

Eagle Star Partnership Insurance

Customer Brochure



Forms required for:

Own Life in Trust (see page 4)

- ✓ Partnership Insurance Application Form
- ✓ Partnership Insurance Trust Form
- ✓ Partnership Insurance Double Option Agreement - Own Life in Trust
- ✓ Partnership Insurance Financial Questionnaire

OR

Life of Another (see page 5)

- ✓ Partnership Insurance Application Form
- ✓ Partnership Insurance Double Option Agreement - Life of Another
- ✓ Partnership Insurance Financial Questionnaire

OR

Self Insurance (see page 5)

- ✓ Partnership Insurance Application Form
- ✓ Partnership Insurance Financial Questionnaire

This brochure is designed as a quick reference to the main features of the policy. For full details of any individual cover or any other aspect of the policy, you should consult the Policy Document, which is definitive in all matters of interpretation and entitlement to benefit. In the event of any conflict between this brochure and the Policy Document, the provisions of the latter will prevail.

Why purchase Partnership Insurance?

A partnership is a form of business ownership with two or more owners who agree to pool talent and money, and share the profits or losses of that partnership. The death of one of the partners can have serious financial consequences for those left behind in that business.

Partnership Insurance will protect the financial security of the partnership by making sure that funds are available to compensate the deceased partner's estate for his/her share of the partnership.

The Eagle Star Partnership Insurance policy can also cover the diagnosis of a serious illness of a partner.

The insurance can be arranged via 'Own Life in Trust', 'Life of Another' or 'Self Insurance'.



Structure of a partnership

A partnership comprises two or more self-employed people operating together in a trade or profession.

If no Partnership Agreement exists, the survival of the partnership depends on the Partnership Act of 1890, which states that in the event of the death of a partner, the partnership is dissolved and any sum due to the deceased partner is to be treated as the debt of the partnership.

This debt can consist of any capital that the partner had invested in the business and the deceased partner's share of undrawn profits. In addition, the successor(s) may be entitled to a payment for a share of the goodwill* of the business if it has been recognised by the partners as an asset of the partnership.

*Goodwill may be defined as the anticipated value of the partnership's name, tradition and contacts.

The Partnership Agreement

Before entering into a Partnership Insurance arrangement, any pre-existing Partnership Agreement must be consulted because this will generally define how the partnership is to be continued by the surviving partners, and how the share of capital of the deceased, if any, will be payable to the successor(s).

In the event of the death of a partner, the surviving partners face the prospect of having to find a substantial capital lump sum. If advance provision is not made, the surviving partners may be faced with the need to borrow capital to fund repayment to the deceased partner's estate.

Setting up Partnership Insurance

The approach to arranging the life insurance cover and to quantifying the amount of insurance required will depend on what payments need to be made by the surviving partners. The liability in respect of the capital injection and any undrawn profits is relatively straightforward to calculate.

The most important factor to be decided is whether or not there will be payment in respect of goodwill. Goodwill can be very difficult to calculate; it is often taken as a multiple of the fee income of the firm. Professional advice from the accountant to the partnership should be obtained for direction in calculating goodwill.

There are two methods of setting up Partnership Insurance:

- Own Life in Trust, or
- Life of Another.

Each of these is discussed overleaf.

In addition, if there is no provision for surviving partners to make a payment in respect of goodwill, a partner may choose to effect additional 'Self Insurance' to cover the value of goodwill. This arrangement is discussed on page 5.



Own Life in Trust

The steps in setting up an Own Life in Trust arrangement are as follows:

- Each partner effects a life insurance policy on his/her own life, for a sum insured equivalent to the estimated full market value of his/her partnership share. The premiums are generally paid by the partners themselves or by the partnership from that partner's share of the profits. The premiums are not tax deductible.
- Each policy is arranged under trust (using the Partnership Insurance Trust Form) so that on death, the proceeds are payable directly to the trustees for the benefit of the surviving partners.
- A legal agreement is put in place between the partners using a Partnership Double Option Agreement. This gives the surviving partners an option to buy the deceased partner's share. It also gives the successor(s) of the deceased partner the option to sell the share of the partnership to the surviving partners.

If either party exercises his/her option, the Agreement obligates the surviving partners to buy the deceased's share of the partnership at a fair open market value and obligates the successor(s) to sell the share of the partnership back to the surviving partners.

If both parties mutually agree not to exercise their options, this allows the successor(s) to retain their share of the partnership and come into the business.

There is an alternative legal agreement available known as a Buy and Sell Agreement, whereby the sale transaction **must** always be carried out.

- To ensure that there is no Capital Acquisitions Tax (i.e. Inheritance Tax or Gift Tax) liability on the insurance policy proceeds in the hands of the surviving partners, certain Revenue guidelines must be met. These include the need to show that the policies are clearly effected as part of a commercial arms length arrangement and are part of a reciprocal agreement between the partners. This agreement can be included as a clause in the Partnership Double Option Agreement/Buy and Sell Agreement. Any surplus not used by the surviving partners to purchase the deceased partner's share will be liable to Capital Acquisitions Tax.

Life of Another

- Under a Life of Another arrangement, each partner takes out a policy on each of the other partner's lives. This is generally only feasible where there are a small number of partners and the partnership composition is unlikely to change.
- On the death of one of the partners, each of the others receives the proceeds of his/her policy, which can be used to buy out the deceased partner's share in the partnership.
- A legal agreement is put in place between the partners using a Double Option or Buy and Sell Agreement, as previously set out.
- As each partner receives the proceeds of the policy for which he/she paid the premiums, there is no liability to Capital Acquisitions Tax.

Self Insurance

On the death of a partner, if there is no provision for the surviving partners to make a payment in respect of goodwill, a partner may choose to effect additional 'Self Insurance' to cover the value of goodwill.

- Each partner takes out a life insurance policy on his/her own life for a specified amount. The amount of cover is set to provide compensation to his/her estate for his/her share of goodwill in the partnership.
- Normal Capital Acquisitions Tax rules apply, e.g. if the funds go to the spouse of the deceased, there will be no Capital Acquisitions Tax liability.
- This method of arranging cover can be tax deductible for the individual partners if a Section 785 policy (life cover under a Personal Pension Plan) is taken out. In this scenario the application form for The Eagle Star Pension Guaranteed Term Protection should be completed.

Serious Illness and Permanent Total Disability cover

Throughout this brochure, we have been focusing on insurance cover in the event of the death of a partner. If including Serious Illness or Permanent Total Disability cover in a Partnership Insurance arrangement, the following issues need to be considered:

- For Serious Illness cover, the precise definition of ill health would need to be agreed. A partner who may fully recover from serious heart surgery may not want his/her share of the partnership to be compulsorily purchased by the other partners.
- Where a partner is diagnosed as having a serious illness, he/she could face Capital Gains Tax on the disposal of his/her share of the business. If the partner is aged 55 or over and certain conditions are met, retirement relief may apply, thereby reducing his/her Capital Gains Tax liability.
- Where an Own Life in Trust arrangement is used, the proceeds paid under a policy because of permanent total disability or a serious illness are also exempt from Capital Acquisitions Tax, provided the Revenue guidelines outlined earlier (see page 4) are met. Any surplus not used by the other partners for the purchase of shares will be liable to Capital Acquisitions Tax.
- Serious Illness and Permanent Total Disability cover cannot be arranged using a Section 785 policy.



The next steps

If you are interested in Eagle Star Partnership Insurance and would like more information, you can:

- contact your Broker or Financial Advisor;

- call Zurich Life on **1850 202 102** or fax (01) 283 1578;
- email: **customerservices@zurich.ie**; or
- complete and return the coupon below.



I am interested in **Eagle Star Partnership Insurance**, and would like some more information/advice.

Name:

Address:

Telephone:

[illegible]

Fax:

[illegible]

Email:

Financial Advisor Name:

Financial Advisor Address:

[illegible]

Please fax to 01 283 1578

or post to Zurich Life Assurance plc, Eagle Star House, Frascati Road,
FREEPOST, Blackrock, Co. Dublin.



About us

Zurich Life Assurance plc is a member of Zurich Financial Services, an insurance-based financial services provider with a global network of subsidiaries and offices in North America and Europe as well as in Asia Pacific, Latin America and other markets. Founded in 1872, Zurich Financial Services is headquartered in Zurich, Switzerland. It employs approximately 60,000 people serving customers in more than 170 countries.

As one of Ireland's most successful life insurance companies, we offer a full range of Eagle Star Pension, Investment and Protection products. We gained recognition for our excellent investment performance at the 2008 MoneyMate & Investor Magazine Awards when the company was named 'Best Investment Fund Manager' and was awarded 'Best Balanced Managed Pension Fund' and 'Best Balanced Managed Investment Fund'.

Our investment team, based in Blackrock, Co. Dublin, is responsible for funds under management of approximately €8.1 billion, of which pension assets amount to €4.4 billion (as at 30th June 2009).

We are committed to the provision of excellent customer service. We have won a number of industry service awards, including the Professional Insurance Brokers Association 'Broker Service Award of Excellence' 2008, for the sixth year in a row, and we are thirteen times winner of the Irish Brokers Association 'Service Excellence Award'. We are a market leader in providing policyholder information online through our innovative website, www.zurichlife.ie

We have a strong commitment to good corporate citizenship and are a founder member of Business in the Community Ireland (BITC).

Zurich Life Assurance plc

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Zurich Life Assurance plc is regulated by the Financial Regulator.

Intended for distribution within the Republic of Ireland.

The information contained herein is based on Zurich Life's understanding of current practice as at August 2009 and may change in the future. It is not, and is not intended to be, a substitute for professional advice, which should be obtained before taking out this type of insurance.

