



Buy-sell agreements

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

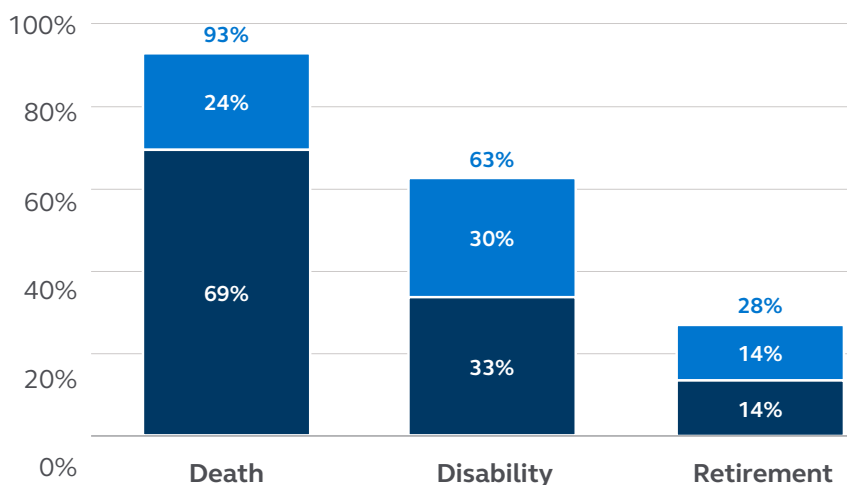


An effective buy-sell agreement is at the root of a successful business transition plan. Best practice suggests buy-sell agreements should include at least these top triggers as **mandatory** rather than **optional**.

- ♦ Death
- ♦ Disability
- ♦ Retirement

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

- Optional triggering events
- Mandatory triggering events



While most business owners prefer to transfer their business during their lifetime, 93% of buy-sell agreements only account for transitioning a business at death<sup>1</sup>. 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

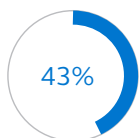
A retiring owner may be penalized if the value of the business drops after retirement, leaving a future buyout based on a lower company value at that time.



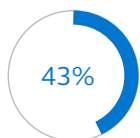
If the sale is left to negotiation **after the owner's exit**, it will likely result in **unfavorable terms**.

## What other important triggers should be considered?

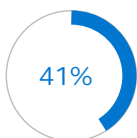
If these triggers aren't addressed in your buy-sell agreement, you're not alone. Our research shows many business owners fail to include these too.<sup>1</sup>



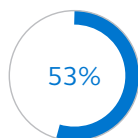
Divorce



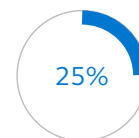
Voluntary termination



Involuntary termination



Bankruptcy



Loss of license\*  
\* Where applicable

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<sup>1</sup> Source: Review of 2,242 buy-sell agreements by Principal Financial Group®, January 1, 2014 - May 31, 2021.



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