

business insurance OVERVIEW

By Dave Campbell

Director of Life and Long-Term Care Marketing

A well thought-out and appropriately constructed life insurance plan can solve many business needs.

Satisfying cash flow requirements, ownership continuation and individual family protection can be a significant benefit for owners and key employees of closely held businesses. The following is an overview of how life insurance can provide for those needs.

Key Executive Insurance Plan

Key executive insurance is coverage purchased by an employer on the life of an employee whose services contribute substantially to the success of the business. The primary function of the life insurance is to offset the economic loss that comes with the death of that employee.

The highlights of the advantages to the employer are:

- Assures creditors, staff, and customers that the business will continue and remain stable in case a key employee dies
- Provides flexibility to use the insurance proceeds to:
 - Help replace lost profits
 - Train and hire a suitable replacement
 - Pay a death benefit to decedent's family
 - Purchase the deceased employee's interest in the company

Salary Continuation Plan

(Supplemental Income or Deferred Compensation) A salary continuation plan is a special benefit for key employees or business owners and provides payments when a specific event, such as retirement or disability occurs.

The highlights of the advantages to the employer are:

- If the employer is competing for talent, a salary continuation plan may provide an incentive to attract or to keep a particular key employee
- The employer can specify the benefit amount for each employee to reflect the value that employee has to the business
- The employer is the owner and the beneficiary of the life insurance. As owner, the employer has access to the cash value of the policy. This can be used to provide benefits at the time of retirement or disability
- Upon the death of the key employee the employer can elect to receive all or part of the death proceeds as reimbursement for the costs of establishing the plan



The highlights of the advantages to the employee are:

- No contribution required - The key employee is usually not required to contribute to the plan but may elect to defer current compensation and help fund the plan
- Supplemental retirement income - The plan provides additional retirement income to supplement other pension or income from savings and retirement plans

Business Buy/Sell Agreements

The death of a principal owner of a privately held business can create serious financial problems for the business, the estate, and the deceased owner's survivors. To raise the cash to buy the decedent's share of the business, the business or other owners may have to sell business assets to outsiders for a price that is less than actual value. Or they might have to accept the decedent's heirs as new business partners. Buy/sell agreements funded with life insurance can resolve these problems.

Business buy/sell agreements take one of two forms— Cross Purchase or Entity Purchase

Cross Purchase Under this type of agreement, the owners of the business agree to purchase one another's interest in the business. When funded with life insurance, the business owners are the owners of policies on each other's lives. They are also the beneficiaries and premium payors.



At an owner's death the surviving owners use the insurance proceeds to purchase the deceased owner's interest in the business from the heirs or estate.

Entity Purchase This type of agreement is designed so that the business entity (corporation or partnership) can purchase each owner's interest after his or her death. When the agreement is funded with life insurance, the business is the owner, beneficiary and premium payor of the policies on each of the owner's lives. At an owner's death, the business receives the death proceeds from the insurance policy and applies that money towards the purchase of the deceased owner's interest in the business.

The highlights of the advantages of buy/sell agreements funded with life insurance are:

- Stipulates who will buy a deceased owner's business interest
- Promises the heirs a fair price for the business interest at the time of the owner's death
- Provides the immediate cash to purchase the deceased owner's business interest
- Assures creditors, employees and customers that the business will remain stable in the event of an owner's death
- Reduces the overall cost of buying the business by using funds discounted by the value of the net death benefit
- Offers a source of funds from the cash value of the policy to meet short-term business related cash flow needs *ANGL