

Life Insurance for Business Owners



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If you own your own business, chances are you've at least thought about the conditions under which you will make your departure from the business and who is going to take over after you leave. Business continuation is difficult enough under normal circumstances, but if it has to take place following the unexpected death of a key person or owner, the complications can increase exponentially.

Company-owned life insurance is one way to help protect a business from financial problems caused by the unexpected death of a key employee, partner, or co-owner. If the covered individual dies, the proceeds from this type of insurance can help in several ways. Here are some examples:

Fund a Buy-Sell Agreement

A buy-sell agreement typically specifies in advance what will happen if an owner or a key person leaves the company, either through a personal decision or because of death or disability. The death benefit from a company-owned life insurance policy can be used to purchase the decedent's interest in the company from his or her heirs.

Keep the Business Going

If a decision is made to continue the business, there may be a period when operations cease while the survivors develop a plan to move forward. The death benefit can be used to help replace lost revenue or to pay costs associated with keeping the doors open, including rent, utilities, lease payments, and payroll. It may also help the

surviving owners avoid borrowing money or selling assets.

Replace Lost Income

If a business owner has family members who depend on the income from a business, which simply could not continue if he or she were suddenly gone, the proceeds from company-owned life insurance could help replace the lost income and help protect the family's quality of life while they adjust and move on.

The appropriate coverage amount will depend on several factors. It could be a multiple of the business owner's annual salary or the company's operating budget. Don't forget to factor in such details as the cost of hiring and training a successor, where applicable, and any debts that the family may have to repay.

A thorough examination of a business and the related personnel should be conducted before the exact amount of coverage is determined.

Remember that the cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased. Before implementing a strategy involving life insurance, it would be prudent to make sure that the individual is insurable. As with most financial decisions, there are associated expenses with the purchase of life insurance. Policies commonly have contract limitations, fees, and charges, which can include mortality and expense charges. Most have surrender charges that are assessed during the early years of the contract if the contract owner surrenders the policy; plus, there could be income tax implications. Any guarantees are contingent on the claims-paying ability of the issuing company. Life insurance policies are not guaranteed by the FDIC or any other government agency; they

are not deposits of, nor are they guaranteed or endorsed by, any bank or savings association.

The loss of an owner can be devastating to a small business. A company-owned life insurance policy may help reduce the financial consequences if such a loss were to occur.

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