Smart Strategies to Help You Protect Your Business
Owning your own business can be one of the most satisfying experiences of your life. You can follow your dream, earn a good living, provide employment and opportunities for others, and maybe even make a difference in the world. But owning a business also entails a lot of responsibilities—to your business, your employees and your family.

To get a sense of how well you’ve planned for these responsibilities, ask yourself the following questions:

- 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 become permanently disabled?
- How can I attract and retain the best employees?
- What can I do to help ensure that my most vital employees remain loyal to the business?
- How can I help ensure that my business will be able to weather unforeseen financial hardships?

While you’ve probably thought about these questions before, you may not have adequately addressed all of them. Use this brochure to gain a better understanding of how proper insurance and benefits planning can help protect your business and family, improve recruitment and retention, and provide you with new ways to reward employees.

Once you have a stronger grasp of your insurance and benefits needs, consult with professional advisors, including your accountant, attorney and insurance professional. Together, you can develop a plan that’s right for you and your business.
Keep Your Business Alive

You might think that when you die, your family could maintain their income by running the business themselves or by hiring someone to handle the day-to-day management. The fact is, your loved ones may not have the skills or the desire for the job, and your co-owners may not welcome the idea of an unintended partner. A buy-sell agreement is an agreement between owners to buy out a co-owner’s share of the business in the event of that co-owner’s retirement, disability or death.

Buy-sell agreements are typically funded with life insurance policies, allowing remaining business owners to buy the company interests of a co-owner’s share, if he or she were to die, at a previously agreed-upon price. The amount is usually specified in a contract, which is created with the help of an attorney. This ensures that your business partners won’t have to scramble to come up with the money to buy out your share of the business and that your surviving family members will be fairly and promptly compensated for their share.

BUSINESS CONTINUATION
Safeguard Your Business and Your Family

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 or disability of a proprietor, partner or key employee. When adversity strikes, a smart business-continuation plan can help protect business partners and family members alike.

A Dream Lives On

Through hard work, Scott Young turned a one-man enterprise into the largest heating and air conditioning business in the county. That allowed Scott and his wife, Cathy, to fulfill another dream—to build a home in the country and work it as a hobby ranch.

Scott’s insurance professional made sure he was properly insured at work and at home. Scott ran the business with his brother, and a buy-sell agreement funded with life insurance ensured the business could continue if one of them were to die. Plus, Scott had a personal life insurance policy to protect his family financially.

Tragically, this avid outdoorsman suffered a fatal accident while paddle boarding in a river near his home. The life insurance has been invaluable for the family. The insurance through the business ensured that Cathy was compensated for Scott’s portion of the company instead of becoming an owner of a business she had no interest in running. And Scott’s personal policy allowed her to keep the home and ranch. “I have an incredible amount of gratitude, and it’s all because of the life insurance,” says Cathy.

Watch the complete story at www.lifehappens.org/young.
You can enter into a buy-sell agreement at any time, but it often makes sense to do so when a business is formed or when new owners are brought in. Because business values can fluctuate, it’s important to review the contract with your accountant at least once a year or to include a calculation method in the agreement that keeps it up to date. Also be sure the insurance coverage that funds the agreement is current.

Business owners should also insure against the risk of becoming disabled and unable to work. In this case, disability buy-out insurance would fund the buy-sell agreement, allowing the disabled owner to be bought out, typically after a one-year waiting period.

There is also business overhead insurance, which reimburses a business for overhead expenses in the event a business owner becomes totally disabled. A policy typically pays benefits for one to two years and helps cover expenses like salaries, taxes, employee benefits, rent, mortgage, utilities, equipment, malpractice premiums, etc.

Insure Against the Loss of Key Employees

In a business, there are often certain employees who have a critical impact on the bottom line. Key person insurance is life or disability insurance purchased by the business on such an employee and payable to the business. The death or disability benefit can help make up for lost sales or earnings, or cover the cost of finding and training a replacement. An insurance professional 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.

Protect Your Family’s Future

Myriad factors make it important for you to consider purchasing individual life insurance that can provide

A Career Lost, but Not a Way of Life

At 45, attorney Peter Zatir attributed his fatigue to middle age and a busy law practice. However, when he finally visited his doctor, he was diagnosed with aggressive form of thyroid cancer and was given less than a year to live.

As Peter lay awake at night, his financial situation was one thing he didn’t lose sleep over. When they opened their practice, Peter and his partner followed advice from their insurance professional and protected their incomes and the business with disability insurance.

Shortly after Peter stopped working, his individual disability insurance policy began paying a monthly benefit. A year later, Peter had outlived his prognosis, but knew with a damaged larynx he could never return to the courtroom. Because the partners had set up a buy-sell agreement and funded it with a disability buy-out policy, Peter was compensated for his half of the business, and his partner became the sole owner.

Six years later, Peter continues to receive benefits from his individual disability policy, and his retirement is being funded thanks to an additional disability policy he had in place for that purpose. “I dread where we’d be today if I hadn’t taken my agent’s advice,” he says.

Watch the complete story at www.lifehappens.org/zatir.
your family members with additional money to pay off debts, cover ongoing living expenses and fund future needs such as college and retirement after you die.

Since you own this life insurance personally and it is not linked to the business, it can provide immediate financial support for your family. Also, an individually owned policy is typically creditor proof, meaning that the proceeds will flow directly to your family members and not to business creditors seeking to collect money they claim to be owed. Proceeds from an individually owned policy can supplement money that your family may receive from a buy-sell agreement that is funded by a separate life insurance policy. One of the biggest mistakes people make is not having enough life insurance coverage. Having extra coverage on your own can help safeguard your family’s financial security.

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Individually owned life insurance is particularly important for sole proprietors because the burden of providing for their families typically rests on their shoulders alone. In addition, these small-business owners often take out loans to help grow their businesses, and secure these loans with personal assets. Having the proper amount of life insurance can ensure that the family of a sole proprietor does not have to hastily sell the business, perhaps at a reduced price, to cover the debts and have money to pay for everyday living expenses.

**Keep Your Plans Updated**

Remember that as your business grows and your needs change, your buy-sell agreement and any insurance policies you have in place may need to be updated to reflect these new circumstances. For example, the people who were critical to your business when you first started and put these plans in place—from partners to key employees—may not be the same people that you rely on today for continued success. Your business advisors, including your attorney and insurance professional, can help you review your agreement and insurance plans to make sure they reflect your current situation.

As a business owner, you’re responsible for **two families**: the one you have **at home** and the one you have **through work**. That’s why it’s important to have insurance coverage to protect both.

Learn more at [www.lifehappens.org/business](http://www.lifehappens.org/business).

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**Actions Speak Louder Than Words**

Majority of small firms are likely to suffer financially if the owner were to die or have a long-term disability.

Yet, only …

- **20%** have business life insurance
- **18%** have business disability insurance

EMPLOYEE BENEFITS
Take Care of Your Most Important Asset—Your Employees

A well-conceived employee-benefits program is a necessary tool for attracting new employees and retaining current ones, regardless of the size of your company. A benefits program can be important to the success of your business and to the financial security of your employees, but it also can be costly. That’s why employers typically share the costs with their employees. A benefits specialist can help you select the right mix of benefits and guide you through the various plan options. It’s also a good idea to consult with your accountant and attorney before establishing or expanding an employee-benefits program.

Health Insurance
The one thing almost every employee wants and needs is health insurance. The most common plans are health maintenance organizations (HMOs), preferred provider organizations (PPOs), point of service (POS) and indemnity plans. Another option for businesses that want to provide employees with health insurance coverage is to offer them access to a health savings account (HSA), which is a tax-free medical savings account that must be paired with a high deductible health insurance plan (HDHP).

Choosing the right plan for you and your employees is a complicated decision. The Patient Protection and Affordable Care Act, which was signed into law in March 2010, made significant changes to the health insurance industry. Many provisions are complex and not yet clearly defined by the federal government. Many more are subject to both state and federal rules and regulations that are still to be determined. Because of the changing requirements that employers must follow, many to be phased in from now until 2018, it makes sense to consult with a benefits manager who can guide you through the process.

Life Insurance
Group life insurance is a relatively inexpensive benefit to offer employees. Many employers provide a life insurance benefit equal to one or two times the employee’s base salary, paying either all or most of the premium cost. In addition, employers may allow those wishing more coverage to increase the death benefit or add coverage for family members through the purchase of supplemental life insurance. Plus, under the current law, employers can provide up to $50,000 as an income tax-free benefit to employees.

Many people mistakenly believe that workers will receive disability benefits through Social Security, Workers’ Compensation or both. Companies that do not feel they can afford to provide an employer-paid benefit can still deliver a valuable service to their employees by offering life insurance as a voluntary benefit. While employees pay the full cost of coverage, there are several advantages to buying this way. Generally, employees can get coverage more easily than if they were to purchase an individual life insurance policy on their own outside of the workplace, and the premiums can be less expensive because of efficiencies in enrollment and billing procedures.
Disability Insurance

Disability insurance is one of the least understood types of insurance, but also one of the most important. When employees become injured or ill and unable to work, the income they receive through their disability insurance may be their only source of income. Many people mistakenly believe that workers will receive disability benefits through Social Security, Workers’ Compensation or both. But Social Security disability benefits are often quite restrictive, and only employees that suffer a disabling illness or injury on the job can qualify for Workers’ Compensation. Offering a disability benefit helps your employees cope during a time that can be difficult physically and financially.

Employer-sponsored disability insurance, which is how most employees get their coverage, falls into two main categories. Short-term disability insurance plans usually offer benefits that are paid for a maximum of 26 weeks, while long-term disability benefits generally continue for the length of the disability or until retirement age. The cost of offering disability benefits can be scaled by adjusting the maximum monthly benefit, benefit periods and waiting periods before benefits begin. Adding a return-to-work incentive benefit, in which the insurance carrier assists the employees with their rehabilitation needs and facilitates their return to work, can help you bring employees back to the workforce in a more timely manner.

As with life insurance, employers who are not in the position to fund a disability insurance program for their employees can offer a voluntary benefit, which is employee-paid. Again, a voluntary plan generally allows workers to get coverage more easily than if they were to purchase an individual policy on their own outside of the workplace, and the premiums can be less expensive because of efficiencies in enrollment and billing procedures.

Some companies like to offer their employees what is commonly referred to as supplemental insurance. With traditional disability insurance plans, employees get paid a percentage of their base salary when they are unable to work for any reason due to a disability. With supplemental insurance plans, coverage can be provided to help employees protect against things such as accidents, specified health events like cancer and other critical illnesses, and hospital intensive care and confinement. These policies typically pay cash benefits directly to employees to help them pay for everyday expenses when accidents or illnesses occur.

Dental and Vision Insurance

Dental insurance plans generally cover part or all of the cost of cleaning, X-rays, annual oral exams and fillings. Some plans also cover major items such as crowns and restorative work. Most plans do not cover orthodontics. In some areas, dental maintenance organizations (DMOs) may be available. They function in much the same way as medical HMOs and may be less expensive than traditional plans. Vision plans are also growing in popularity. A typical vision plan includes an annual routine eye exam, an annual contribution towards prescription eyewear and a glaucoma screening.
Long-Term Care Insurance
Long-term care insurance helps pay for a variety of services that are needed when they can no longer care for themselves for an extended period of time due to a chronic illness, cognitive impairment such as dementia or a disability. These services, which are not typically covered by health insurance, can be provided in a variety of locations, ranging from a person’s home to an assisted living facility or nursing home.

Most business owners that offer long-term care insurance to their workers do so in the form of a voluntary benefit, which means the employee pays the full cost of the coverage. Long-term care insurance can also be offered as part of a comprehensive benefit plan, with the employer paying for all or a portion of the premiums.

This is a benefit that is growing in popularity because long-term care insurance is completely portable and the majority of people over age 65 will need long-term care services at some point in their lives. Some employers are also addressing the growing issue of employees taking time off from work to personally provide long-term care to relatives. A multi-life long-term care insurance plan allows an employee to extend eligibility to relations such as spouses, parents, stepparents, grandparents and in-laws.

Retirement Plans
With the exception of health insurance, retirement plans are the benefit employees desire most. The good news is that business owners have a variety of plan options from which to choose.

Most retirement plans fall into one of two major categories:

Defined Contribution Plans allow employers and employees to contribute a set amount or percentage of pay, and retirement benefits are based on the actual performance of the funds. These plans give employers the ability to control costs because the contribution is defined. The amount an employee can contribute is based on a percentage of their salary up to a maximum amount defined by law. Defined contribution plans can take many forms, including:

401(k) and Profit-Sharing Plans: 401(k) plans help employees save for retirement by allowing them to set aside a portion of their salary that is often

Benefits Help Preserve a Family’s Way of Life

Bill Hobson was only 44 years old when he received the sobering news that he had Lou Gehrig’s disease. He was able to work and provide for his wife, Connie, and three daughters, for five more years as a product demonstration specialist at a telecommunications firm before the disease eventually robbed him of most of his muscle function and forced him to retire.

But Bill’s long illness and subsequent death didn’t devastate the family financially, thanks to insurance benefits he had through his job as well as additional planning he had done with the help of his insurance advisor. Short- and long-term disability insurance benefits through his job helped the Hobsons make ends meet when Bill could no longer work. The life insurance that he had—a benefit of one times his annual income provided by his employer, additional coverage he purchased through work, and an individual policy he bought on his own—has allowed his family to continue living the way they’ve always lived even though Bill is no longer with them.

Watch the complete story online at www.lifehappens.org/hobson.
Employees who are very satisfied with their benefits are more than twice as likely to report being very satisfied with their jobs.


Employees who are very satisfied with their benefits are more than twice as likely to report being very satisfied with their jobs. Employees can select where they want to invest their funds and they are not taxed on this income until withdrawals are made. Employers’ costs are a tax-deductible business expense. Retirement benefits are not guaranteed, however, and while the sum at age 65 may be substantial, it can also be much less if the employee has made poor investment choices or the stock and bond markets have not performed as well as expected. Employees may be able to borrow from their 401(k) plans to pay for important expenses such as higher education, a new home and medical bills, although loans must be repaid within a specified period of time. Sometimes employers elect to integrate the 401(k) plan with a discretionary profit-sharing plan that can increase the employer’s retirement contribution for employees.

SIMPLE Plans: This option is for employers with 100 employees or fewer who do not maintain any other retirement plan. It allows an employee to contribute a percentage of his or her salary up to a fixed maximum to an individual retirement account (IRA). The employer may also make contributions on a fixed or matching basis, which are tax deductible. SIMPLE plans are easy to set up, require minimal paperwork, and have low administrative costs. Plus, employees retain their SIMPLE account when they change jobs.

Simplified Employee Pensions (SEPs): Created with the small-business owner in mind, SEPs allow employers to set up IRAs for themselves and their employees. The employer contributes a percentage of each employee’s salary each year, up to a fixed maximum, and those contributions are tax deductible. SEPs have low administrative costs, and can even be started by those who are self-employed. Since the business owner can decide how much to contribute each year, this type of plan is often the answer for businesses that may want to adjust their contributions based on the health of the business.

Payroll Deduction IRAs: This type of plan, which requires no employer contribution, is designed solely to help employees fund their IRAs. Employers set up payroll deduction systems to allow employees to regularly contribute to their IRAs. Contributions are tax-deductible to the employee, just as they would be with traditional IRA contributions.

Defined Benefit Plans, commonly known as pension plans, require employers to pay a fixed annual amount to eligible employees during their retirement years. These allow employers a high degree of tax savings, and in good times, favorable growth rates can reduce or eliminate the employer’s contribution. However, they can be costly to administer and may require higher contributions in times of poor or negative investment returns. For employees, though, they provide the greatest degree of retirement-income certainty since they take on virtually no risk. The benefits are guaranteed by the Federal Pension Benefit Guaranty Corporation up to certain amounts.

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<th>Retirement and Savings Plans That Employers Offer</th>
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<td>401(k) plan</td>
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Source: LIMRA’s “Retirement Plans: The Small Business Dilemma,” 2013
Deferred Compensation Plans (including SERPs)
This is a selective employee benefit that allows business owners to help key employees defer income and the taxes due on that income until a later date, usually retirement. The plan can also be used to provide executives with additional life and disability benefits in addition to the basic coverage that all employees receive.

Split-dollar plans help reduce out-of-pocket costs for both the employer and the employee.

One option is a supplemental executive retirement plan (SERP). A SERP is a non-qualified deferred compensation agreement between a company and select key employees in which the business agrees to provide a specified benefit amount at retirement, or should the employee die, become disabled or terminate employment. When paid, the benefit becomes taxable as income for the executive and tax deductible for the company. Some plans also promise to pay the executive’s spouse a benefit if the executive were to die before retirement. Often life and disability insurance policies are used to help fund the payments.

Supplemental Disability Insurance
Most group long-term disability policies provide roughly 60 percent of an employee’s income, up to a stated maximum. For most employees, two-thirds of their income won’t exceed the employer’s maximum benefit. But for highly compensated executives, the maximum benefit may amount to less than 50 percent of their take-home pay in the event of a disability. To address this problem, employers often purchase additional individual disability policies on these executives to bring their total benefit, on a percentage basis, up to the same level as all other employees.

Split-Dollar Plans
This is a method for an employer and a select key employee to split the cost of a permanent life insurance policy. Premiums, death benefits and sometimes cash values are split between the two, according to the needs and objectives of each. These arrangements help reduce out-of-pocket costs for both the employer and the employee. Split-dollar premiums are not tax deductible by the employer. Death-benefit proceeds received by a named beneficiary are generally income tax-free.

Executive Bonus Plans (Section 162 Plans)
Under this type of plan, the employee purchases a permanent life insurance policy on his or her life. The company pays the executive a bonus equal to the premium, which is usually considered taxable income to the employee and tax-deductible to the employer. The employee controls the policy, including the death benefit and the cash value, which accumulates tax-free until it is withdrawn.
Life Insurance Keeps a Business in the Family

Ernest “Peanut” Folks took great pride in the fact that his son, Ernesto Hines, chose to follow in his footsteps. Peanut owned P&A Collision Center, an auto body repair shop, and his plan was to one day pass along the business to his son. Life insurance never factored into Peanut’s plan until an insurance agent called on him. Peanut realized that he needed to protect the business and its 10 employees with a life insurance policy.

Little did he know that just two years later he would be diagnosed with terminal lung cancer and the policy would be a financial lifeline for the business. The policy had an accelerated death-benefit feature, which allowed Peanut to receive an early partial payout of the policy due to his terminal illness. In the months before his death at age 49, Peanut was able to pay off both business and medical debts and make a smooth transition of the business to Ernesto, who continues to run the business that his father built.

Watch the complete story at www.lifehappens.org/hines.