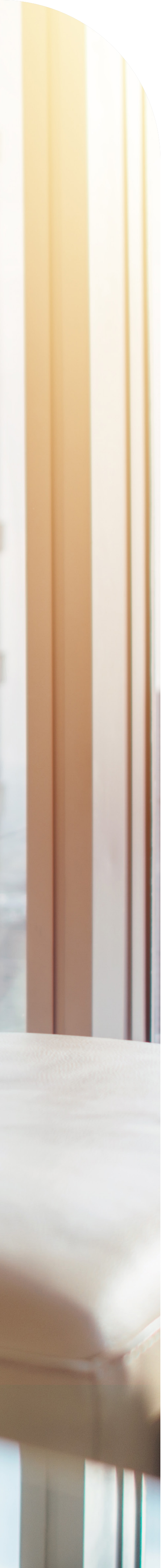
Buy-sell agreements

Helping protect
a client's business

Equitable™

We provide financial solutions that protect and support more than one million people across Canada, coast to coast.



We are Equitable

We are proud to be built on more than 100 years of serving clients with excellence, in Canada and only in Canada. Sydney Tweed started The Ontario Equitable Life & Accident Insurance Company in a two-room, second floor office in Waterloo, Ontario in 1920. In 1936, our corporate name was changed to The Equitable Life Insurance Company of Canada.

From these humble beginnings, we are today known simply as Equitable® (the "Company"). We are the one and only Canadian mutual life insurance company federally regulated by the Office of the Superintendent of Financial Institutions.

Today, we provide financial solutions that protect and support more than one million people across Canada, coast to coast. We offer individual insurance, group insurance, savings, and retirement solutions. We partner with independent financial advisors to help our clients achieve financial security throughout a lifetime.

Our Purpose

When we come together, great things follow. The world is better when we harness the power of togetherness to forge collective purpose. At Equitable, this is more than just a feeling. It's a mindset driving our behaviours, decisions, and actions to power equitable outcomes. It's how we show up daily, committed to be at our very best to support Canadians today and for all tomorrows to come. And our unique structure enables us to focus all our efforts towards improving the financial wellbeing of those we serve – our clients, partners, and community.

For over a century we have delivered on our promise to be there for Canadians. We believe that now, it's more important than ever, that we invest further, to recommit to our path of being a mutual and to welcome all to join in the shared benefits of living an equitable life.

Our mutuality

We are committed to our mutuality and our purpose of offering best-in-class products and services to Canadians coast to coast.

Equitable issues both participating policies and non-participating policies. Participating whole life policyholders are eligible to participate in the earnings in the participating account through dividend payments.[1] Dividends are undiluted by shareholder transfers.

As a mutual company, we are not driven by shareholder pressures for quarterly results. This allows us to focus on management strategies that foster prudent long-term growth, continuity, and stability. We are committed to remaining vibrant, growing, and financially strong, and to delivering on our promises to clients – today and in the years to come.

[1] Dividends are not guaranteed and are paid at the sole discretion of the Board of Directors. Dividends may be subject to taxation. Dividends will vary based on the actual investment returns in the participating account as well as mortality, expenses, lapse, claims experience, taxes, and other experience of the participating block of policies.

Buy-sell agreements can help protect a client's business

A buy-sell provision in a shareholder's agreement can function as a plan of succession if a business owner or shareholder passes away. While many business owners have a buy-sell provision in their shareholder's agreement, they may or may not have funding to implement the buy-sell provisions. Is the client's business adequately protected?

What's a buy-sell agreement, and why is it important?

To address potential issues before they happen, many business owners enter into a shareholder's agreement. This is a contractual undertaking under which each shareholder assumes certain rights and obligations, with an objective to minimize shareholder disputes. The shareholder's agreement can include buy-sell provisions to help ensure an orderly transition in the event of the withdrawal of a shareholder from the business for any reason. Ideally, the buy-sell agreement is pre-funded to reduce financial risk.

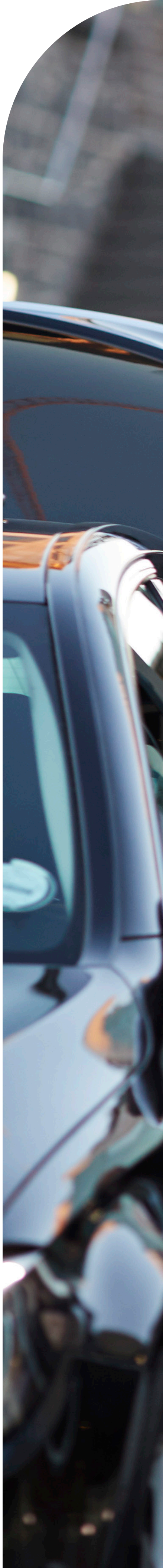
Events that are covered in a shareholder agreement might include dissention between the parties, third-party offers, marital breakdown, insolvency, retirement, disability, critical illness, and death.

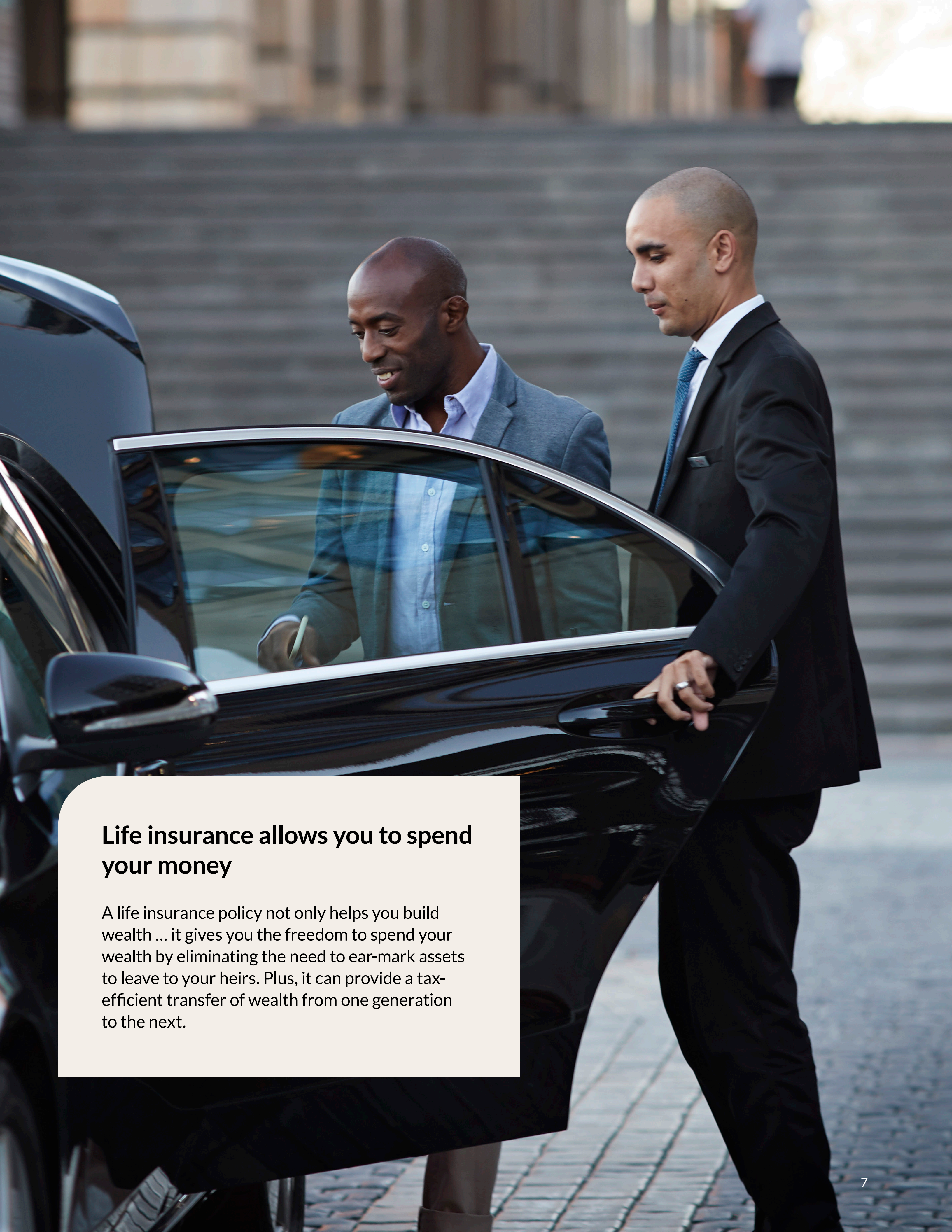
Think of a buy-sell agreement like a prenuptial agreement for the business. It's a legal agreement between shareholders that describes how to handle things from a logical perspective during a time where emotions are high, and logic is typically low. The cost of drafting a buy-sell agreement can vary depending on the complexity of the agreement, the relationship of the parties, and the fees for professional advice.

The objectives of a buy-sell agreement are simple—to provide a measure of certainty to all parties and to help ensure business continuity.

If a business owner or shareholder passes away unexpectedly and there is no funded buy-sell agreement in place, this can have a profound impact on business operations and leave a lot of unanswered questions:

- Who will run or control the business after their death?
- Will their spouse or children want to retain the business, and is this what the business partner(s) would want?
- What are the plans for getting the value of the deceased person's shares out of the business and into their estate?
- Will the remaining partner(s) buy their deceased person's shares of the business, at what price, and how will they pay for them?





Life insurance allows you to spend your money

A life insurance policy not only helps you build wealth … it gives you the freedom to spend your wealth by eliminating the need to ear-mark assets to leave to your heirs. Plus, it can provide a tax-efficient transfer of wealth from one generation to the next.

If there is no prior arrangement in place, the deceased person's shares will pass through their estate to the surviving spouse, children, or other beneficiaries, who then become owners of the business. This can lead to tensions between remaining shareholders and the deceased shareholder's family.

- The family may wish to sell the shares but can't find a buyer or, worse yet, want to be part of running the business and expect distributions from the company
- Remaining shareholders may wish to purchase the shares but may not have sufficient funds
- Family and remaining shareholders may not agree on price

Typically, a deceased's beneficiaries would prefer to receive cash rather than shares, and the remaining shareholders would prefer to own all the shares and have full control of the company.

Using life insurance to fund a buy-sell agreement

Upon the death of a business owner, the remaining shareholders are faced with several options for the disposition of shares in the corporation. These could include:

Liquidation of the shares held by the deceased shareholder's estate.

The family of the deceased may need the monetary value of the shares quickly. To avoid a fire sale, a funded buy-sell agreement ensures that an evaluation mechanism is well established, and the family will receive the agreed upon price for the deceased owner's share in the business.

Retention by family or heirs, and thereby they become the new partners to the remaining shareholders.

The family of the deceased may not have the ability, experience, time, or desire to work in the business. A funded buy-sell agreement avoids reorganizing the business to include the deceased shareholder's heirs. It provides funds to help purchase the deceased shareholder's shares from their estate without using business earnings or selling business assets.

Sale to the associates or surviving shareholders.

If the bank becomes concerned about the business' future following a shareholder's death, surviving shareholders may have to use their personal savings to buy the deceased shareholder's shares. A funded buy-sell agreement ensures that the heirs receive the agreed upon value for the deceased shareholder's shares, provides the surviving shareholders with the funds to buy the shares, and maintains the financial stability of the company.

Life insurance is often the most cost-effective, efficient, and secure way to fund a buy-sell agreement. Life insurance allows the business to reassure its creditors by having a financial safety net in place. If a death occurs, life insurance can help to avoid any negative impact to the company's loan ratios or debt. Working capital should not be affected. It also reassures suppliers that, if a death occurs, the company's finances will not be impacted. Accounts payable should not need an extension. If well-planned, this approach is generally fair and equitable . In short, a funded buy-sell agreement helps ensure that, if a death occurs, the funds are available to implement the plan.

Four structures to fund a buy-sell agreement with life insurance

1 Criss-cross method

- With the criss-cross method, each shareholder owns a policy insuring the other shareholders.
- The shareholder's agreement includes a buy-sell provision where, upon the death of a shareholder, the surviving shareholder(s) uses the life insurance proceeds to buy the deceased shareholder's shares from the deceased's estate.
- The surviving shareholder(s) then becomes the 100% shareholder(s).

2 Promissory note method

- With this method, the corporation buys one policy per shareholder and is the owner and beneficiary of those policies.
- Their shareholder's agreement includes a buy-sell provision where, upon the death of a shareholder, their shares are transferred to their estate and the surviving shareholder(s) buys the shares from the estate in exchange for a promissory note.
- The insurer pays the death benefit to the corporation and the corporation pays insurance proceeds as capital dividends* to the surviving shareholder(s), who honours the promissory note to the estate.
- The surviving shareholder then becomes the 100% shareholder.

3 Share redemption**

- With the share redemption method, the corporation buys one policy per shareholder and is the owner and beneficiary of those policies.
- The shareholder's agreement includes a buy-sell provision where the company uses life insurance proceeds to buy the deceased shareholder's shares directly from the estate and cancels them.
- The surviving shareholder becomes a 100% shareholder.

4 Hybrid method

- With the hybrid method, the corporation buys one policy per shareholder and is the owner and beneficiary of those policies.
- The shareholder's agreement includes a buy-sell provision whereby:
  - the surviving shareholder uses a promissory note to buy a portion of the deceased shareholder's shares from the estate.
  - the company uses a portion of the life insurance proceeds to buy the deceased's shares that were not purchased by the surviving shareholder. These shares are then cancelled by the company so that the surviving shareholder now owns 100% of the company.
- The company distributes the life insurance proceeds remaining after purchasing the surviving shareholder's shares as a capital dividend*, which the surviving shareholder uses to repay the promissory note owing to the estate.

Finding the right solution

When it comes to funding a buy-sell agreement, the right solution is the one that best fits the client's situation.

Please contact your Equitable wholesaler for more information.

*Capital dividend: An amount calculated as the insurance proceeds less the adjusted cost basis of the policy at the time of death is credited to the capital dividend account. Tax may be payable.

**Share redemption: If the existing life insurance policy or buy-sell agreement was in place on or before April 26, 1995, the client should consult with their tax advisor before taking any action. Grandfathering from certain stop-loss rules may be available or lost if certain steps are taken.

This document is provided for information purposes only and does not constitute legal, tax, or other professional advice. Advisors must determine whether this concept is suitable for a specific client based on the client's circumstances and needs. Equitable has made every effort to ensure the accuracy of the information presented; however, accuracy is not guaranteed.

All options have their advantages and disadvantages, and all include tax implications. Clients should talk to their financial, legal, and tax advisors to understand the risks and benefits of each option.

About Equitable

At Equitable we believe in the power of working together. This guides how we work with each other. How we help our clients and partners. And how we support the communities where we live and work.

Together, with partners across Canada, we offer Individual Insurance, Group Insurance and Savings and Retirement solutions. To help our clients protect today and prepare tomorrow.

We believe the world is better when we work together to build an Equitable life for all.

Equitable™

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