



## Buy-Sell Agreement, What is That?

### **What is a Buy-Sell Agreement?**

A Buy-Sell Agreement is a legal document that requires any surviving partner(s) to purchase the decease's share of the business from the decease's estate.

### **Why have a Buy-Sell Agreement?**

A Buy-Sell Agreement is the best way to continue a business in the event of a partner(s) death and protect that business from surviving heirs who many not have the expertise in that business. Secondly, a Buy-Sell Agreement is the best way for a family to separate itself from a business they have not expertise in as well as to continue their life, in a time of sorrow, with out the additional stresses of being involved in a business. The funding of the agreement uses a life insurance policy.

### **Why Life Insurance?**

Life insurance usually provides the least expensive way to fund a Buy-Sell Agreement. Other ways to fund an agreement is to have sufficient cash set aside made available to the entity in the event of a death. Life insurance allows for a premium amount to secure a death benefit for the amount needed to fund the Buy-Sell Agreement. The premiums are based on the amount of death benefit, health, and time frame of the life insurance policy.

### **Problem:**

ABC Medical Group is made up of two partners Dr. Jones, 50 years old and Dr. Smith 45 years old and in great health. They are looking for a way to continue the medical group in the event of a death of one of the partners. Both doctors' spouse are not in the medical field and do not have the expertise to continue working in the practice. Dr. Jones and Dr. Smith know the importance a Buy-Sell Agreement but with recent economic issues, they aren't available to fund the agreement with savings or reserved cash. It is suggested they use a term life insurance policy to fund the Buy-Sell Agreement.

### **Solution:**

They need to figure out what the practice is valued at and how long they want the agreement to last. The practice is valued at \$2,000,000 so they take a life insurance policy on each of them for half the value so \$1,000,000.

|         | Dr. Smith<br>45 yrs old |           | Dr. Jones<br>50 yrs old |             |
|---------|-------------------------|-----------|-------------------------|-------------|
|         | Monthly                 | Annual    | Monthly                 | Annual      |
| 10-Year | \$ 46.73                | \$ 525.00 | \$ 75.21                | \$ 845.00   |
| 15-Year | \$ 73.43                | \$ 825.00 | \$ 116.15               | \$ 1,305.00 |

Note there should be periodic reviews of the agreement and the life insurance policy funding the agreement. The reason is the practice may increase or decrease in value. If either is the case, you want to be sure the life insurance policy is sufficient enough to pay the estate of the deceased partner. If the life insurance policy does not cover the value of the deceased partner's estate the estate may need to fund the insufficient amount form other assets.

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