Ownership equity protection with life insurance

What is the biggest risk to the future of your business? Without a good business succession strategy – that risk could be you.

Plan to retire at age 65? Consider the odds...

With three different types of business owners, all age 45, these are the statistical chances of one owner dying prior to age 65.[1]

24% SOLE PROPRIETOR

43% TWO PARTNERS

57% THREE PARTNERS

Undoubtedly, you have contributed countless hours and personal sacrifices to build your business. Your net-worth and personal pride are tied to it – and your family counts on its success. However, the value your business represents to you and your family could diminish overnight without a business succession plan.

Taking the unnecessary risk that you or one of your partners die, become disabled or leave, without a proper strategy in place to pass on the business efficiently could mean your family may not realize the true value of your hard work. We can help you plan for these potential events with strategies for funding these transitions.

What are your risk factors?

Use this list to start discussing your options with your Truist representative.

- ○ My entire household income is generated from the business
- ○ I have personally guaranteed my business loans
- ○ The majority of my net worth is tied to the value of the business
- ○ I don't currently have a successor or written plan to transfer ownership
- ○ I don't currently have a disability or life insurance policy in force
- ○ I don't have a current valuation for the company

For partners
- ○ I don't have a buy-sell agreement in place
- ○ I have a buy-sell agreement but there isn't funding in place

Truist Life Insurance Services

[1]Virtual Sales Assistant, Consider the Odds of a Business Owner Dying Prior to Age 65

Protecting the sole proprietor

Your family and your employees rely on the success of your business and as the sole proprietor, the success of your business primarily relies on you. If you were to die or become disabled, would your family be able to continue the business?

> Would they have to exercise one of these three exit strategies: sale of ownership, transfer of ownership or liquidation of assets? If so, how successful would they be at implementing that strategy and how would it affect your household income?

Life and disability insurance offer an efficient way of protecting the sweat equity you have built up over the years and passing it on to your family, providing them the time to decide which exit strategy to pursue. In addition, you are not just an owner but also a key employee. Even if you plan to pass the business on to a capable manager, make sure to account for the loss of your contributions to the business and consider key person insurance as explained below.

Protecting partners

In a partnership, it is equally important to consider what will happen to the business, if you or one of your partners unexpectedly dies or becomes disabled. If you do not have an agreement stating your intentions, that ownership interest will pass to the heirs of the partner. Ask yourself, are you prepared to be in business with your partner's spouse or children? If not, make sure you have a buy-sell agreement to cover ownership transfer under these circumstances.

What is a buy-sell agreement?

A buy-sell agreement is a written agreement that maps out when and how the transition of business interests will occur: who will be the seller, who will be the buyer and what the terms will be. The most common types of buy-sell agreements are:

- Cross Purchase - The owners buy each other's interests
- Entity Redemption - The business buys back the owners' interests
- Wait and See - The buyer of the owner's interest is not determined until death, at which time both the company and other owners are given a series of purchase options.

The goal of these agreements is to give you confidence in knowing your family will receive fair market value for your interests once you stop participating in the business. A buy-sell agreement can be easily modified to adjust to the changing needs of your company.

In addition, each partner may bring a specialty function that could be difficult to replace. Therefore, you should also account for the loss of a partner's contributions to the business and consider key person insurance as explained below.

Key person planning

A key employee is so integral to the operation of the business if he or she were no longer involved, the business would suffer serious financial hardship. Are you or a partner, as owner(s) of the company, that person? Key person insurance involves planning for considerations such as lost sales or other revenue, replacement costs, training and education that often accompany the loss of a key contributor to your business and can be vital in ensuring the continuation of the business.

Funding with insurance

Whether you are planning for the transfer of your ownership interests or protecting the company, if you or other key personnel are no longer participating, life insurance can provide the necessary liquidity to carry out your plan. The death benefit allows a policy owner to receive a lump sum to use in funding the buy-out, giving your family the value they deserve for the company at a time when they may need it most. A key person insurance plan provides the company with funds to continue operating while dealing with the replacement of an important member of the team or owner. There are many different types and structure of policies that can be used. As a funding tool, insurance can provide you the security of knowing your family and your business is protected as you continue to build and grow your company.

Truist Life Insurance Services