

BUSINESS INSURANCE FOR SMALL BUSINESS OWNERS

Buy-Sell Agreement

As a small business owner, your time and energy are spent serving your customers and taking care of daily business activities. Your commitment and strong work ethic have allowed you to continue building the value of your business. Today's business success leaves you optimistic about the future.

But what will happen to your business if you or another owner dies prematurely, becomes disabled or wants to retire? A succession strategy, known as a Buy-Sell Agreement, can help you control and protect the future of your business. One of its biggest advantages is to give you, the business owner, the opportunity to negotiate a fair purchase price for your business while you're living — something your heirs and surviving business owners cannot argue about after you're gone. The key is to develop the strategy today while you're healthy and your business is thriving — not tomorrow when unpredictable events may prohibit it.

CONSIDERATIONS FOR THE FUTURE

The unplanned sale of your business can produce unfortunate results, both for the surviving owners and your heirs. In thinking about the future of your business, consider the following:

- Can the business interest be sold for its fair market value, or will a forced liquidation shrink its value?
- How will your spouse and dependents replace the income previously received from the business?
- How would you feel about being in business with your ex-partner's spouse . . . his or her new spouse . . . or their children?

BENEFITS FOR YOUR FAMILY

A Buy-Sell Agreement can help avoid the problems that occur when a business owner dies, and provides a variety of benefits for your family:

- Prevents conflicts with surviving business owners.
- Assures a fair market price for the business.
- Creates a guaranteed buyer for what might otherwise be an unmarketable asset.
- Provides cash for your family, which replaces income lost from your business. This helps ensure your family's financial future will not be tied to the fate of the business.

BENEFITS FOR YOUR BUSINESS

Funded with life insurance, this agreement provides many benefits for your business:

- Allows you to maintain control of the business, while surviving owners can be assured that funds will be available to buy the deceased shareholder's interest in the business from his or her estate.
- Assures the orderly transfer of the business upon your death, while surviving owners can fulfill the obligation they have toward your family.
- Helps prevent conflicts and disputes by protecting your business from abrupt drop in value.
- Helps employees and creditors feel more confident about the future success of your business.

TAILORING THE AGREEMENT TO YOUR BUSINESS

The Buy-Sell Agreement that works best for your business depends on the legal structure of your business — Partnership, Corporation or Limited Liability Company (LLC) — and the number of owners. It's helpful to keep these points in mind:

- In a Cross-Purchase Agreement, the business owners agree to buy the pro-rata share of the deceased owner's interest from the estate. Each business owner is the beneficiary of an appropriate amount of life insurance on the other owners.
- In an Entity-Redemption Agreement, the business becomes obligated to purchase or redeem the interest of a deceased owner. The business is the beneficiary of an appropriate amount of life insurance on each business owner.
- A Wait-and-See Agreement combines the benefits of the Cross-Purchase and Entity-Redemption Agreements. This highly flexible plan allows the business owners to wait until the "triggering event" (i.e., retirement, disability or death) to decide which buyer would best serve the objectives of the owners or parties.
- Many Buy-Sell Agreements contain disability and retirement buyout provisions. To help pay for these future benefits, policy cash values and a premium waiver may help provide disability benefits or retirement income.

FUNDING THE BUY-SELL AGREEMENT

A Buy-Sell Agreement, no matter how well it's negotiated and written, will only be as good as the funding behind it. Without adequate funding, the legal document containing the Buy-Sell Agreement will be of little value. The common methods of funding include:

- Create a sinking fund. The drawbacks are that it's difficult to know when or how much cash will be needed, and, if death occurs earlier than expected, a sinking fund will be inadequate.
- Obtain a loan. However, this may be difficult to acquire after an owner's death.
- Make installment payments to the deceased owner's estate. The disadvantage here is that the potential difficulty of making costly installment payments will make this method unmanageable, which can create frustration among the parties.

In contrast to the above funding methods, a lump-sum buyout — funded with life insurance — is often the preferred approach by business owners for this key reason:

- Purchasing life insurance is a cost-effective Buy-Sell funding method. It provides the necessary cash at the moment it's needed. The policy's death proceeds are generally received tax-free. For the Buy-Sell to work properly, the life insurance policies need to be coordinated with the agreement.

SETTING UP A BUY-SELL AGREEMENT

Talk with your Farm Bureau agent today about how a Buy-Sell Agreement can help ensure the future success of your business. After reviewing your business needs, your agent can explain the advantages of using life insurance to fund your agreement.



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This material provides general information about a Buy-Sell Agreement for small business owners that can be funded with life insurance. For more complete information about the life insurance products available, including costs and features, contact your Farm Bureau agent. Neither the Company nor its agents give tax or legal advice. Consult with your attorney and other professional advisers for tax and legal advice to determine the best solution for your specific situation.

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