

# Does Losing a Partner Mean Losing a Share of the Practice?

Protect Your Practice with a Buy-Sell Agreement



**George Reilly**  
**Associate Financial Planner**  
**Account Executive**

Reilly Financial Group,  
**An Office of MetLife®**  
371 Hoes Lane, Suite 204  
Piscataway, NJ 08854  
732.465.0899  
732.981.0470 x139

There's no delicate way to put it. If your business is set up as a partnership or corporation, you may be concerned about what would happen to your business if your partner(s) or other owners became disabled or were to die. If a partner becomes disabled, could he or she sell his or her share to anyone, even if you didn't agree with the choice? If that partner dies, who is heir to his or her share of the practice?

Truth is, without a properly written agreement in place, your partner's share could pass into unwanted and inexperienced hands. Likewise, if a partner becomes disabled and wants to sell his or her share back to the practice, or if the owner dies, can you ensure that the practice will have enough liquidity to purchase that share?

There are steps you can take to assure that an heir to the practice is agreed upon now, or that you or the practice can buy your partner's share should anything happen.

To assure that the practice isn't sold (in the case of a partner's disability) or willed (in the event of a partner's death) to an unwanted third party, the partners of the practice can set up what is known as a "Buy – Sell Agreement." The agreement can be constructed so that if a partner becomes disabled and wants to sell his or her share, the company or remaining partner(s) agree to purchase the share, or an agreed-to third party agrees to purchase the share.

Alternatively, the agreement can be set up so that if a partner dies, the company or remaining partner(s) agree to purchase their share, or the share can be bought by an agreed-to third party, or willed to an agreed-to heir. Simply stated, a Buy-Sell Agreement

ensures a known succession and continuation of the practice, should anything happen to one or more partners.

But a Buy-Sell Agreement needs the correct funding to be effective; typically, funding comes from life\* and disability insurance policies. These policies can be used to fund two types of Buy-Sell Agreements – Buy-Sell Cross Purchase Agreements and Buy-Sell Entity Purchase Plans. Here are examples of how these can work for you:

### **Buy-Sell Cross Purchase Agreement**

Jane and John own a practice together, so they set up an agreement to sell their shares of the practice to each other in the case of their death or disability. To fund the agreement, Jane owns a disability insurance policy on John and uses the proceeds from that policy to purchase John's share of the practice if John becomes disabled and wants to sell his share. Additionally, Jane owns a life insurance policy on John, so if he dies, she can use the proceeds to purchase his share from the estate. Likewise, John owns disability and life insurance policies on Jane.

This method of funding provides each partner with the proceeds to purchase the company without having to liquidate a part of the practice.

### **Buy-Sell Entity Purchase Plan**

Now, let's say we have a corporation with four major stockholders: Jane, John, Jack and Jill. For this scenario, a Buy-Sell Entity Purchase Plan can be used. In this case, the entity purchases disability and life insurance policies on each stockholder. In the event of their deaths, the practice uses the proceeds from the life insurance policy to buy back the deceased's shares.

Despite their simple strategy, funding these agreements can be tricky, and involves many variables, such as how much to fund each policy, what types of policies are best to use, what's the actual value of your practice, and each partner's share in it. It's important to work with a team – you, your financial planner, attorney, accountant, and practice appraisal expert – to determine the strategy and funding that's best for you, your partners, and your practice. \_\_\_\_\_ Don't wait for disaster to strike – agree what will be done tomorrow, today!

\*Unless it qualifies for the small corporation exemption, a corporation may be subject to corporate AMT, which may affect the tax treatment of corporate owned life insurance policies. Consult your tax advisor to determine the applicability and potential effect of corporate AMT in your own situation. Policy withdrawals and outstanding policy loans (including any accrued interest) usually reduce the death benefit payable under the policy.

MetLife Securities, Inc., 200 Park Avenue, New York, NY 10166  
Metropolitan Life Insurance Company, New York, NY 10166

**L0504HU9Q(exp1206)MSI-LD**