# Money Matters

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## Question of the Month: How Should You Handle a Partner's Death?

**By Aaron Skloff**

Q: What happens to my partner's ownership stake in our company if he passes away?

A: Without a plan the remaining owners must contemplate a number of potential problems. The deceased's heirs may or may not retain their ownership in the company. If the heirs retain their ownership they may demand a more active role in decisions in the business or they may remain passive, but expect the company to provide them an income. The heirs may sell their ownership at the highest price they can obtain, even if the buyer is a competitor. Any of these outcomes could result in poor employee morale, customer attrition or complete implosion of the business.

The solution is a buy-sell agreement. With a buy-sell agreement, the company must buy the deceased's ownership stake in the company at a predetermined value. Upon purchase, the remaining owners maintain control of the company and the deceased's heirs are fully compensated. But, paying the heirs is easier said than done. The following are the most common solutions for the company.

**1. Pay Cash.** The company can simply pay the heirs cash for the outstanding stake, but it could take some time to raise the money. Balancing the business' need to retain liquidity and the estate taxes the heirs may need to pay within nine months of the death, can present a host of problems.

**2. Pay in Installments.** The company can pay the heirs in installments. The heirs would then have to rely upon the success of the business well into the future, or risk a disruption or discontinuation of their installments.

**3. Get a Loan.** The company can obtain a loan to pay the heirs, but regular principal and interest payments may not be feasible through difficult economic times.

**4. Insure Each Owner's Life.** With a stock redemption agreement, the company owns life insurance policies on the lives of each owner. When an owner passes away the company buys the deceased's ownership in the company with the proceeds from the life insurance.

If a stock redemption agreement funded with life insurance is the solution the company utilizes, the company must then determine what type of life insurance policy to purchase. Although more expensive than other types of life insurance, permanent life insurance guarantees the proceeds will be paid no matter how long the owners live. Although less expensive than other types of life insurance, term life insurance cannot guarantee the proceeds no matter how long the owners live. By definition, term life insurance only covers a set term.

Work closely with your Financial Advisor to determine if a buy-sell agreement is appropriate for your business. If so, collectively determine if a stock redemption agreement funded with life insurance is the best solution. If so, collectively determine what type of life insurance is most appropriate.

Note. Aaron Skloff, Accredited Investment Fiduciary (AIF), Chartered Financial Analyst (CFA), Master of Business Administration (MBA) is CEO of Skloff Financial Group, a Registered Investment Advisory firm based in Berkeley Heights. He can be contacted at www.skloff.com or 908-464-3060.