Manulife

Insurance

# Is your business prepared for the sudden departure of one of its owners?

## Without a buy-sell agreement, you may be facing an uncertain future

### Here's the problem…

If your business loses an owner, the remaining owners must decide how the business will continue.

### WHAT ARE YOUR OPTIONS?

Generally, you have four options:

- Close down the business, but you likely wouldn't want to after all the time, energy and money you've put into it.
- Continue the business with the new owner (for example, the spouse of the deceased owner), but do you want to be in business with this person?
- Sell your shares, but who will buy them and at what price?
- Purchase the shares from the deceased owner's estate.

### BUY-SELL AGREEMENT OPTION

A formal buy-sell agreement covers the terms of ownership and operation of the business. It usually deals with the death, disability or retirement of one of the owners, as well as disagreements about running the business that result in an owner wanting out. The agreement often includes a formula or process for valuing the business to simplify the buy-out of an owner. Generally, the agreement deals with:

- Who buys the shares,
- The terms of the sale,
- When the sale takes place,
- Source of money to buy the shares, and
- The purchase price.

Proper funding must be in place to ensure the agreement is viable. Without funding, agreements can fall apart because the remaining owners, obligated under the terms of the agreement to purchase the departing owner's shares, may not be in a financial position to do so.

There are a number of ways to fund a buy-sell agreement.

Consider these options. You can:

- Start saving today,
- Borrow the funds from a bank,
- Take the funds from current earnings,
- Sell assets, or
- Purchase life insurance and disability insurance to provide the funds needed.

### THE BEST SOLUTION

Life insurance can be the most cost-effective solution to fund a buy-sell agreement when an owner dies. It guarantees that money is available when needed. What you get is peace of mind knowing things are taken care of. To find out more, contact your advisor.

Buy-Sell – Manulife UL

# Buy-Sell Case Study – XYZ Company.

## THE SITUATION

John and Gordon are equal shareholders in XYZ Company. They have a shareholders agreement that requires a buyout should one of the shareholders die. With the success of their business and the prospect of future growth they are now at a stage where they feel funding for this buy-sell provision is required. This means if one of them dies, the company will have the funds to redeem the deceased's shares.

John's situation is special. When he retires at age 65 (15 years from now) he intends to implement an estate freeze locking in the value of his shares. This will allow John to pass all future growth of his shares over to his son Jason who is a senior manager in the business.

John's share of XYZ Company is currently worth $1 million. Based on an assumed growth rate of 5%, John anticipates his shares will be worth almost $2.1 million when he is 65.

## THE PROBLEM

John wants a cost-effective solution that will provide funding for a buyout, if he or Gordon dies, with the potential to grow as the value of the business grows.

## THE SOLUTION

Life insurance on each shareholder is determined to be the most cost-effective way to fund a buy-sell at death. If one shareholder dies, XYZ Company will receive the insurance proceeds tax free and use them to redeem the deceased's shares.

Manulife UL provides each shareholder with the protection they need today and in the future.

| Shareholder | Ownership per cent | Today's FMV* | Projected FMV* in 15 years |
|---|---|---|---|
| John | 50% | $1,000,000 | $2,100,000 |
| Gordon | 50% | $1,000,000 | $2,100,000 |

**Fair Market Value*

## MANULIFE UL – A BETTER CHOICE!

- A cost-effective solution.
- Investment flexibility – choose from a wide range of investment options including fixed interest and equity options.
- Receive regular statements including rates of return to monitor the performance of your policy.
- Track your investment performance daily – www.manulife.ca/ul
- Decide the amount and number of deposits to suit your needs and cash flows.
- Backed by Manulife, one of the largest life insurance companies in Canada.

Manulife strong reliable trustworthy forward-thinking

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