# Buy-Sell Planning Using Life Insurance



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# Buy-Sell Planning Using Life Insurance

Many business owners are so busy with day-to-day operations that they forget the importance of putting a plan in place to protect their most valuable asset — the business.

Think about what would happen if one of your business partners died or became disabled. Where would you get the funds to purchase his or her share? What if an outside owner with a different vision purchased the share?

A business continuation plan (buy-sell plan) can help you prepare for these events so you can concentrate on what you do best — run your business.

## Buy-Sell Agreements

A buy-sell agreement is a contract that outlines what will happen to your business interest at retirement, death, or other triggering event. When your 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 your death or retirement. If you retire, the cash value of the life insurance policy can provide a down payment and help fund the buy-out of your share of the business.

## Advantages of a Buy-Sell Agreement

A well-constructed buy-sell agreement anticipates how the value of your 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 you maintain sufficient coverage. When it's time to leave your business, a properly designed buy-sell agreement can:

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

## Funding a Buy-Sell Agreement

When funding a buy-sell agreement, you'll want to make certain that the required amount of cash is available at precisely the time it is needed. Because life insurance may be the only funding method that can assume this, it generally is the most appropriate way to fund the death provision of a buy-sell agreement. In addition, life insurance:

- 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.

## Next Steps

Designing a business continuation plan is a crucial step to ensure your business remains intact at your retirement, death or other triggering event. Whether you leave your business by choice or by chance, you'll leave your business on track and help provide for your family's future. By arranging a buy-sell agreement, you can help protect yourself, your business, co-owners and your family. Talk to your ING Financial Professional to determine if a buy-sell agreement using life insurance may meet your specific needs.

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