Customer Guide

Take the load off your mind

A Guide to Partnership Insurance

ROYAL LONDON IRELAND

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Welcome to Royal London Ireland

We've a strong heritage in Ireland and have been protecting customers here for over 190 years. Today we are owned by The Royal London Mutual Insurance Society Limited – the largest mutual life, pensions and investment company in the UK.

Our parent company's mutuality, meaning it is customer and member owned with no shareholders, allows us to adopt a mutual mindset. This means we take a longer-term view and focus on providing best customer outcomes. Whoever you are and whatever your aims, we'll look to provide you with great long-term value, first class service and support at all times.

Partnership Insurance from Royal London Ireland

At Royal London Ireland, we know that protecting and minimising the risk to you and your business is of the highest importance to you and your Partners. As prudent business people, you will most likely have already put measures in place to protect your firm. These may include insuring its property, equipment, stock and vehicles.

While these are all very sensible precautions, you should ask yourself two very important questions. If one of the Partners in your firm were to die, what would happen to your business? Would the surviving Partners have the funds to buy out the deceased Partner's share of the business?

Although these are not questions any of us like to think about, the reality is that the chances of one of the Partners in a firm dying during their working life is much higher than you may think. And the business consequences can be devastating.

How would your business cope?

The untimely death of a Partner in a firm can have serious financial implications for the continuing Partners.

As well as the obvious upset and emotional trauma such an event causes, there are unfortunately also potential business impacts that need to be considered.

In fact, under the provisions of the Partnership Act 1890, the deceased Partner's share of the business automatically becomes the property of their estate.

It effectively becomes a debt that can be immediately called in on proof of death, unless there is a written or verbal agreement between the Partners to the contrary. The deceased's share would normally include his or her share of retained profits and Partnership capital.

What could be the financial consequences for the firm?

- The surviving Partner(s) may be unable to raise the capital required to fund the repayment of the deceased's share of the firm to the deceased's estate. Even where such funds can be raised by borrowing, the Partners may be unable to sustain the repayments in the long term.
- As a result, the Partnership may be dissolved, with the surviving Partner(s) now no longer being part of a previously active and productive business venture.

In the event where any of these implications might arise, a heavy financial burden will fall on the shoulders of the continuing Partners.

The solution

There is, however, a solution available that protects your Partnership in the event of the death of one of the firm's Partners.

Partnership Insurance from Royal London Ireland offers a cost effective way to:

- Put the measures in place now to safeguard the future of your firm.
- Help enable its **continued financial stability.**
- Ensure the next of kin receives a **capital lump sum** for the value of the deceased's share of the firm.

So, what exactly is it?

Partnership Insurance from Royal London Ireland can provide the funds to enable the continuing Partners to buy out the share of a Partner on his or her death. A legally binding agreement is drawn up, and one or more Life Cover policies are put in place. This ensures that the funds are available to the continuing Partners to buy the deceased Partner's share of the firm, when needed.

Why take out Partnership Insurance?

They may not be pleasant statistics to ponder, but the probability of at least one of the Partners in a firm dying could be much higher than you may think.

Number of partners in firm	Probability of at least one Partner dying before age 65
2	18%
3	25%
4	32%
5	39%
6	44%
7	50%
8	54%

Source: CSO Table 17 on Irish Life 2015/17; all Partners assumed to be aged exactly 40 and males.

The benefits of Partnership Insurance in summary

Partnership Insurance allows you to put the structures in place now to deal with the business consequences of your death or one of your fellow Partner's.

The surviving Partner(s) retain full control over the firm as they are in a position to immediately buy back a deceased Partner's share if they so wish.

The next of kin have the certainty that they can immediately realise the value of the deceased's share of the firm by way of a capital lump sum.

While Partnership Insurance of course cannot lessen the emotional blow and trauma caused by the death of a colleague, it can help to minimise the financial impact.

In today's uncertain world, that's very valuable peace of mind.

Business case example

As an example, let's consider the case of **ABC Partnership**, a growing consultancy firm. ABC is comprised of three Partners, Joe, Peter and Sarah, each owning 33% of the firm. The firm is currently valued at an estimated €1,800,000, making each Partner's share of the firm valued at (approximately) €600,000.

Partner's name	Value of each Partner's share of the firm
Joe	€600,000
Peter	€600,000
Sarah	€600,000
Total value of the firm	**€1,800,000**

They want to ensure that if they die:

1. Through the proceeds of a Life Cover policy, **funds are available** to ensure the deceased's estate is financially compensated for the deceased's share of the firm with a cash sum payment.
2. The Partnership is not dissolved and the business can **continue to operate.**
3. The surviving Partners **remain in full control of the firm.**

The solution

All three Partners in ABC have decided to arrange Partnership Insurance. There are three options available.

Business case example continued

Option 1 – Life of Another

One option is to arrange the policies on a **'Life of Another'** basis. Each Partner in the firm insures each of their fellow Partners for the amount they would need to buy back the deceased Partner's share of the business.

In this instance, there are a total of six policies required, with each Partner required to take out two policies insuring their fellow Partners.

The Life of Another policies would be arranged as follows:

Proposer	Life Assured	Life Cover needed
Joe	Peter	€300,000
Joe	Sarah	€300,000
Peter	Joe	€300,000
Peter	Sarah	€300,000
Sarah	Joe	€300,000
Sarah	Peter	€300,000

Therefore, if Joe dies, Peter and Sarah will each collect €300,000 under their respective policies, giving them sufficient funds to buy back Joe's share of the business from his estate. Joe's estate receives the €600,000 value of his share of the firm.

Option 2 – Own Life in Trust

Another option available is '**Own Life in Trust'.** As the name implies, each policy is arranged under trust for the benefit of the other Partners so that, on death, the proceeds are paid to the trustees of the policy. The trustees then pay the proceeds to the surviving Partners who use them to buy back the deceased Partner's share of the business.

So, under Own Life in Trust, each Partner insures their own life for the value of their share of the firm, with the policy being written under a Declaration of Trust for the **benefit of the surviving Partners.**

On the death of a Partner, the remaining Partners will receive a proportion of the Life Cover in place. This is then used to buy back the deceased Partner's share of the business.

Let's see how this arrangement would work for the consultancy firm, ABC.

Proposer	Value of share of firm	Life Cover needed	In trust for
Joe	€600,000	€600,000	Partners Peter & Sarah
Peter	€600,000	€600,000	Partners Joe & Sarah
Sarah	€600,000	€600,000	Partners Joe & Peter
		Total value of €1,800,000	

On the death of Joe, for example, the remaining Partners, Peter and Sarah, would each receive a portion of the €600,000 Life Cover in proportion to the value of their share of the firm (€300,000 each in this case) as Peter and Sarah's shareholding is the same.

They would then use this Life Cover payout to buy back the deceased's share of the business. Joe's estate would then in turn receive the value of his share of the firm, namely €600,000.

As both Own Life in Trust and Life of Another will suit the requirements of some firms and not others, your Financial Broker will be able to offer you assistance and guidance on the best solution for your firm.

You'll find more in-depth details on how to arrange Partnership Insurance on pages 10 to 13 as well as information on important issues such as taxation of policy proceeds.

Option 3 – Self Insurance

With this method of Partnership Insurance, each Partner is required to effect Section 785 Life Cover (also known as Pension Term Assurance) on his or her own life. This is designed to provide for their own dependants on death.

In the example above, each Partner would insure themselves for €600,000, with the benefit of that policy going to their estate and next of kin on death, in lieu of any payment from the surviving Partners. Each Partner would pay the premium on their own policy.

Your Financial Broker will be able to offer you assistance and guidance on the best solution for your firm.

Setting it all up

Arranging Partnership Insurance with Royal London Ireland is a relatively straightforward process and involves the following six steps:

Step 1 – Deciding who should be insured

All Partners in the firm should be insured under Royal London Ireland's Partnership Insurance arrangement. Those Partners who opt out (or who are unable to partake) will not be able to benefit from any other Partner's policy.

Step 2 – Deciding how much cover is needed

When estimating the level of cover required there are a number of issues that should be considered:

- Each Partner should be insured for at least the current estimated value of their share of the Partnership.
- Other payments that may need to be made by the surviving Partner(s) to the deceased's next of kin should be included.
- Where the Partnership operates on the basis of the automatic accrual of goodwill, there are a number of options available. Your Financial Broker will be able to help you examine what are the best solutions to meet the individual needs of your firm.

Step 3 – Prepare an appropriate legal agreement

One of the most flexible ways of structuring Partnership Insurance is through a **'Double Option Agreement'**, otherwise known as a **'Call & Put Option'**.

Under a Double Option Agreement, in the event of a Partner's death, the surviving Partners would acquire an option to buy the deceased's share of the firm from his or her legal representatives. This option, called a **'Call Option',** can be exercised by the surviving Partners within a limited period (usually within three months) after the death of a Partner. Exercise of the option by the surviving Partners requires the deceased's legal representatives to sell their share of the Partnership back to the surviving Partners, usually on a valuation basis specified in the agreement.

Likewise, the deceased's next of kin would also acquire an option to compel the surviving Partners to purchase the deceased's share of the Partnership from them. This is called a **'Put Option'** and is usually exercised within the same limited time period (usually within three months).

In this way, either the surviving Partners or the deceased's next of kin can trigger the purchase or sale of the deceased's share of the Partnership after death. This ensures that both parties are financially protected.

Royal London Ireland can provide a specimen Double Option Agreement. However, this should not be used without consultation with the firm's own Taxation Consultant, Legal Adviser and/or Financial Broker who should draft an agreement suitable to the individual circumstances and needs of the Partnership.

Setting it all up continued

Step 4 – Arrange the necessary Life Cover on each Partner

The Life Cover policies that complement the Double Option Agreement may be arranged on an **'Own Life in Trust'** basis or on a **'Life of Another'** basis.

On an Own Life in Trust basis, each Partner effects a Life Cover policy on their own life for a sum assured equal to the estimated value of their share of the Partnership. Each policy is issued under a Declaration of Trust for the benefit of other surviving Partners for the time being, so that on the death of the insured Partner, the proceeds are paid to the surviving Partners enabling them to buy back the deceased's share of the Partnership.

Alternatively, Life Cover can be arranged on a Life of Another basis. This means that each Partner insures their fellow Partners for the amount they would need to buy out the deceased Partner's share of the firm on death. While this is a straightforward method, it can be somewhat inflexible where there are more than two Partners and where, for example, a Partner leaves or new Partners join the firm.

Where a Self Insurance agreement applies, each Partner will usually be obliged to effect a Section 785 policy (also known as Pension Term Assurance) on their own life for an agreed amount of Life Cover. The premium on a Section 785 policy is deductible for income tax against relevant earnings, within certain limits and restrictions.

Step 5 – Check the Inheritance Tax treatments that will apply to the policy proceeds

Where policies are arranged under the **Life of Another** basis, each Partner pays the premium on their own policy from which they benefit. Therefore the proceeds of such a policy are **not** liable to Inheritance Tax in the hands of the surviving Partner, on the basis that each Partner has provided full consideration for the policy benefit.

Where policies are arranged on an **Own Life in Trust** basis, the surviving Partners inherit the proceeds of a policy provided and paid for by the deceased Partner.

While this technically means that each surviving Partner inherits their share of the policy benefit from the deceased Partner, and hence such inheritance is a taxable inheritance for Inheritance Tax purposes, the Revenue Commissioners have indicated that where such policies are arranged as part of a reciprocal, arms-length Insurance arrangement, they would **not** seek to impose an Inheritance Tax charge. See Appendix for more details of this Revenue clarification.

Where policies are arranged under the Self Insurance arrangement, the proceeds of each policy are paid to the deceased Partner's estate, and treated as an inheritance received from the deceased Partner.

Any proceeds inherited by the deceased's spouse or civil partner are exempt from Inheritance Tax.

Step 6 – Set up the required Life Cover policies

At this final stage, applications for the relevant policies are submitted to Royal London Ireland, in order to initiate the process of putting the required cover in place.

In most cases, the application will contain all the information we need.

However, in some cases, the individual to be insured may also be required to attend a medical examination.

Also, in certain circumstances, the company may be asked to complete a financial questionnaire in order to assist us in our examination of the amount of cover proposed.

Partnerships should always consult with their relevant Taxation Consultant, Legal Adviser and/or Financial Broker before structuring their Partnership Insurance plans.

In summary

Quite simply, Partnership Insurance from Royal London Ireland enables the Partners of a firm to put in place a structure to provide a lump payment to a deceased Partner's next of kin, in lieu of the deceased's share of the Partnership.

Of course, the upset and anguish caused by the death of a colleague can never be compensated for.

However, by taking out Partnership Insurance with Royal London Ireland, you can have the funds available to limit the financial damage and disruption caused by the untimely death of a Partner in your firm.

The ultimate aim of Partnership Insurance is to put the structures, processes and monetary agreements in place now to pre-empt the problems caused by a Partner's death.

Most importantly, it allows you to place a financial worth on each Partner's share of the firm. This can help ensure you have the funds available to protect your firm and the deceased's estate financially, in the face of the death of one of the firm's Partners.

Your Financial Broker will be happy to take you through the range of benefits associated with Partnership Insurance from Royal London Ireland. They can help you put a solution in place to meet the individual needs of your firm.

Added protection

Specified Serious Illness Cover from Royal London Ireland provides additional security to you and your business.

What is Specified Serious Illness Cover?

Specified Serious Illness Cover from Royal London Ireland provides additional security to you and your business. It pays a guaranteed lump sum if the insured person on a Partnership Insurance policy is diagnosed as suffering one of the covered specified serious illnesses during the term of the policy.

How would your business cope?

As well as protecting your business from the adverse financial affects of the death of a Partner, it may also be wise to consider what would happen in the event that they suffer a serious illness or disability, preventing them from continuing as an active participator in the firm.

As with the death of a Partner in your company, their unexpected serious illness can also undermine the financial stability of your business.

The solution

Having a **Specified Serious Illness Cover** policy in place, as well as Life Cover, provides the necessary funds to buy back a Partner's share in the business following the serious illness of a Partner.

A **Single Option Agreement** could provide for the buy back of a Partner's share in the business in such circumstances, in addition to a buy back on death.

Such an agreement would ensure that an ill Partner could not be forced to sell their share of the business against their will. This would have to be drafted by your legal advisers. You should also seek taxation advice on any potential Capital Gains Tax implications.

Why take out Specified Serious Illness Cover?

You may think that the chances are unlikely, but the probability of suffering a serious illness may be much higher than you think.

Did you know?

- **In Ireland 1 in 4 men will get cancer by age 75.***
- **In Ireland 1 in 4 women will get cancer by age 75.***
- **Five-year average net survival of Irish cancer patients for the diagnosis period 2014–2018 is 65%.****
- **Approximately 7,500 people suffer a stroke in Ireland annually.*****

Sources:
*Cancer in Ireland 1994-2022: Annual statistical report of the National Cancer Registry (2024)
**Cancer in Ireland 1994-2021: Annual Report of the National Cancer Registry (2023)
***Irish Heart Foundation 2025.

But with adequate Specified Serious Illness Cover and Life Cover in place, you will have a lump sum available to help deal with any adverse financial consequences caused by the death or serious illness of a Partner in your firm.

Your Financial Broker can offer you professional advice to meet the specific needs and offer the best solutions for your firm.

Please note:
Not all incidences of illnesses such as cancer or a stroke will be covered under Royal London Ireland's Specified Serious Illness Cover policy. We will only pay a claim based on our Specified Serious Illness Cover definitions. The Policy Conditions provide a detailed description and explanation of the specified serious illnesses we cover, the exact conditions which must be met for a claim to be paid and the terms and conditions that apply. The Policy Conditions booklet is available on request from your Financial Broker.

Specified Serious Illness Cover from Royal London Ireland provides additional financial security to you and your business.

Appendix

Taxation treatment of Partnership Insurance policies written under Trust

The following is intended as a guideline only in respect of the taxation treatment of Partnership Insurance policies written under Trust.

Royal London Ireland recommends that, before effecting this type of insurance, Partners should seek their own professional taxation advice and/or contact their relevant Revenue office seeking clarification on the tax treatment of premiums and proceeds.

Policy proceeds

Surviving Partners

Under current legislation, the proceeds of a Partnership Insurance policy received by the surviving Partners on death of an insured Partner are exempt from:

a. Income Tax, and Capital Gains Tax.

b. Inheritance Tax, provided the insurance arrangement falls within Revenue guidelines. Any part of the policy proceeds not used by the surviving Partners to buy out a deceased Partner's share is a taxable inheritance for Inheritance Tax purposes.

The Revenue Commissioners consider that, in the case of policies which are effected purely for commercial purposes and agreed between the individual Partners/ Shareholders on a reciprocal, arms-length basis without any intention to make a gift, the proceeds are exempt from Inheritance Tax in the following circumstances:

1. Proceeds on death will be used to purchase deceased's shareholding/share in the business. Any surplus arising will be liable to Inheritance Tax.

2. The capital sum under each policy will reflect the policyholder's shareholding/ partnership share.

3. Payment of premiums will be made by the individual members or on their behalf by the company/Partnership out of the individual's own company or Partnership account.

4. New Partner(s)/Shareholder(s) can join the arrangement at any time, subject to the conditions applicable to the existing members of the plan.

5. On withdrawal from the company or on retirement, the policy of the Partner who leaves reverts to that person who will no longer benefit in the continuing arrangement, provided his or her shareholding is sold on withdrawal, otherwise the person can remain a party to the arrangement. Such a policy will be an asset in the person's estate on his or her death and will not be exempt from Inheritance Tax.

6. On the death of a sole surviving Partner or Shareholder, the policy on his or her life will be an asset in his or her estate and will not be exempt from Inheritance Tax. Similarly, if a Partnership breaks up or a company is wound up, policies which do not lapse will be liable on death to Inheritance Tax.

7. Where a Shareholder/Partner refuses to join the arrangement or is unable to effect Life Cover on medical grounds, then he or she will be precluded from benefiting from the policies of his or her co-Shareholders.

8. The insurance policies can either be Term Insurance, Endowment or Whole of Life policies, with the Death Benefit only passing to the surviving Shareholders.

9. Co-Director/Partnership Insurance using 'Own Life in Trust' must be supported by relevant documentation:

   a. Buy/Sell (or Double Option) Agreement

   b. Reciprocal Agreement

   c. Trust Document

Royal London Ireland recommends that you seek advice from your Legal Adviser, Taxation Consultant and/or Financial Broker before putting any measures in place and write to your tax office seeking clarification on the relevant tax treatments.

Want to know more?

If you have a question about Partnership Insurance then you can contact your Financial Broker. They can provide you with any additional information you need. See details below.

Financial Broker Stamp:

For information about Royal London Ireland visit our website:

Website
www.royallondon.ie

For information about our Privacy Policy, please read our Privacy Notice available at **www.royallondon.ie/privacy-policy**

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Feedback on the content and clarity of this booklet is very welcome.
Please email feedback@royallondon.ie

The information contained in this brochure is based on Royal London Ireland's understanding of current law and Revenue practice as at November 2025 which may change in the future.

This brochure is for illustration purposes only and does not form any part of any contract. Terms and conditions apply. All information is valid at the time of going to print.

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