

# 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 will have to hand over control of their company to someone else. For most business owners, their time is spent on running their business and keeping it successful. Being a business owner entails many different responsibilities to your business, as well as to others, such as your employees, customers and family. Some of the questions you should be asking yourself are:

- What will happen to my business if I die?
- What will happen to my business if I become disabled?
- What will happen to my business when I retire?
- What will happen if certain key employees die or leave the company?
- What can I do to help ensure that my most vital employees remain loyal to the business?
- What do I need to do to attract and retain the best employees?
- 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

Vital to any small business long-term security, succession planning enables you to manage the transition of your business to future owners and management. One of the first things any business owner needs to consider is how to protect against events that may threaten the future of the business, like the death of a proprietor, partner or key employee. To preserve the value you have created, it's important to plan for the 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 the debts associated with the business. When a family is forced to sell the business quickly and market conditions are not ideal, they often have to sell at a discount. The loss of the business owner can have a significant effect on the value of the business as well.

Obtaining an individual life insurance policy can protect your family in this situation by providing funds to cover debts, ongoing living expenses and future plans in the event that something happens to you.

## Protect Your Future

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

An exit strategy prepares you to leave your business, whether it happens during life or at 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 die, does your family have the skill and time to step in and run the business? The fact is, your loved ones may not have the background or the desire for the job, and your co-owners may not welcome the idea of an unintended partner.

If you wish to sell your portion of the business or plan ahead for an unintentional event, consider establishing a buy-sell agreement funded with life insurance. A buy-sell agreement is an arrangement between owners to buy out an owner's share of the business in the event of disability or death. Buy-sell agreements are typically funded by a life insurance benefit sufficient to buy out the partners' share, thus providing financial security for the surviving family. The amount 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 environment, attracting and retaining top executives is more difficult than ever and demands creative solutions. Executive benefits may offer your best employees a higher level of benefits and compensation along with significant tax advantages. They also compensate for the fact that most 401(k) programs restrict the ability of executives 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 Golden Handcuff Plan, is another option used to reward or retain key executives. These plans can be designed to allow the employer to enhance compensation arrangements for their key employees by agreeing to provide future supplemental retirement income in return for reaching a set of predetermined company objectives. Often life and disability income insurance policies are 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 in the event of a disability. To address this problem, employers often purchase additional individual disability income policies on these executives to bring their total benefit, 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 to provide the executive protection in case of a permanent disability. This coverage can be provided to a select group of employees. Benefits received are taxable, but the employee can elect to treat the premium as additional compensation currently and receive tax-free benefits at time of disability.

## **Long-Term Care Insurance**

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

## **Leverage the Expertise of Your Financial Advisor**

Planning for the financial security of your business is a complex but rewarding process and 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 and build a plan that achieves your estate, retirement and succession planning goals.

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing.





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