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# How Buy-Sell Arrangement works

## Your situation

You are a shareholder of a successful, private corporation. You want your business to continue if any of the shareholders die. If you die, you want to be sure that funds are available to buy your shares and provide your estate with the liquidity it needs. You also want to ensure that if another shareholder dies, funds are available to purchase their shares to facilitate an orderly and timely buy-out. There are a number of different ways you could provide for this capital. You could establish a savings plan to accumulate the required funds, or at the time the need arises, you could use personal or corporate cash or borrow funds from a bank.

## An option to consider - a life insured Buy-Sell Arrangement

A life insured Buy-Sell Arrangement is designed to provide the capital needed to facilitate the purchase of shares at death, at the time it is needed. Each shareholder is insured under one or more life insurance policies. Upon the death of a shareholder, the life insurance proceeds are available to provide the cash needed to purchase the shares of the deceased shareholder.

## How does Buy-Sell Arrangement work?

Depending on the structure of the Buy-Sell Arrangement, the corporation may own policies (or a multi-life policy) insuring the life of each shareholder. Or each shareholder may own a policy on the life of every other shareholder. The owner of each policy is also the beneficiary of the policy.

If the life insurance is owned personally by the shareholders, when one shareholder dies, the surviving shareholders receive a death benefit which is used to buy the deceased person's shares.

If the life insurance is owned by the corporation, when a shareholder dies, the corporation receives the death benefit. The corporation receives a credit to its capital dividend account (CDA), equal to the excess of the proceeds received over the adjusted cost basis of the policy. The corporation may use the death benefit to buy back the deceased person's shares directly, or it may pay a dividend to facilitate the purchase of the deceased person's shares by the surviving shareholders.

The Buy-Sell Arrangement presentation captures the value of the shares of your corporation and projects the future value to determine the total funds required to fund a buy-out at death. It also captures the assumptions you choose for alternative methods of funding the buy-out. Using present value calculations to take into account the timing of the cash flows for each alternative, the cost of these alternatives is compared to the cost of funding the buy-out with life insurance. The tax consequences of the chosen buy-sell structure are also shown.

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