PARTING ISN’T
When a business partner dies, a prearranged plan for settling with
ALWAYS SUCH
the deceased’s heirs is a valuable business strategy
SWEET SORROW

To keep matters out of court when one business partner dies, an adequately insured buy-sell agreement should provide a prearranged cash settlement for the decedent’s heirs determined by a previously-agreed-upon formula.
When a business partner dies, normal partnership operations cease. Surviving partners become “liquidating trustees” who may conduct no new business, but only wind up affairs of the partnership. If surviving partners continue the business, they may become personally liable for all losses—in some states, for losses that exceed the value of the partnership assets.

Heirs cannot legally enter the business and take over, but may demand the decedent’s share of the firm’s net worth. Valuation of the heirs’ interest can lead to prolonged legal difficulties.

An adequately insured “buy-sell” agreement can avoid difficulties by establishing the valuation in advance. Through such insurance, kept up-to-date at all times, the business of a partnership can continue despite the death of a partner. Moreover, the decedent’s heirs are assured a full and immediate cash settlement.

The primary purpose of partnership life insurance is liquidation of any partner’s business interest at death. A clean-cut, precise plan of action, goes into effect immediately upon a partner’s death, adequately financed and according to a prearranged schedule.

Such plans also assure full equity for each partner’s heirs, help maintain the firm’s credit standing, and provide funds to cushion the shock of losing a key executive.

One type of plan involves the purchases by each partner of a policy on the life of the other partners, each paying their own premiums. Another approach, particularly where there are three or more partners, is for the firm to buy policies on the lives of each partner.

Questions to consider include: How much should premiums be? What amount of insurance is needed? What are the beneficiary arrangements, tax effects, and policy assignments necessary?

All business, legal, financial and insurance needs should be carefully checked by experts, so the final plan is the most effective and economical possible. Use the services of a qualified life insurance agent, plus the firm’s lawyer, banker, and accountant.

Valuation is perhaps the most complex task, and is often the most difficult point on which to reach agreement. Yet the difficulty would be even greater if determination of a formula were put off until one partner dies.

The simplest valuation plan sets an arbitrary value on each partner’s interest in advance. The formula for settlement could be a fixed valuation for good will, plus net book value (the current value of assets, less liabilities).

Very often, the plans provide that the partners will agree, at various intervals, on a revised valuation. Another possibility is to leave the valuation to a trustee, or to later arbitration under a specific arbitration plan.

Credit insurance may also be useful in planning against the death of a partner, especially because contractors make extensive use of credit.

Another insurance of special value to a partnership is a “key man” policy to cover the lost services of a disabled partner. And if the partnership is heavily burdened with a mortgage on its real property, and dependent on continuity of present management to meet its commitments, life insurance protection to cover the mortgage might also be valuable in the event of a partner’s death.

**Periodic Check-Up**

Once the partnership life insurance program is set up, it must be checked annually. Tax law changes, ownership changes, management changes, business growth or declines, valuation fluctuations—all may affect the plan.