

# BUSINESS INSURANCE



T H E

BUY & SELL

S O L U T I O N

## WHAT IS THE BUY-SELL SOLUTION ?

It is a binding agreement between business owners which provides the terms for the purchase/sale of a co-owner's business interest due to a specified triggering event such as a death, disability, or retirement. Helps protect the interest of the owners and family members while ensuring the continuation of the business.

### THE DILEMA

Business owners do not want a portion of the business sold to outsiders without consent and need a way to preserve the business structure in the event a co-owner is forced to leave or in the case of the sudden death, retirement, or disability.

### THE SOLUTION

Establish and fund a buy-sell agreement with life insurance to guarantee a quick sale of a business interest and spare family members the worry of any estate tax concerns.

### WHY ESTABLISH A BUY-SELL ARRANGEMENT?

**Guarantee a Buyer:** buy & sell arrangement provides a guaranteed buyer in the event a owner leaves the business. The remaining owners are protected against the sale of a significant interest in the company to an unknown third party.

**Create Liquidity:** life insurance funded agreement can provide a predictable amount of funds at death or the policy cash values can allow a buy out in the case of an owners retirement or termination. Set a Fair Selling Price: business valuation strategy is determined while all partners are active and can be adjusted and negotiated at arms length

**Fix Value:** buy& Sell arrangement negotiated at arm's length ordinarily sets the value for estate tax purposes.

**Maintain Harmony:** Most business partnerships start with the best intentions, but not all pass the test of time. A major disagreement among partners or involvement of feuding family members can be disastrous. Having a proper buy& Sell agreement in place can save the business.



A Buy & Sell Agreement ensures a smooth transition among the remaining partners and the family members of the withdrawing owner

# How its works...



Value of Company = **\$6,000,000**

Life Insurance Policy (Buy & Sell Agreement)

**INSURANCE COMPANY**

The Company is the Owner / Beneficiary & Premium payer of the Buy & Sell Agreement

**Total Insurance Coverage \$6,000,000**

## 4 What Happens if a **Stock Holder A** dies?

At the death of Stock Holder A the Insurance company will pay company (as beneficiary) the Life Insurance proceeds.



Life Insurance Proceeds = **\$3,000,000**

**Stock holder A's Estate**

6

Stock Interest is returned to the company



5  
**\$3,000,000**  
is paid to deceased stock holder A's estate.

## FUNDING A BUY-SELL ARRANGEMENT

Life insurance is generally one of the most advantageous ways to fund a buy-sell arrangement. Other possible funding methods include borrowing funds, using a sinking fund, or employing an installment purchase. Life insurance has income tax advantages and does not put a strain on the cash flow of the corporation after the death, disability, or retirement of a key owner.

## METHODS OF VALUING A BUSINESS

One of the most important benefits of a buy-sell arrangement is to establish a formula for pricing each partner's controlling interest. Without a pre-determined valuation of the business, conflicts of interest can burden negotiations going forward.

### COMMON VALUATION METHODS:

**SPECIFIC FIXED PRICE** – Simplest method is for all stockholders to agree on a price in advance. Allows the owners to implement a funding arrangement based on known value.

**BOOK VALUE:** The value is derived from the book value (assets - liabilities) from the company accounting records. Generally used with small or start up companies.

**SALES MULTIPLE:** An industry specific multiplier is attached to the average annual earning over a period of years.

**CAPITALIZATION OF EARNINGS:** Considers past earnings history to estimate future earning to which a cap rate or rate of return is applied.

**APPRAISAL :**

Value is determined by an independent appraisal at the time of sale.

## TYPES OF BUY & SELL ARRANGEMENTS

The two most commonly used buy-sell arrangements are the entity purchase and the cross-purchase plans.

The entity purchase plan also known as a stock redemption plan, Under this plan the business agrees to purchase the deceased owner's interest. To fund the plan, the business purchases a life insurance policy on each business owner.

A cross-purchase plan is an arrangement in which each business owner owns a life insurance policy on the other and agree to buy the deceased owner's interest. This type of plan works best with 3 or less business owners.

Other types of buy-sell arrangements include a one-way plan and a cross endorsement plan.

A one way buy-sell arrangements a type of plan in which a valued employee, who may be a family member or a key person in the business, will purchase and own a life insurance policy on the life of the business owner. With a cross endorsement buy-sell arrangement (CEBS), each business owner will purchase and own a life insurance policy on his or her life.



# PARTNERS

- Allianz
- AIG American General
- ANV
- Axa Equitable
- Catlin
- Hardy
- Hiscox
- ING
- John Hancock
- Lincoln Benefit Life
- Lincoln Financial
- Lloyd's
- Mass Mutual
- Met Life
- SunLife Financial
- Principal Life
- Prudential
- Transamerica
- Travelers
- West Coast Life
- Zurich

# BEST RATED CARRIERS



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