McCaslin Horne Insurance Brokers

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Partnership Protection

Many co-owners of small businesses tend to function on a trust relationship without a written agreement to govern their activities. Each owner trusts that the other owners will act according to the relationship they have enjoyed. It may put the business at risk placing too much trust in this verbal agreement.

In particular, four things can happen to affect the relationship of many business owners:

1. The death of one of the owners
2. The permanent disability of one of the owners
3. The retirement of one of the owners
4. Disagreement between the owners about how the business should be run.

In all of these situations, the owners can find themselves dealing with quite a different situation than the one governed by the initial verbal agreement.

If a partner dies, the remaining partners are now dealing with the family of the deceased partner. If a partner becomes disabled or retires, the remaining partners are now dealing with an individual concerned with getting his or her "fair share" but who is no longer actively contributing to the business. In the case of disagreement, the remaining owners are now dealing with a hurt and angry individual.

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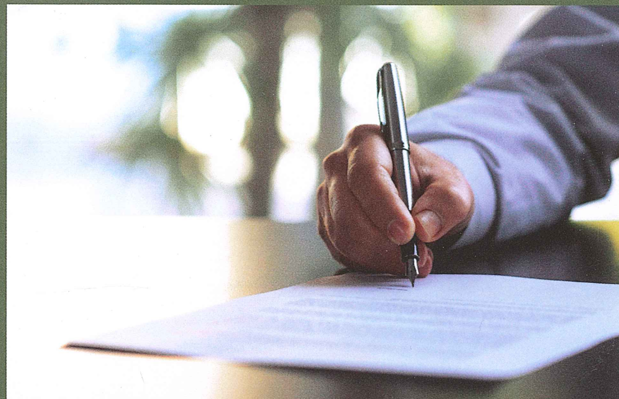
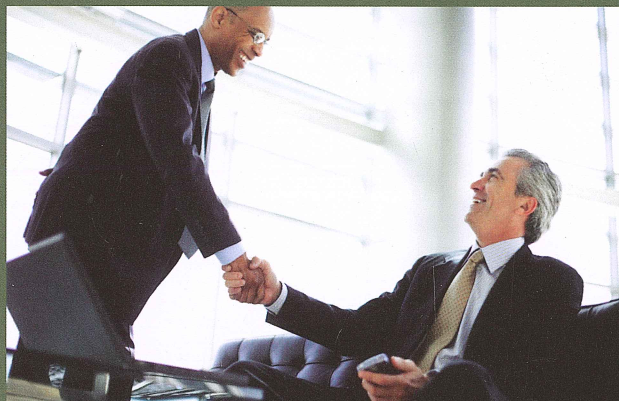
A business should always have a **Shareholder's Agreement** in place, more commonly called a **Buy-Sell Agreement**. This legal document covers the terms of ownership and operation of the business and usually deals with the above-mentioned scenarios. The agreement often includes a formula or process for valuing the business to simplify the buy-out of an owner.

Simply put, the agreement should deal with:
1. Who will buy the shares
2. What the terms of the sale will be
3. When the sale will take place
4 .Where the money to buy the shares will come from
5. How much the purchase price of the shares will be





When the business loses an owner, the remaining owners find themselves with essentially three options:

1. They can sell the business, but may not want to do that after all the time, energy and money spent in building the business in the first place
2. They can continue the business if they can find a purchaser of the former owner's shares, but will they be able to find someone quickly and suitable to fill the role?
3. The third option is to buy the shares from the disabled, retired or departed shareholder or the estate of the deceased shareholder.

This last option makes a lot of sense. However, the question arises as to where the remaining owners will get the capital to make the purchase. Usually, the owners have invested most of their available capital in the business. They can borrow if their debt load is not already too severe but at what cost and for how long?

To ensure the **Buy-Sell Agreement** is viable, proper funding must be in place. Life, Disability, and Critical Illness insurance are widely recognized as the most cost and tax efficient way to fund the agreement. Without proper funding, agreements can fall apart. The remaining owners benefit from a funded buy-sell agreement because the business is able to continue on without the financial stress it might otherwise experience. The ownership transition is handled smoothly, quickly and effectively.

For more information on funding a partnership agreement or to discuss your own personal situation, please contact our office.

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