Is the future of your partnership at risk?

The death or serious illness of a partner can have major repercussions for the future of your business. It can cause immediate financial hardship for the remaining partners (as the business will have lost the skills of the deceased) and they may even lose control of the business as the share of the deceased is passed to his or her next of kin.

Why do you need a partnership insurance plan?

Often a partner’s share of the business will be the single largest financial asset he/she owns. On death, their next of kin may expect a substantial and immediate payment from the remaining partners.

This payment might include:
- Any capital that the partner had invested in the business
- The deceased partner’s share of undrawn profits
- Payment for the partner’s share of the goodwill

A partnership insurance plan can provide the necessary funds required by the remaining partners to meet their financial obligations.

What are the consequences of not having partnership insurance in place?

The remaining partners may not have the capital required to buy back the shares of the deceased from the next of kin. As a result of this, the following situations may arise:

- The remaining partners may be forced to take out substantial personal loans in order to retain ownership of the business
- If the remaining partners are unable to acquire the required capital sum to buy out the next of kin of the deceased, they will be forced to take on the next of kin as new partners in the business
- The next of kin may wish to sell their share of the business; if the remaining partners are not able to afford to buy their share from them then the next of kin may seek to sell their share to a third party
- The next of kin may be unable to get a fair price for the share of the business on the open market
- A competitor of the business may purchase the shares from the next of kin
What is the solution?

One solution is for the individuals involved to take out life insurance on the life of each partner.

The plan consists of two parts:

- A legal agreement which all participating partners enter into - that on the death of a partner, the remaining partners will buy back the deceased’s share of the partnership and the next of kin will sell their inherited share to the remaining partners
- A life insurance policy - to provide the financial capital required by the remaining partners to buy back the deceased’s share from the next of kin

What are the advantages of this arrangement?

The plan benefits both the remaining partners and the deceased partner’s next of kin. It can be set up in a tax efficient manner with the remaining partners becoming owners of the deceased’s share without having to pay inheritance tax.

The advantages are as follows:

- A lump sum is provided from the proceeds of the life insurance policy to enable the purchase of the deceased’s share of the partnership from the deceased’s next of kin
- Provided the remaining partners have the right to buy back the deceased partner’s share no new partners come into the business
- The deceased’s next of kin can realise the value of the deceased partner’s share of the business - they have a ready buyer at market value
- The deceased’s next of kin do not have to enter into a business in which they may have no expertise in or knowledge about

Is your business covered?

We provide products that can help businesses and their owners plan for their future. If you haven’t a business protection plan in place, talk to a Financial Broker or Advisor today who will look at your current situation and talk you through the available options. With this information to hand you can then decide what action you need to take.

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