Assisting a Key Employee to Fund an Insured Buy-Sell Plan

How Can a Sole Owner Assist a Key Employee with the Premiums Needed to Fund an Insured Buy-Sell Plan?

A key employee who plans to purchase the business at a sole owner's death guarantees personal job security without the risks associated with launching a new business venture.

If, however, payment of the life insurance premiums required to fund an insured buy-sell plan imposes a financial hardship on the key employee, it may be to the owner's advantage to help the key employee with the premium payments. In this way, the owner assures his or her family of receiving the full value of the business at the owner's death.

There are three ways a sole owner can assist a key employee with the premiums required to fund an insured buy-sell plan:

Salary Increase	The owner could increase the key employee's compensation to cover at least a portion of the insurance premiums.
Personal Loan	The owner could make a personal loan to the key employee for at least a portion of the insurance premium. A schedule for the repayment of these loans could then be included in the buy-sell agreement.
Split-Dollar Plan	The owner could loan the key employee all or part of the insurance premium, with the loans secured by a collateral assignment of the insurance policy. Unless the key employee pays the employer market-rate interest on the loans, however, the key employee is taxed each year on the difference between market-rate interest and the actual interest paid, if any.