

## Life Insurance in your Business Succession Plans

### Four Reasons Why It Makes Sense

Many closely held businesses with no plan for the smooth continuation of the business fail due to lack of funds, poor transition or lack of adequate talent to replace a suddenly deceased or incapacitated owner. Incorporating life insurance into a well-written business succession plan can make the difference between a defunct business and a thriving business. Here are four reasons why life insurance makes an excellent choice to fund your business succession plan.

#### Reason 1

##### **Quick Liquidity Without Constraining the Business**

Acquiring the funds to complete a buyout can be difficult, especially after you, as owner, are no longer available and the business could be adversely affected by the loss of your services. Your surviving business owner(s) could raise the necessary funds by borrowing, selling business assets, or using cash reserves, but all of these transactions are inherently uncertain and could jeopardize the health of the business. Alternatively, life insurance offers a viable option for financing a buy-sell agreement. A life insurance policy can provide the proper amount of liquidity when it is needed most: after the death of a business owner. Funds received as the death benefit of the policy can then be used by the business or surviving co-owner(s) to purchase your interest.

#### Reason 2

##### **Business Continuity**

Having a business succession plan in place ensures that the business will continue should something happen to an owner. This is especially important for sole owners who often do not have someone else readily available to take over operations in a short space of time. For certain types of entities, such as sole proprietorships, if the owner passes away, the business is required to be liquidated. Business continuation is also a major concern for professionals who require certification, such as lawyers, accountants, engineers, etc. Such owners cannot just transfer the business to their families—they must locate a new owner who has the appropriate qualifications to legally own the business. Without a plan in place ahead of time, the inability to find a qualified buyer may result in a fire sale at reduced value or liquidation of the business entirely.

#### Reason 3

##### **Estate Equalization for Loved Ones**

Not all of your children may be involved in the family business. This may cause difficulty when determining your estate plan if the majority of your and your family's wealth is based in the closely held business. You may feel you want to equalize the inheritance you leave to children, regardless. A life insurance policy can provide the liquidity needed to leave an inheritance to children not involved in the business while leaving all or the majority of your business to the actively involved children. This will also prevent future conflicts of having actively managing children working to provide cash distributions to the non-managing children who own a portion of the business.

#### Reason 4

##### **Flexibility**

Death may not be the only circumstance to cause you to separate from your company. Permanent life insurance as the means to fund a buy-sell agreement offers flexibility because the value of the policy can be used for other purposes. The cash value of a life insurance policy can also serve as a source of funds for a buyout at dissolution, or should you become disabled, or incapacitated, or decide to retire.

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