Advanced Insurance Strategy

RiverSource Insurance

Buy-sell agreement

What is a buy-sell agreement?

A buy-sell agreement is a written document that describes how a business will be transferred in the future in the event of a business owner's retirement, disability or death. A funded buy-sell agreement includes legally binding language mandating or giving an option to purchase and:

- Identifies the buyer and the seller
- Values the business using a set price or a formula
- Identifies triggering events
- Outlines a payment method
- Outlines a funding method

Why have a buy-sell agreement?

Having a buy-sell agreement can help you:

- Ensure the smooth and successful transition of the business
- Increase the value of the business for the heirs
- Ensure a steady income for the family
- Continue your family legacy

Who benefits from a buy-sell agreement?

- Co-owners
- Family (e.g., spouse, children, other heirs)
- Employees
- Customers
- Community

The RiverSource Advanced Strategies team is a resource available to you when you work with an Ameriprise financial advisor.

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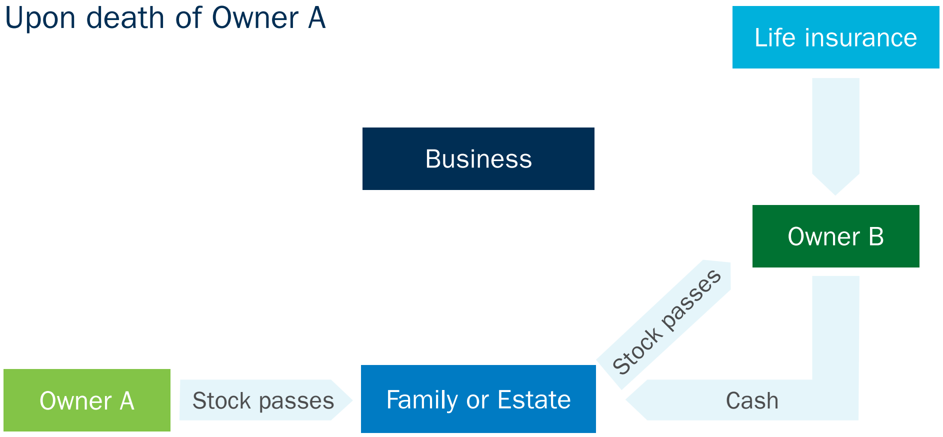
Methods for funding the buy-sell agreement

Cross purchase buy-sell agreement

With a cross-purchase agreement, each person involved buys a policy on the other. When one of the individuals in the agreement receives the death benefit paid out at the death of the other, they use the death benefit to purchase shares from the deceased owner's estate. The basis in the newly acquired shares becomes the purchase price, which can be an advantage to the purchaser when he or she sells the shares. Also, the death benefit passing to each individual will not be subject to estate taxes on the insured's estate since the insured person does not have any incidents of ownership in the policy.

Upon death of Owner A



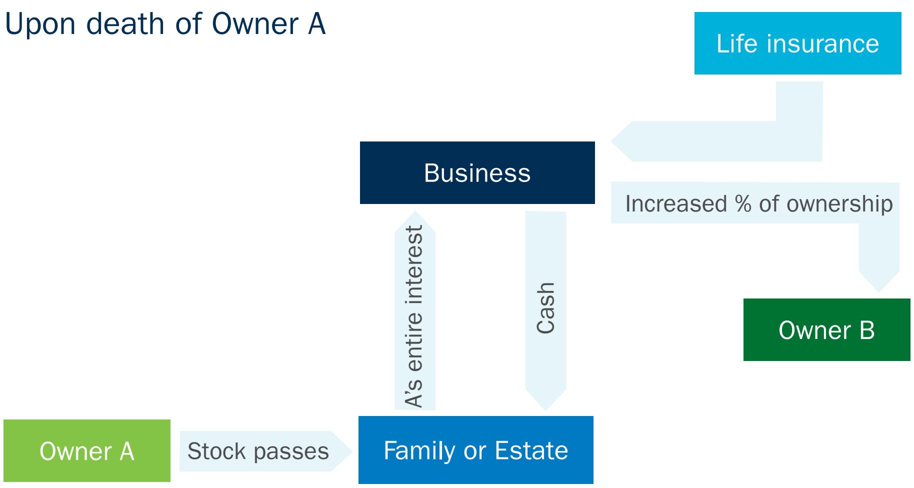
Consider a cross-purchase buy-sell agreement when:

- There are only a small number of owners
- The buyers are going to sell their shares soon
- The business owners do not want the death benefit to be subject to estate tax

Entity purchase buy-sell

With an entity purchase buy-sell agreement, the entity, or business, buys a policy on each person. Since only one policy is needed to insure each owner, and the business pays for the premium directly, this method can be simpler to implement than a cross purchase buy-sell agreement. With C corporations, there is no adjustment to the basis of the shares held by the remaining shareholders when the proceeds are received by the entity. With partnerships and S corporations all shareholders get a pro rata increase in basis, because the life insurance results in income for accounting purposes, but not for income tax purposes.

Upon death of Owner A



Consider an entity purchase buy-sell agreement when:

- There is a large number of owners
- The surviving owners are not going to sell shares soon
- The surviving owners are concerned about personally paying for the policies

Before you purchase, be sure to ask your financial advisor about the life insurance policy's features, benefits and fees, and whether the life insurance is appropriate for you, based upon your financial situation and objectives.

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