



# Protect the future of your business

## Help ensure the orderly transfer of your business

### Strategy for business owners

## A buy-sell agreement funded with life insurance

As an owner, you work hard for the success of your business, and you consider the well-being of your family and your employees when you make decisions. One of the most important decisions you'll make is who will take the reins of your business in the event of the death, disability or retirement of you or a co-owner.

A buy-sell agreement can be vital to your financial future and the survival of your business. It is a buyout contract establishing the terms and fair market value for the sale of an owner's interest in the business. A buy-sell agreement can help make sure your business continues without disruption.

Life insurance is a cost-efficient way to fund your buy-sell agreement. It can provide a lump sum of cash that may be used to purchase a deceased owner's business interest, generating immediate liquidity for estate taxes, an income stream for loved ones, or to meet other needs.

### Types of buy-sell agreements

#### Cross-purchase plan

Each business owner purchases a life insurance policy on each of the other owners. Each owner will pay the premium and will be the owner and beneficiary of the policy written on the partner's life.

When there are multiple owners, other planning techniques are available to reduce the number of policies needed for a cross-purchase agreement, such as a buy-sell partnership and a trusted cross purchase.

#### Entity purchase or stock redemption plan

Each owner enters into an agreement with the business for the sale of their respective interest in the business.

The business will purchase one life insurance policy on the life of each owner. It will pay the premiums and be the owner and beneficiary of each policy.



#### A buy-sell agreement benefits the business

- It establishes the value of the business and identifies the purchaser of the business interest.
- With a buy-sell, owners can maintain continuity for their customers, employees and creditors.
- It assures that a deceased or disabled owner's share of the business will not transfer to an unsuitable owner.



#### A buy-sell agreement benefits the owners

- It establishes a ready market for your business interest.
- A buy-sell allows for the orderly transfer of ownership.
- It creates an opportunity for proceeds received from the buyout to provide estate liquidity to offset debt, expenses and taxes. It may also provide a valuable income stream for loved ones.

Not a deposit	Not FDIC-insured	May go down in value
Not insured by any federal government agency		
Not guaranteed by any bank or savings association		

Insurance products issued by:  
The Lincoln National Life Insurance Company  
Lincoln Life & Annuity Company of New York



## Meet Al, Bob and Charlie

College buddies, age 45

They're equal owners of a physical therapy practice

Business value: \$3 million

Al, Bob and Charlie have a profitable physical therapy business, which they established several years ago as an S-corporation. As their practice grew, they acquired a state-of-the-art facility, and the value of their business increased significantly.

Because these entrepreneurs focused primarily on growing their enterprise, they never thought about the financial consequences of a partner's death, disability or retirement. But their advisor asked them what would happen to the business if either Al, Bob or Charlie suddenly passed away or decided to leave the practice. Their advisor suggested that they consider:



### The potential risks of not having a buy-sell agreement

#### Challenges for the business

- Will the practice be able to continue if one of the owners was not there?
- Would there be enough funds available to pay employees and creditors?
- Could a shareholder's stake in the business transfer to an unsuitable owner?

#### Challenges for the owners

- Would each owner's family receive a fair price for their share of the business if they died, became disabled or left the therapy practice?
- Could they afford to retire?
- How can they protect the value of their business investment?



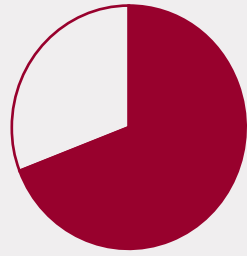
### The advantages of having a buy-sell agreement funded with life insurance

#### Advantages for the business

- Death benefit proceeds are readily available to purchase a deceased owner's interest.
- If funded with permanent life insurance, policy cash values may be available for a living buyout in the event of retirement, disability or divorce of an owner.

#### Advantages for the owners

- They have funding in place to help facilitate the equitable and orderly transfer of wealth, ownership and business management.
- The sale proceeds may be used to:
  - Help pay estate taxes or other settlement costs
  - Fund an income stream for loved ones



**More than 66% of owners want to get the full value for their business investment.\* Without a buy-sell agreement there's no guarantee. So, if Al, Bob or Charlie would die, the surviving owners and their practice could face significant financial consequences.**

\*Forbes, "Study Shows Why Many Business Owners Can't Sell When They Want To," <https://www.forbes.com/sites/sageworks/2017/02/05/these-8-stats-show-why-many-business-owners-cant-sell-when-they-want-to/#6b69509a44bd>, February 5, 2017.



### The business protection strategy

To help protect Al, Bob and Charlie and their business, their advisor recommends that the S-corporation establish a buy-sell agreement, which is set up as a stock redemption plan. Each owner enters into an agreement for the sale of their ownership interest in the business.

Because cost is a factor, their advisor suggests using a 20-year Lincoln level term policy to fund the buy-sell agreement. If the owners' needs change, they could convert from Lincoln level term to a Lincoln permanent life insurance solution.



### How the stock redemption plan works

Since the value of the business is \$3 million and Al, Bob and Charlie own equal shares in the S-corporation, the business will purchase three \$1 million Lincoln level term insurance policies on each of their lives. The business will be the owner and beneficiary of each policy, and for the next 20 years will pay a level annual premium for the coverage.



### The outcome (per policy)

The business will pay \$1,264 annual premium for 20 years:	\$25,280 total premium
Death benefit in year 1:	\$1 million
Death benefit when the owners are age 65:	\$1 million

This outcome is for one policy only. There would be three identical policies in this example. This hypothetical example assumes a male, age 45, preferred nontobacco, 20-year level term insurance, \$1 million level death benefit.

If any of the owners would die or leave, the S-corporation will purchase that owner's stock. This ensures that the owner or their loved ones will be compensated with the fair market value of their share of the business.

## Why choose Lincoln term insurance?

- ✓ **Guaranteed financial protection** for 10, 15, 20 or 30 years with guaranteed premiums so that you know the cost of the policy will never increase
- ✓ **Affordability** for business owners who need balance-sheet-sensitive solutions
- ✓ **The convenience** of a streamlined application process and the opportunity of no-lab work requirements if you meet certain qualifications
- ✓ **Flexibility** with the option to convert to Lincoln permanent life insurance<sup>1</sup> and add optional enhancements for additional protection to meet your changing needs
- ✓ **The strength of Lincoln Financial Group** For more than 100 years, we've remained committed to helping Americans plan for retirement, prepare for the unexpected, and protect their wealth from taxes, long-term health costs, longevity, inflation, and market risk. We have continued to keep our promises through challenging financial times, including the Great Depression and the Financial Crisis of 2008. Today, more than 17 million Americans rely on us for the knowledge, experience and solutions to help them meet their goals.

<sup>1</sup> Convertible prior to the end of the level premium payment period (10, 15, 20 or 30 years) or prior to insured's attained age 70, whichever comes first. Conversions allowed to qualifying Lincoln permanent life policies available at the time of conversion.

## Take the next step to protect your business investment.

Talk with your advisor about planning strategies to help you succeed.

Not a deposit
Not FDIC-insured
Not insured by any federal government agency
Not guaranteed by any bank or savings association
May go down in value

©2019 Lincoln National Corporation

[LincolnFinancial.com](http://LincolnFinancial.com)

Lincoln Financial Group is the marketing name for Lincoln National Corporation and its affiliates.

Affiliates are separately responsible for their own financial and contractual obligations.

LCN-2503026-041519

POD 4/19 Z07

Order code: LIF-BUY-FLI001



You're In Charge®

### Important information:

*Lincoln LifeElements*® Level Term (2017)—4/22/19 is issued on policy form TRM6063 and state variations by The Lincoln National Life Insurance Company, Fort Wayne, IN, and distributed by Lincoln Financial Distributors, Inc., a broker-dealer. **The Lincoln National Life Insurance Company does not solicit business in the state of New York, nor is it authorized to do so.**

Policies sold in New York are issued by Lincoln Life & Annuity Company of New York, Syracuse, NY, and distributed by Lincoln Financial Distributors, Inc., a broker-dealer.

**All guarantees and benefits of the insurance policy are subject to the claims-paying ability of the issuing insurance company.** They are not backed by the broker-dealer and/or insurance agency selling the policy, or any affiliates of those entities other than the issuing company affiliates, and none makes any representations or guarantees regarding the claims-paying ability of the issuer.

Products, riders and features are subject to state availability. Limitations and exclusions may apply.