

Taking Care of Business

Insurance Strategies to Help You Protect Your Business



Opportunities, Rewards, and Responsibilities

Not many business owners want to think about the time when they'll have to hand over control of their company to someone else. For most business owners, their time is spent on running the business and keeping it successful. Being a business owner means many different responsibilities for you, as well as to your employees, customers, and family. Some of the questions you should be asking yourself are:

- What will happen to my business if I pass away unexpectedly?
- What will happen to my business if I become disabled?
- What will happen to my business when I retire?
- What will happen if certain employees pass away or leave the company?
- What do I need to do in order to attract and retain the best employees, and in turn, ensure they stay loyal to the business?
- How can I help ensure that my business will be able to weather unforeseen financial hardships?

This brochure will help you gain a better understanding of how proper insurance planning can help protect your business and family, improve recruitment and retention, and provide you with creative ways to reward employees. Once you have a stronger grasp of your insurance needs, consult with your financial advisor to develop a plan that's right for you and your business.

Business Continuation Planning: Making Sure Your Business is Secure

A vital component to any small business's long-term security plan, succession planning enables you to manage the transition of your business to future owners and management. One of the first considerations any business owner must make is how to protect against events that may threaten the business's future. This may include when a proprietor, partner, or key employee passes away. To preserve the value you've worked to create, it's important to plan for an orderly transition of ownership.



Protect Your Family

Many small business owners take out loans secured with personal assets to start or grow their business. If the business owner passes away before these loans are paid off, the family may have to sell or liquidate the business to pay off its associated debts. When a family is forced to sell the business quickly, the market conditions may not be ideal, resulting in a discounted sale. Losing the business owner can also have a significant effect on the business's value.

To prepare for this scenario, obtaining an individual life insurance policy can help protect your family. In the event something happens to you, the policy can provide funds to cover debts, ongoing living expenses, and other additional future plans.

Protect Your Future

In many cases, your business represents one of the largest and most important assets you own. Therefore, developing a succession plan or exit strategy is a key planning issue. A well-structured succession plan helps protect you, your family, and your employees.

An exit strategy lays the groundwork for leaving your business, whether it happens during your life or upon your death. Your exit strategy should focus on four key areas:

- Estate Planning: Coordinating your retirement and succession plans into your overall estate plan
- Retirement Planning: Establishing a plan and reviewing it regularly
- Succession Planning: Protecting your business investment
- Business Valuation: Obtaining an accurate business appraisal or valuation

Protect Your Partners

If you pass away, does your family have the appropriate time, skill, and resources to step in and run the business? The reality is, your loved ones may not have the background or desire for the job, and your co-owners may not welcome an unintended partner.

If you wish to sell your portion of the business, or want to plan ahead for an unintentional event, consider establishing a buy-sell agreement funded by life insurance. This type of agreement is an arrangement between owners to buy out an owner's share of the business in the event of disability or death. The value of the life insurance benefit is sufficient to buy out the partners' share. This in turn provides financial security for the surviving family. The amount for the agreement is usually specified in a contract created with the help of an attorney.



Insuring a Key Employee

In a small business, there are often certain employees who have a particularly critical impact on the bottom line. Key person insurance is life or disability income insurance purchased by the business on the life of such an employee. The death benefit paid to the business can help make up for lost sales or earnings, or cover the cost of finding and training a replacement. Your financial advisor can help you determine which employees, if any, are “key” to the business, as well as evaluate how much and what kind of insurance should be purchased.

Executive Benefits: Rewarding Your Top Executives

In today’s competitive employment environment, attracting and retaining top executives is more difficult than ever. This search demands creative solutions. Executive benefits may offer your best employees a higher level of benefits and compensation, along with significant tax advantages. They also make up for the fact that most 401(k) programs restrict executives’ ability to accumulate enough money on a tax-favored basis to fund the retirement lifestyle they desire. Section 162 plans, often called “Executive Bonus Plans,” are a simple way to reward your top people and can offer certain tax advantages.

A Supplemental Executive Retirement Plan (SERP), or a Golden Handcuff Plan, is another option used to reward and/or retain key executives. These plans can be designed for the employer to enhance compensation arrangements for their key employees by agreeing to provide future supplemental retirement incomes. This income is received in return for reaching a set of predetermined company objectives. Life and disability income insurance policies are often used to help informally fund the payments.

Supplemental Disability Income Insurance

For highly compensated executives, the maximum disability benefit may amount to less than 50% of their take-home pay. To address this problem, employers often purchase additional individual disability income policies on these executives. This brings their total benefit in the event of a disability, on a percentage basis, up to the same level of all other employees.

Disability insurance is paid for by the company on a tax-deductible basis. This is to provide the executive protection in case of a permanent disability. Coverage can be provided to a select group of employees. The benefits received are taxable, but the employee can elect to treat the premium as additional compensation, and therefore receive tax-free benefits at the time of disability.

Long-Term Care Insurance

For years, companies focused on creating benefit packages that provided financial security to key executives and their families as a means of attraction and retention. Times are changing; a secure financial future is no longer enough. Companies that recognize this need are now offering long-term care insurance as an enticing executive benefit.

Leverage Financial Expertise

Planning for the financial security of your business is both a complex and rewarding process. The key to a successful business transition is early planning and implementation.

Your trusted financial advisor can help you evaluate the needs of your business, family, partners, and employees in order to build a plan that addresses your estate, retirement, and succession planning goals.

This information is not intended to be a substitute for specific individualized tax advice. We suggest that you discuss your specific tax issues with a qualified tax advisor. Insurance policies contain exclusions, limitations, reductions of benefits, and terms for keeping them in force. Your financial professional can provide you with costs and complete details.

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