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Since 1886

Life

Business Solutions

Funding a Buy-Sell Agreement with Life Insurance

Case Study



MEET ZACH AND ANDY

Zach and Andy are equal part shareholders of Grilling, Inc., a large retail store set up as a C-Corporation that supplies local chefs with high-end grilling gadgets.

Grilling, Inc., has been in business for a little over a decade, and Zach and Andy are both very involved in the business' day-to-day operations. Andy manages the books and buying functions that keep the desired products on the shelves. Zach manages a staff of 10 (25 around the holidays), organizes scheduling, and oversees the promotional activities that the business engages in.

Due to the recent added success of the business, Zach and Andy decide it's time to engage in some business continuation planning in the event that one of them unexpectedly passes away. Both owners are married and have built the company from the ground up, and none of their children are interested in the family trade.

They have discussed the desire to keep the ownership interest of Grilling, Inc., closely held and decide to engage in a Cross-Purchase Buy-Sell Agreement.¹ They also agree that they want flexibility in their planning and use the Builder IUL[®] indexed universal life insurance in the agreement because it's designed to accumulate long term cash value.



Zach, 35



Andy, 53

Scenario 1 – Death Trigger

Building the business for years has been a lot of hard work, and Zach decides it's time for a vacation. On his way to a golf trip, Zach's plane experiences technical difficulties and crashes, leaving no survivors. Thanks to the Buy-Sell agreement in place, Andy, as named beneficiary, is paid the death benefit from the policy owned on Zach's life and is able to buy out Zach's share of Grilling, Inc., from Zach's family. Despite the great loss to the business Andy is able to keep Grilling, Inc., running, and Zach's family isn't left with shares in a business they don't want.



Scenario 2 – Disability Trigger

Zach leaves early one morning to head into the store because the roads are especially icy due to freezing rain. On his way into work, Zach gets in a car accident that leaves him permanently disabled. Because of his disability, Zach isn't able to perform all of his job responsibilities and needs to step back from his involvement in the business. Any cash value accumulated from the Builder IUL policy helps Andy to partially buy out Zach's shares now, and he can use the policy to continue to make payments to Zach over time.



Scenario 3 – Retirement Trigger

Grilling, Inc., has now been in business for 25 years, and Andy considers taking an early retirement as the business has produced income beyond his initial expectations. He decides to spend more time with his family and agrees to sell Zach his stake in the business. Zach uses accumulated cash value from the policy on Andy's life to fund a down payment on the purchase, with an agreement to continue to make payments over time. Andy takes the money for retirement and sells his interest in the business to Zach.





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NAM-1651 R1 2/14

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