

# USING LIFE INSURANCE TO FUND BUY-SELL AGREEMENTS

Learn more about the protection and peace of mind that a buy-sell agreement can provide for you and your company. We can help!

## The Basics of a Buy-sell Agreement

A buy-sell agreement is a contract among business owners which, upon the death of one of the owners, requires the remaining owners or the company itself to purchase the deceased's interest in the company according to the agreed-upon terms of the contract. In addition, the deceased's heirs are required to comply by selling their inherited interest at the previously agreed-upon price.

Although there are other options for funding a buy-sell agreement, a smart method for doing so is through life insurance. This ensures that funds are immediately available when a death occurs; plus, death benefit proceeds are generally income tax-free. In addition, the funds used to buy the deceased's share are purchased for pennies on the dollar and the premiums will likely be significantly lower than the cost of repaying loan interest.

## Types of Buy-sell Life Insurance Plans

There are two main types of buy-sell life insurance plans: cross-purchase plans and entity plans.

### Cross-purchase Plans

Under this type of plan, the owners enter into an agreement with each other. Each owner purchases a life insurance policy on the other owners and will be named the beneficiary of the policy. Upon the death of an owner, each surviving owner receives life insurance proceeds income tax-free, heirs receive an agreed-upon payment for their business interest, and the surviving owners use the proceeds from the life insurance policy to redeem the deceased owner's interest in the company.

### Entity Plans

In this type of agreement, also known as a stock redemption plan, the company purchases life insurance policies on each owner, with the company itself as the beneficiary. When an owner dies, the company receives the life insurance proceeds and uses them to purchase the deceased's business interest, while the heirs receive an agreed-upon payment for their business interest.

## Benefits of a Buy-sell Agreement:

- Establishing a valuation of a deceased owner's interest in the business for estate tax purposes
- Establishing a mutually agreeable price and terms
- Making sure the family of the deceased owner receives cash instead of unmarketable stock

## We're Here to Help

Planning for your company's and your family's future includes thinking about a buy-sell agreement today. Contact us to learn more.

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