderly means of transferring a business interest upon the death, disability or retirement of an owner. However, Buy-Sell Agreements must be fully funded to be useful.

Purchasing life + disability insurance policies is one of the most cost efficient and tax efficient means to fund a Buy-Sell Agreement. The guaranteed liquidity from the policies may help prevent survivors from being forced to sell assets or borrow money.

Why Should a Buy-Sell Agreement Be Reviewed?

The value of the business could change over time. The insurance coverage purchased years ago may turn out to be less than the value of your current business interest, especially if you experienced growth during that time. Your surviving family members may end up receiving less than the full value for your business interest. Your buy-sell agreement should specify how the valuation difference will be handled.

Conversely, the insurance proceeds might be greater than the value of your business interest when you or a co-owner dies. Your buy-sell agreement should address this potential situation upfront and specify whether the excess funds will belong to the business, the surviving co-owners, or your family or estate.

Does Your Buy – Sell Agreement Need to Be Reviewed?

- Has it been more than two years since the agreement was drafted or reviewed?
- Have the business goals changed since the last review?
- Are you unsure of the value your heirs would receive if you were to die without a current buy-sell agreement in place?
- Could your current buy – sell plan benefit from having an accelerated benefit option for terminal, critical or chronic illness?
- Could your current buy – sell plan use a stream of income to buy out an owner?

A well-drafted and adequately funded buy-sell agreement is an important component of your succession and estate planning. Without a thorough buy-sell agreement, you could lose a significant amount of equity from the business you worked so hard to build.

Therefore, if you answered “yes” to any of the questions above, you should obtain a Buy – Sell review.

Please contact your local CBIZ Life Insurance Solutions Advanced Planning Expert today. We are here as your partner and trusted advisor.