Buy-In Disability Insurance

Protecting Your
Developing Partnership

Buy-In insurance is different from Buy/Sell as it removes the concerns of a new partner

FOR

- Young professionals buying into a practice
- Key employees buying into ownership
- Most Occupations considered

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Providing Unique Options For The Consequences Of A Disabling Accident or Illness

What is Buy-In Disability Insurance?

Most insurance producers are familiar with Buy/Sell life and disability plans. But what is "Buy-In" disability insurance and what makes it different from Buy/Sell? A very classic example of a Buy-In would be the dental practice who has hired a young dentist and is giving him or her the opportunity to become a partner. A typical approach would be to have the new professional buy into the firm or practice using the cash flow of his or her production to do so. Often times, this is accomplished by a reduced income for the new partner during this "Buy-In" period.

So the young dentist in this example might be agreeable to accept 20% less income in exchange for becoming a full partner in 5 years. You might refer to this as an "earn in" period. During the next 5 years, the young professional is faced with the following dilemma: "If I were to become disabled during the next 5 years, I may risk any equity that I have been paying for by way of my salary reduction." This equity can be insured with a Buy-In Disability plan.

A Two Edge Sword

The other side of this equation needs to be looked at as well. This young professional is buying into a firm that he or she believes is of value, but recognizes that if the established owner that is allowing him to become a partner were to become disabled in the early days of this buy in, then the equity and good will of the firm may evaporate very quickly. It normally takes a few years for the clients of a firm to be introduced to the new, prospective partner and the acceptance of him or her. So what happens if the senior member of the firm is quickly taken out of the picture? The equity and goodwill from the senior member needs to be insured for this as well, so that the junior member can be certain he or she is financially whole regardless of what happens.

Buy-In Plan Design

Whereas one or both parts of a Buy-In may be insured, the plan may look something like this:

> The junior member would secure a policy on his or her behalf that would reimburse him or her for money they had paid into the firm in an effort to become a partner. Additionally, he or she may request an indemnification for the full amount of equity he or she would have obtained once they became a full partner.
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> The senior member would secure a policy that would indemnify him or her of any lost equity if the event that he or she became disabled and the value of the business decreased prior to the completion of the Buy-In agreement.

Transition from Buy-In to Buy/Sell

Once the buy in has completed itself and both parties are now partners, a more traditional Buy/Sell policy can be obtained to protect the ongoing partnership interests.

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