



Disability succession planning: What's at stake, when to pivot

➔ Clients may know about buy-sell agreements but not about buy-sell disability solutions.

By Sean McNiff

Advisors working with business owners know that buy-sell agreements are essential planning tools, but disability funding remains one of the most misunderstood and under-addressed exposures. In many cases, clients recoil at the cost of fully insuring their buy-sell obligations, leading them to walk away from crucial coverage entirely. This article helps advisors recognize when a disability buy-sell solution makes sense, when it's appropriate to pivot to a key person disability structure instead, and why the financial stakes are far too high to dismiss the conversation with, "It's too expensive."

The goal is not to force clients into an all-or-nothing choice. Instead, advisors should understand how to balance risk, cost, and practicality so clients can meet their obligations without jeopardizing the business

they've worked so hard to build - often the cornerstone of their net worth.

For example, two equal partners each owned 50% of a \$100 million construction company following the transition of the business from G1 to G2. When their buy-sell agreement was drafted, they secured \$50 million of life insurance on each partner but declined the recommended \$50 million of disability buy-sell coverage as it did not fit their current budget. Eighteen months later, the CFO revisited the issue with the advisor, prompting the development of additional design alternatives. Working closely with the CFO, the partners selected a revised structure that better aligned plan objectives with the company's budget. The updated design extended the disability repurchase trigger from 12 to 24 months and insured 50% of the firm's current exposure. Under the original structure - providing \$50 million per insured after 12 months - the annual premium was approximately \$375,000. Following the design modifications and corresponding updates to the buy-sell agreement, the annual premium was reduced to \$129,800 - a cost the business found acceptable while still delivering the peace of mind the partners were seeking.

This scenario underscores that when cost becomes the sole driver, businesses may remain fully exposed to disability buy-out obligations. With intentional planning, advisors can contain expenses, design flexible alternatives, and put coverage in place that helps prevent a catastrophic liquidity event from becoming a defining challenge for the business.

The repurchase obligation in a disability event is non-negotiable. Once a partner becomes permanently disabled – whether due to a stroke, accident, neurological issue, or an unexpected medical event – the business is typically required to buy back that partner's shares after a 12-month waiting period. Advisors routinely address the death contingency through life insurance, yet many hesitate to engage in the disability discussion - often due to uncertainty around accessing sufficient benefit limits or they assume cost will be a barrier for the client. When a buy-sell agreement contemplates both events, failing to address the disability exposure creates a material gap in planning. From a fiduciary perspective, and increasingly from an E&O standpoint, advisors have an obligation to identify and address this risk rather than leave clients exposed to what is frequently the most financially disruptive outcome under the agreement.

A strategic product pivot

A second example demonstrates how a strategic product pivot can better align with business owners' objectives while addressing cost concerns, rather than abandoning coverage altogether. In this instance, three brothers jointly operated a river dredging and road paving company. Each had \$5 million of life insurance, and their advisors recommended purchasing traditional disability buyout coverage for the same amount. However, existing family dynamics made them cautious about adopting a structure that would require a forced buyout after just 12 months of disability. The proposed disability buyout coverage carried a cost of \$47,056 annually to fully fund the partners disability obligations – about 0.314% of the business's value – but the brothers still balked, saying, "It's too expensive!"

Instead of leaving the clients without a plan, their advisor pivoted to a high-limit Lloyd's key person disability strategy. Under this structure:

- Each partner would continue receiving income for 24 months if disabled.
- The company would cover the first six months of that compensation.
- After a 180-day waiting period, a key person disability benefit of \$50,000 per month would begin.
- After 24 months from the onset of a disability, a \$1 million lump sum would be paid to begin the buyout of the disabled partner's shares.

The total cost was only \$20,404 annually, saving more than \$26,000 per year and reducing the cost ratio to 0.14% of the company's value. By moving away from a buy-sell funding approach and listening to the clients' concerns, goals and objectives, implementing key person disability coverage delivered meaningful protection within a structure and cost the clients could confidently move forward with. The "too expensive" objection disappeared once the coverage matched the clients' risk tolerance and goals for planning.

Understanding when and how to pivot elevates an advisor's succession-planning expertise, transforming product selection into intentional design. At the highest level, this capability becomes a critical differentiator for businesses with complex ownership structures and multiple partners. In a recent case, a commodities trading firm had one founder with \$30 million of equity and five minority partners with less than \$5 million each. The CFO was confident the business could handle an unexpected disability repurchase obligation of a minority shareholder's stock through cash flow. But if the founder became permanently disabled, not only would the remaining partners face a \$30 million obligation, they would also suffer the loss of their key rainmaker whose name is on the door. In this setting, the advisor utilized a key person disability program to provide the business with a monthly benefit of \$100,000 per month, beginning after six months, that was designed to pay the business for 12 months. Following the exhaustion of the monthly benefit within the program, a lump sum of \$30 million would infuse the company with sufficient cash to repurchase the named partners' equity.

When evaluating buy-sell repurchase obligations, advisors must acknowledge a fundamental reality: disability is statistically more likely than death during one's working years. Yet disability remains the most consistently underinsured risk, largely because many advisors underestimate the flexibility and strategic applications of the solutions available in the excess lines markets. At its core, succession planning is about ensuring the continuity and success of a business when faced with the loss of a key partner. An advisor's true value lies not in delivering a perfect or fully funded solution, but in the ability to design a plan that is thoughtful, intentional, and clearly documented. When constructed with care, even an imperfect plan can provide meaningful direction, protection, and confidence at the exact moment business owners need it most."

