



Is your business prepared for the sudden departure of one of its owners?

Without a buy-sell agreement, you may be posting a “For Sale” sign

Here’s the problem...

If your business loses an owner, the remaining owners must decide how the business will continue. Generally, you have four options. You can close down the business, but you likely wouldn’t want to after all the time, energy and money you’ve put into it. You can continue the business with the new owner (for example, the spouse of the deceased owner), but do you want to be in business with this person? You can sell your shares, but who will buy them and at what price? Or finally, you can purchase the shares from the deceased owner’s estate.

What are your options?

A formal buy-sell agreement covers the terms of ownership and operation of the business. It usually deals with the death, disability and retirement of one of the owners, as well as disagreements about running the business that result in an owner wanting out.

The agreement often includes a formula or process for valuing the business to simplify the buy-out of an owner. Generally, the agreement deals with:

- who will buy the shares
- what the terms of the sale will be
- when the sale will take place
- where the money to buy the shares will come from
- and what the purchase price will be.

The best solution

Proper funding must be in place to ensure the agreement is viable. Without funding, agreements can fall apart because the remaining owners, obligated under the terms of the agreement to purchase the departing owner’s shares, may not be in a financial position to do so.

There are a number of ways to fund a buy-sell agreement:

- you can start saving today
- you can borrow the funds from a bank
- you can take the funds from current earnings
- you can sell assets
- you can purchase life insurance and disability insurance to provide the funds needed.

Life insurance can be the most cost-effective solution to fund a buy-sell agreement when an owner dies. It guarantees that money is available when needed. What you get is peace of mind knowing things are taken care of.

Buy-Sell Case Study – ABC Company

The Situation

Andrew and Bill are equal partners in ABC Company. With the success of their business and the prospect of future growth, they are now at a stage where they feel a buy-sell agreement is required. This means if one of them dies, the survivor will have the funds to purchase the deceased's shares.

Based on financial statements, ABC Company is worth \$400,000 today and projected to be worth over \$1 million within ten years.

Shareholder	Ownership %	Fair Market Value Today	Projected FMV in 10 years
Andrew	50%	\$200,000	\$600,000
Bill	50%	\$200,000	\$600,000

The Problem

Andrew and Bill need a cost-effective solution that meets their needs today, but is flexible enough to grow as the value of the business grows.

The Solution

Insuring each partner is determined to be the most cost-effective way to fund the buy-sell agreement. If one partner dies, the surviving partner would receive life insurance proceeds and use them to purchase the deceased's shares.

Business Term insurance from Manulife Financial with the Business Value Protector rider provides each partner with the affordable protection they need today and the flexibility to purchase additional insurance in the future if the need arises.

The Product Solution – Business Term and Business Value Protector

Shareholder		Basic Coverage Amount	Business Value Protector	Cost of Basic Coverage	Cost of Business Value Protector	Total Monthly Cost
Andrew	M,35,HS3	\$200,000	\$200,000	\$13.49	\$3.67	\$22.26
Bill	M,40,HS3	\$200,000	\$200,000	\$18.12	\$6.30	\$29.52

Business Term – the RIGHT product

- competitive initial and renewal rates guaranteed at issue
- can be converted to any one of Manulife's permanent insurance plans
- offers a diverse selection of features, plus additional benefits that can be added at, or after, issue as your business situation changes
- multiple partners can all be covered within a single, low cost, customized package
- our unique Business Value Protector rider allows you to lock-in the ability to purchase additional coverage based on the increased value of your business, without having to provide evidence of good health again

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