

# Buy-Sell Agreement

## CONCEPT APPLIED:

A buy-sell agreement ensures stability in business transition and prevents heirs from having to run or sell the business after an owner dies. With a buyer in place, a life insurance policy ensures that funds will be available when needed.

## HOW IT WORKS:

There are three main types of buy-sell agreements:

**Cross-purchase agreement**—each owner buys part of the interest. Each owner buys insurance on every other owner to fund the purchase.

**Entity-purchase agreement**—the business itself buys the interest. The business buys insurance on each owner to fund the purchase.

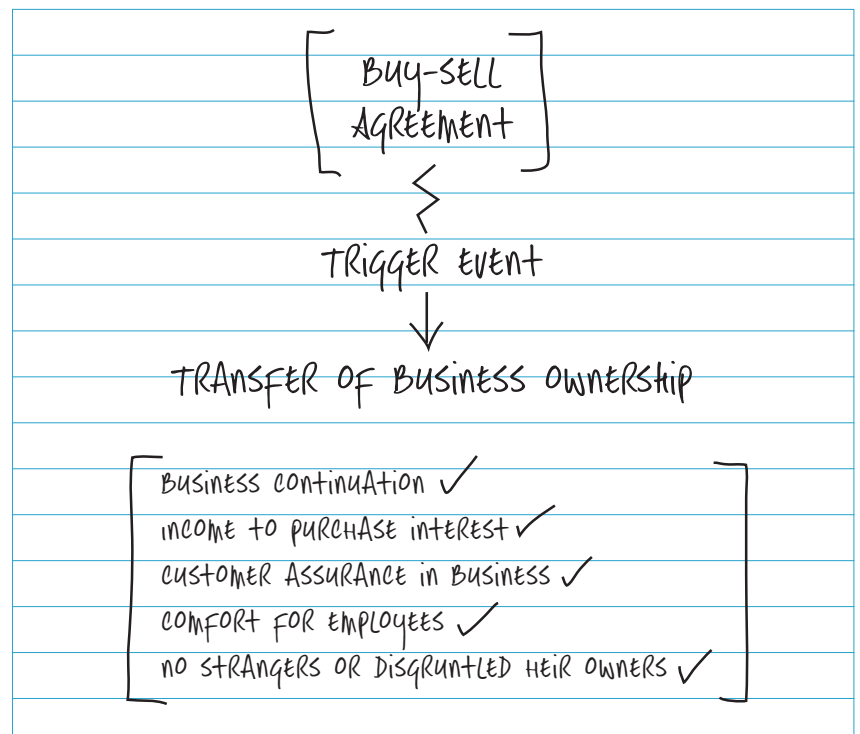
**One-way agreement**—an individual (usually a key employee) agrees to buy a sole-owner business. The buyer typically purchases life insurance on the owner to fund the purchase.

## WHY IS IT USEFUL?

A buy-sell agreement ensures an orderly transition and alleviates conflicts over the value of a business. Heirs get needed cash, and surviving owners are assured that the heirs or a stranger cannot insert themselves into the business.

## 50 WORDS OR LESS

A buy-sell agreement is a legally binding contract—whether simple or complex—that dictates the terms of a future sale of a business interest, ensuring continuity of ownership and management. It specifies the triggering circumstances (retirement, death, disability), the buyer(s), and how the business will be valued.



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