

Principal®

Buy-sell agreements

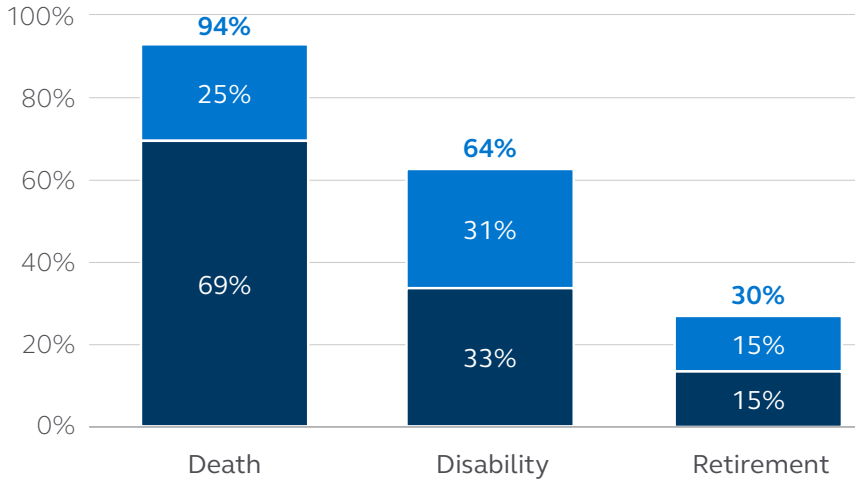
# “My business is my retirement”... intent or reality?

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 death[1]. 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.

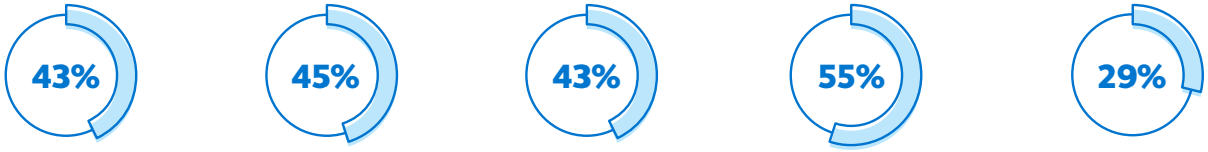
## Impact to departing owners

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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