

Business *Discontinuity*: Odds, Risks and Insured Solutions



Learn how your clients and prospects who own businesses can — with your guidance and the right strategy — help prepare effective succession plans.

Deborah A. Miner, JD, CFP®, CLU®, ChFC®, RICP®
Assistant Vice President, Advanced Markets

The odds of business owners or anyone winning the lottery are astronomical. The odds of business owners dying — not so much. Here is a table adapted from The National Underwriter Company's 2021 Field Guide:

	AGES	ODDS OF DEATH	
		WITHIN 10 YEARS	WITHIN 20 YEARS
One-Owner Business (Male)	40	2.5%	8.3%
	50	5.9%	20.2%
Two-Owner Business (Male)	40–40	5.0%	15.9%
	50–50	11.5%	36.3%
Three-Owner Business (Male)	40–40–40	7.4%	22.8%
	50–50–50	16.7%	49.1%

* Odds of Death within 10 and 20 Years, "2021 Field Guide." © 2021 The National Underwriter Company.

Also, the risk of long-term disability for a male age 40 is 2.9 times more likely than death. The risk for a male age 50 is 2.3 times more likely¹. Of course, the odds of death for females are slightly less — but the risk of disability is slightly more. Regardless, the risk of death or disability for business owners is not remote. The risk is real.

Producers may be the best persons to help business owners prepare for that risk and transfer that risk to an insurance company. They can get the conversation started and discuss the many benefits of a properly executed and funded buy-sell agreement with business owners. Let's take a brief look at the benefits of buy-sell plans.

Benefits of Buy-Sell Plans

- Guarantee a buyer.
- Ensure business continuity.
- Establish a fair price and/or fair estate tax value.
- Avoid conflicts and/or lawsuits.
- Provide liquidity/financial support when needed.

¹ "Disability Planning," 2021 Field Guide, page 301, The National Underwriter Company, ©2021.

Inside COLUMBUS LIFE

Unfortunately, while identifying the need for a buy-sell agreement is not difficult, the buy-sell sales process itself can be complicated. It requires a collaborative effort between the producer and the business owner's tax and legal advisors. The business needs to be valued and a buy-sell agreement has to be drafted — neither of which can be done by the producer. However, the producer can play a pivotal role and Columbus Life can help.

How to Assist Decisions About Buy-Sell Plans

1. **Start the Conversation.** Talk with existing business-owner clients and prospect for new business-owner clients. Use referrals, warm or cold calls or even a mail campaign (see sample letter, "[Extending the Life of Your Business](#)" on the Columbus Life extranet).
2. **Gather the Information.** Once the producer has the business owner's attention, it is time to gather relevant information. Columbus Life's [Confidential Business Planning Profile](#) can help the producer ask the right questions and provides a convenient place to record the answers. The type of buy-sell agreement most suited to a particular business depends on a variety of factors, including the number of business owners and their objectives as well as the business tax structure.
3. **Prompt a Discussion on Price.** A critical component of any buy-sell agreement is determining what the business is worth. The business owner will want to work with other advisors on an effective means of valuation; it could be by agreement of the parties, a third-party determination, or a formula. The producer may share Columbus Life's [Business Valuation tri-fold](#) with the business owner.
4. **Explain the Variations among Agreement Types.** There are advantages and disadvantages of each of the three main types of buy-sell agreements. A brief list of these appears in the table below.

	Advantages of Buy-Sell Plans	Disadvantages of Buy-Sell Plans
Entity Purchase	<ul style="list-style-type: none">> One owner, premium payer and beneficiary.> May equalize financial burden.> Transparency of premium payments being made.> Surviving owners' basis may not be stepped up.	<ul style="list-style-type: none">> In case of C corporation, may have issues with complete redemption/sale treatment> Must meet Notice and Consent requirements of Section 101(j).
Cross Purchase)	<ul style="list-style-type: none">> Surviving owners receive step-up in basis.*> No issues with C Corporations.	<ul style="list-style-type: none">> Multiple policies per owner—N x (N-1).> Potential large disparity in premiums paid.> Subject to creditors of owner of policies.
Wait-and-See	<ul style="list-style-type: none">> Flexibility.> Can choose the more tax efficient method.	<ul style="list-style-type: none">> Slightly more complicated.> May take longer to exercise various options.> Who purchases the insurance?

* Please note that there are proposals to eliminate the step-up in basis rules upon death.

5. **Encourage Consultation with Legal Advisors.** Only attorneys can draft legal documents, such as buy-sell agreements. Specimen documents from [Advanced MarketsOnline \(AMO\)](#) and [Virtual Sales Assistant \(VSA\)](#) can be found on the Columbus Life extranet and can be shared with clients to share with their legal advisors. Of course, clients should be encouraged to work with attorneys experienced in drafting buy-sell agreements.

Inside COLUMBUS LIFE

- 6. Sell Life Insurance to Fund Buy-Sell Agreement.** While there are alternative methods available to fund a buy-sell agreement, life insurance is a cost-effective method that provides a generally income-tax-free death benefit precisely when needed. Life insurance can transfer the risk of premature death from the co-owners or business to the insurance company.

The buy-sell sales process takes time and effort on the part of a producer. However, the benefits extend beyond the sale of life insurance in any one particular case. Meeting and working with the business owner's other advisors – showcasing the producer's knowledge and expertise and adding value – opens the door to future opportunities.

There are many buy-sell tax issues that are beyond the scope of this article. However, there are strategies and solutions to address most tax concerns and Advanced Markets attorneys on staff are always available to consult on buy-sell cases.

For more information, call Advanced Markets at 800.677.9696, option 8 or email advancedmarkets@columbuslife.com.

Columbus Life does not provide legal or tax advice. The information herein is general and educational in nature and should not be considered legal or tax advice. Tax laws and regulations are complex and subject to change, which can materially impact investment results. Columbus Life cannot guarantee that the information herein is accurate, complete, or timely. Columbus Life makes no warranties with regard to such information or result obtained by its use, and disclaims any liability arising out of your use of, or any tax position taken in reliance on, such information. Please advise your customer to consult an attorney or tax professional regarding their specific situation.

©2021 Columbus Life Insurance Company. All rights reserved.

For Financial Professional Use Only. Not for use with the public.