



RISK PROTECTION PACKAGE · VOLUME 02 · FOR OWNERS

The business is part of the package.

Buy-sell. The person you cannot replace. The people you cannot afford to lose. Written for the owner, not for a sales meeting.

Is your Risk Protection Package current and up to date?

PROTECTIONPRO PARTNERS LLC
Technology driven, human optimized

Life & Health series

If your name is on the door, read this.

Volume 01 asked what belongs in a household Risk Protection Package: life insurance, disability insurance, long-term care, and annuities. This volume is the business chapter.

If you own a closely held company, the package is not current while the agreement in the drawer is unread, while another owner controls the only policy on your life, or while one employee could walk out and take the revenue with them.

ProtectionPro Partners LLC works the Life & Health side of that package. Property and casualty — the building, the autos, the liability — sits with the sister agency, Rowayton Insurance Agency LLC. This book does not cover that side.

An attorney writes the agreement. We do not.

Nothing here is a contract, a tax opinion, or a substitute for counsel. It is a list of questions worth answering before a death, a disability, or a resignation answers them for you.

A buyer, a price, and a date.

A buy-sell is a written promise about who may own the company next, and for how much, when an owner's seat ends.

A market that does not otherwise exist.

A closely held share has no public buyer. The agreement creates one at death, disability, departure, divorce, or retirement.

Control stays with the people still working.

Survivors should not inherit a partner they did not choose.

A price set before anyone is angry.

The fight is worse when the number is invented at the funeral or the firing.

Cash for the family, not a share they cannot sell.

Liquidity is the point. A non-marketable interest is not a plan.

The document may stand on its own, or it may live inside an operating or partnership agreement. Open whichever one you actually signed. If you cannot find it, that is the finding.

Three shapes. Pick one on purpose.

Owners buy each other

The surviving owners purchase the share. Life insurance, if used, is often a policy each owner holds on the others. Two owners, two policies. Three owners, six. Buyers generally increase their basis by what they pay.

The company buys

The firm redeems the share. One policy per owner, owned by the company, is the usual funding. Remaining owners do not get the same personal basis increase. Family companies can have tax results counsel must check first.

Decide at the time

The company gets the first option, the other owners the next, and someone is still obligated to finish the purchase. Flexibility for the living. A sure exit for the one who is gone. Policies often sit with the company.

If the company will own a policy on your life, notice-and-consent rules matter. Skip them and the death benefit can be taxable to the business. That is a CPA and counsel item, not a detail to leave for the claim.

In a community-property state, or if divorce can force a sale, spouses often need to sign too. Ask the attorney. Do not guess.

Write down when, and for how much.

Death.

The estate sells. The others must buy. A spouse should not be left holding a share with no buyer.

Disability.

If an owner can no longer do the job, after a waiting period you choose — often six months to two years — the share is sold. If disability buy-out insurance funds it, the definition in the agreement must match the policy.

Leaving.

On good terms or bad, the person who leaves sells. A discount and a longer note are common if someone walks early, or is fired for cause.

Forced transfer.

Divorce, bankruptcy, a court. Remaining owners should be able to buy that share back. An interest that lands with an ex-spouse often gives the divorced owner the first chance to repurchase it.

Price is a number you update, a formula from the books, or an appraisal. A formula nobody can calculate will start a fight. Death is usually priced at the date of death. Disability is usually priced when the waiting period ends.

Five places the money can come from. One of them is ready.

2

A sinking fund you actually funded.

3

A bank, if it will lend to a firm that just lost an owner.

4

A note back to the seller. Useful. Slow. Interest is not optional between family.

5

Life insurance. The premium is a fraction of the benefit, and the money is arranged before the event.

Most agreements do not demand cash in full. A down payment — often the insurance proceeds, up to the price — and a note of three to ten years is the usual shape. Monthly, quarterly, or annual. Write the interest rate down. For family, it should not sit below the rate the tax rules require.

Death proceeds are generally free of federal income tax. “Generally” is doing work in that sentence. Confirm it for your entity, your ownership, and your notice-and-consent file.

Term on each other is a start. It is often a trap.

Partners buy term on each other because the need feels temporary. Three problems show up later.

The healthy owner overpays.

The younger owner is forced to fund a large premium on the older one.

You do not control the policy on your life.

Leave the firm and still need the coverage, and you are asking someone else to give it back.

Term builds nothing.

The premium is rent. There is no value to reposition when you retire or sell.



Own the policy on your own life.

Endorse to the other owners only the death benefit the agreement requires. You keep the contract. Extra benefit can name your family. If you leave, you already own it. You do not start over with an underwriter.

Two owners. Different ages. One shop.

This is an illustration, not a client. Two owners of a specialty metal shop. One is 46. One is 58. The company earns more than either household spends. Neither spouse could write a check for half the firm.

They want the survivor to be able to buy the share from the family. They also want a way out if one of them sells to a larger shop, or simply wants to stop, before anyone dies.

Each buys and owns the policy on their own life, large enough for the buy-sell, with room above it for the family. Each must keep the policy in force for the agreement. Everything else — extra premium, a beneficiary for the surplus, a care rider — is their decision.

Younger owner

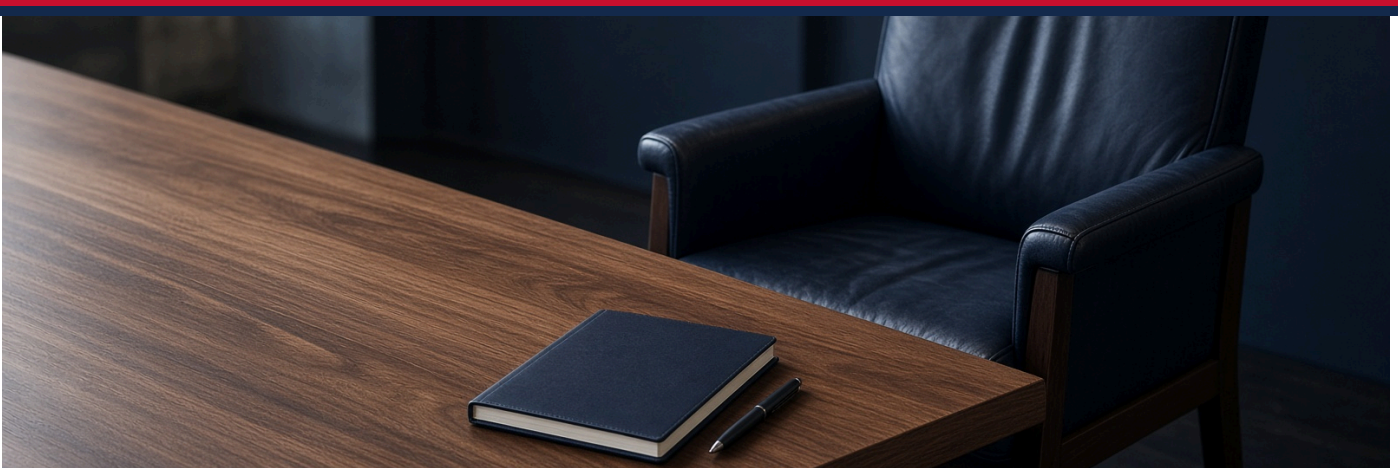
Owens the policy on their life. Endorses only the buy-sell amount.

endorsed
benefit →
← endorsed
benefit

Older owner

Owens the policy on their life. Same endorsement the other way.

The insurance does not write the contract. If the agreement still says the other owner owns the policy, the picture and the paper disagree. Fix the paper.



KEY PERSON

The empty chair has a price.

The business buys life insurance, disability insurance, or both on the person whose absence would cut the work. The company pays. The company owns it. The company is paid.

Who

The estimator everyone trusts. The engineer. The salesperson who holds the accounts. The operator who is not an owner.

What it pays for

A search. A gap in profit. Customers who leave with the person. Not a compliment. A number you and the bookkeeper can defend.

Both risks

Illness and injury are more common than death. A life-only policy leaves the likelier loss unfunded. Disability contracts have a waiting period. Read it.

A fabrication shop. One estimator prices the serious bids. The owner writes down a year of margin at risk, plus the cost of a search. That figure is the amount. A round number chosen because it sounds large is not a plan.

Three ways to make staying worth it.

A retirement plan that treats everyone the same will not hold the person a competitor is calling. These are designs, not products. Counsel and a CPA have to fit them to your facts.

A promise the company pays later.

You agree to pay after years of service or at retirement. You may set cash aside — sometimes in a policy the company owns — so the money is there. The promise is unsecured. Creditors can reach a company asset. Deferred-pay tax rules are strict. Get them wrong and the tax arrives early.

A bonus into a policy they own.

You pay premiums on their contract. They owe income tax on the bonus; you can gross it up. A carrier endorsement can limit loans and surrenders while they are still earning it. A separate employment agreement sets vesting and what you may recover if they leave. The endorsement alone does not give you the cash value.

Split rights in one policy.

They own a policy on their life. You pay. You are assigned enough cash value and death benefit to recover what you put in. They keep the rest, including what is left for their family. You generally do not deduct the premium. They may owe a small annual tax on the economic benefit.

Which problem are you actually solving?

	Promise to pay later	Bonus into their policy	Split rights
Hold	Strongest. The benefit is a future promise, not money they can take today.	Weakest, unless the employment contract is tight.	Built in. They cannot freely strip the cash value while your recovery sits on the policy.
Who holds it	The company.	The employee, with limits you write down.	The employee. You keep a claim for what you paid.
Tax shape	Your deduction usually waits. Their tax usually waits until they are paid. Rules are unforgiving.	You deduct a reasonable bonus. They pay tax when you pay it.	No deduction for the premium. A modest annual tax to them on the benefit you are providing.
If the firm fails	The set-aside asset is reachable by company creditors. So is the promise.	Their policy is generally outside the company. Many states also shelter life insurance from personal creditors. Confirm yours.	Same shelter, often, for what they own. Your recovery right is still a contract.
Use it when	You want them to stay, and they will accept an unsecured promise.	They want control, and you want a simple bonus.	You want your money back, and they want what remains.

A nonprofit or tax-exempt employer does not get the same menu. Say that before anyone designs a plan. The wrong pattern is not a small error.

Pay them if they are still here. Protect the family if they are not.

You promise a defined bonus if a key person is still employed after a set number of years, or if they die while employed. It fits an owner who wants a successor in the building, or who is afraid a competitor will hire the person who actually runs the floor.

During those years the company owns a cash-value policy on them. A second agreement lets them name a beneficiary for part of the death benefit. They pay tax on the economic benefit of that endorsed amount, which is usually small. If they die in service, the family can receive that benefit income-tax free.

At the end, you pay the bonus in cash, or sometimes by transferring the policy. Pay it when it is due. Stretching the payment can pull the arrangement into deferred-compensation rules. Your CPA draws that line.

If they stay

A lump sum they can use for retirement, tuition, or a first piece of the company. Taxable in the year they receive it.

If they die in service

The endorsed death benefit can reach the family. The same policy can also indemnify the firm for the loss.

If they leave early

They forfeit. They must qualify medically to start. The company keeps the policy it owns.

Bring the paper, not a memory of it.

The agreement.

Or the operating agreement, if the buy-sell lives there. The year anyone last read it.

Who owns what.

And who, if gone tomorrow, would cut the revenue.

The policies.

Any contract the company owns on a person. Any contract another owner holds on you.

The hope.

Who you think will buy you out, and whether they know that.

ProtectionPro Partners LLC

Chris Martens, CLU, CIC, CPRIA — Principal. Technology driven, human optimized. With technology, we can meet with people wherever they are. (203) 604-2500 · hello@protectionpropartners.com

Educational only. Not legal, tax, accounting, or investment advice. Not an offer to sell or a solicitation to buy any insurance or annuity contract. Buy-sell documents and employment agreements are legal instruments; have counsel draft and review them. Tax results depend on your facts; have a CPA confirm them. Contracts are issued by insurance companies, not by ProtectionPro Partners LLC. Guarantees are subject to the claims-paying ability of the issuing insurer. Death-benefit tax treatment, notice-and-consent, and deferred-compensation rules are summarized here in plain language and are not a complete statement of the law. Property and casualty insurance is placed through Rowayton Insurance Agency LLC. The metal-shop and fabrication examples are illustrations, not clients. Read the contract.