

# Your guide to business protection

Futura

Protecting your business is vital in today's market conditions. All too often the impact of an enforced change of ownership, due to the loss of a business partner or director through illness or death, can have a devastating effect on a business. This can often be overlooked and the disruptive and monetary consequences could have a huge impact on your business.



## Partnership or director share protection

A partnership protection policy provides funds upon the death – or critical illness – of a business partner or director, ensuring continuity of the business and providing security and protection for all. Without adequate funds or the proper agreements in place, a company may be unable to buy out a deceased partner's share of the business, leaving any remaining dependants without an appropriate level of income replacement and the company with the risk of an inappropriate member of the deceased family taking control of their business interests. A lump sum would generally be needed to buy out their share and without adequate provisions, this could be costly both in terms of outlay and interest rates on urgent loan(s). If market conditions are unfavourable, these payments may have to be funded by liquidation of assets.

## Security in an insecure world

By adding critical illness cover to this protection a business can afford to pay a sick partner or director, who is unable to carry on contributing to the profits of the business, a salary. If required, the policy would also provide capital to buy the sick partner out of the business.

## How does it work?

Each business partner or director takes out a life insurance policy on their own life for an amount equal to the value of their shareholding. The policy is placed in trust and benefits are payable to the surviving business partners or directors.

The policy ensures that:

- capital is available immediately for share purchase or to pay off specific loans or other debts
- control of the business remains where it is intended and ensures business continuity
- protection for dependants of the partners/directors.

It is normal that an agreement be drawn up by a solicitor to ensure that surviving partners are able to keep control of the business by giving them the right to buy or sell shares of any party who dies. For example, if one partner wants to sell the value of their partnership, the other partners must buy them.

**We would always recommend that you seek legal advice for this agreement from someone who is familiar with your business and personal circumstances.**

## Insuring the life of another

Where the number of partners or directors is likely to remain the same, each partner or director can take out a policy on each other's life. For example, three partners own a company worth USD1,000,000. Partner A owns 60%, partner B owns 30% and partner C owns 10%.

As partner C owns only one third of that of partner B, their cover on partner A would be:

Partner C policy on partner A = USD150,000

Partner B policy on partner A = USD450,000

Should partner A die, then the remaining two partners will receive the death benefit from policies they took out on the life of partner A, allowing them to purchase his share of the company.

## Why choose Futura?

As Futura is a lifetime protection policy, it can provide complete and comprehensive cover on the life of a partner, director or co-shareholder throughout their working life and also into retirement. As circumstances change, Futura provides you with the flexibility to alter the level of protection offered to ensure that it continues to adequately meet your requirements.

### Flexibility

- level of protection can be altered at any time\*
- premiums can be paid via regular – annually, half yearly, quarterly, monthly payments or by a one off or ad-hoc single payments
- currency denomination – choice of payment currency
- additional benefits can be added or removed\*
- indexation option available to offset the effects of inflation
- portability in that if a partner or director leaves the business they may be able to take on the policy themselves so that the protection the policy offers transfers to them and their family.

For full definitions of the key benefits, please refer to the Futura policy terms and conditions, a copy of which is available on request.

**\*Note: all increases in levels of cover and the addition of benefits are subject to underwriting.**

## Case study 1

### **Futura for partner share protection**

'On the move' is a European company based in Holland, providing relocation advice and support to people relocating all over the world. It is run by three partners; Mr Yanis, Mr Jones and Mr Armes. The company is doing extremely well with all three partners adding their own particular strength to the success of the company.

Mr Yanis has a conversation with the other two partners about the risk to the company should one of the partners die or contract a critical illness. 'On the move' would have to find significant funds at short notice to purchase the others share and these funds would be hard to find at the moment. Not only that, but they want the added security of protecting their business in the future.

Mr Yanis owns 50% of the company, with Mr Jones owning 30% and Mr Armes 20%. The company is currently worth USD500,000.

The three partners decide to take out Futura policies on each other to cover the proportion of the company they own. This way upon death or critical illness the surviving partners will have funds to purchase the remaining shares in the company.

Mr Yanis, Mr Jones and Mr Armes take out two policies each – one on each of the other partners' lives. Upon death the remaining partners will have the life assured amount paid out to help with purchasing the deceased partners share of the business. This will provide continuity in the running of the business whilst ensuring the deceased's dependants have the appropriate financial support.

## Case study 2

### **Futura for director share protection**

Baker & Associates Lighting employs 50 people designing and making light fittings for well known do-it-yourself stores. The company is run by four directors who have all had a major influence on the success of the company since its inception ten years ago.

The four directors feel it important to safeguard the future of the company and decide to take out a Futura policy on each director and place it in trust. Each policy will protect the life of the individual director with the beneficiaries being the other three directors.

Placing the Futura policy in trust enables the individual directors to name the remaining directors of Baker & Associates as beneficiaries upon death. The value of the life cover will be equal to the value of shares the director owns in the company. In this way, the surviving directors of Baker & Associates will have sufficient capital to buy the deceased director's share in the business from his personal representatives. The effectiveness of this arrangement is dependent upon the legal agreement in place between all director shareholders relating to their 'right' to buy these shares. An agreement must be in place and should be drawn up by a solicitor for the directors of Baker & Associates to keep control of the business. You should always seek legal advice for this type of agreement.

For information on our trusts, please contact us.

Futura can be an ideal way to provide companies with the security for business preservation. Funds can become available to purchase a partner or director's share of the company, pay off loans or generally protect them from loss of earnings.

**Note: the company must have a clause in their 'articles of association' that they are allowed to fund life policies. If not, then these should be amended before the Futura policy is in force. We would advise you to seek legal advice for this.**

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