



Buy-sell agreements

“My business is my retirement” ... intent or reality?

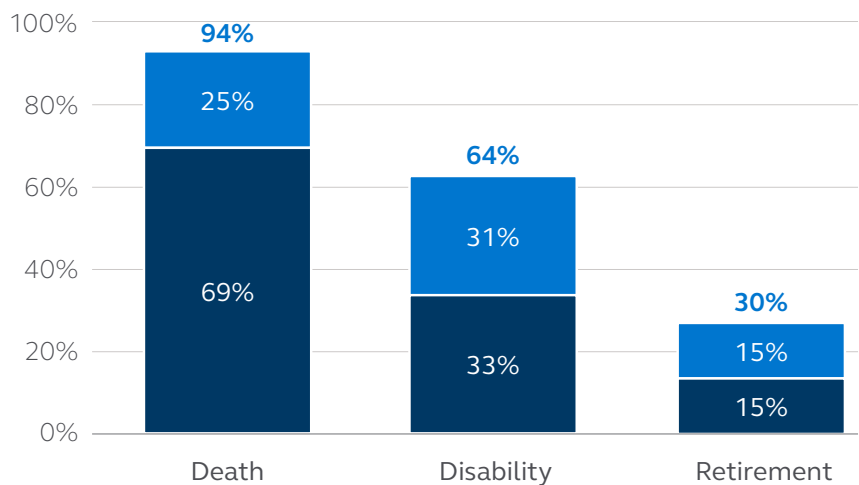


An effective buy-sell agreement is at the root of a successful business transition plan. Best practice suggests buy-sell agreements should include at least these top triggers as **mandatory** rather than **optional**.

- ▶ Death
- ▶ Disability
- ▶ Retirement

Percentages of business owner agreements that cover these **top transition events** and whether they're **mandatory or optional**¹.

- Optional triggering events
- Mandatory triggering events



While most business owners prefer to transfer their business during their lifetime, 94% of buy-sell agreements only account for transitioning a business at death¹. Disability and retirement are often overlooked. Consider addressing all of these as mandatory triggering events to ensure the transition of your business is successful.

Potential consequences of poor planning

Impact to active owners

A disabled or retiring owner whose interest is not purchased becomes an “absentee owner” who may choose to no longer contribute to the success of the company. Their continued pro rata **share of profits** can create an unnecessary **drain on company profits**.



The absentee owner may still want input on **management and financial decisions**, causing **interference** with active owners.

Impact to departing owners

A retiring owner may be penalized if the value of the business drops after retirement, leaving a future buyout based on a lower company value at that time.



If the sale is left to negotiation **after the owner’s exit**, it will likely result in **unfavorable terms**.

What other important triggers should be considered?

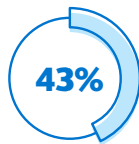
If these triggers aren’t addressed in your buy-sell agreement, you’re not alone. Our research shows many business owners fail to include these too.¹



Divorce



Voluntary termination



Involuntary termination



Bankruptcy



Loss of license*

* Where applicable

 [Learn more](#)

Contact your financial professional or go to principal.com.

¹ Source: Review of 2,517 buy-sell agreements by Principal Financial Group®, January 1, 2014 - July 15, 2023.



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