

## FINANCE

# Life Insurance for Small Businesses

By Mimi Yee

Whether you are working on a business start-up, or have spent years building up a successful business, there is always the possibility that one adverse event may have a damaging effect on all of your hard work, and the legacy you are building for future generations. That is why it is important to plan for the continued success of the company by helping to protect it against risk. Life insurance is one way to safeguard the built-up value your legacy and ensure the continued competitiveness and success of your company without disruption. It can also be a valuable benefit, both for your employees and key executives.

Individuals seeking to protect their business and ensure its ongoing success can take out an individual policy with the company as the beneficiary. In addition, the vital revenue-producing role of a business owner and the key executives can be assured with "Key Man" insurance, in which the business is the beneficiary. These term policies can be sold to Small Business Administration loan applicants and they cover the revenue produced by a key member or members of the organization for the length of the loan. Similar coverage is also available to individuals seeking coverage for important revenue producers in their organization.

Group term life insurance is a valuable employee benefit that is both affordable and simple to buy and administer. It is often the only form of life insurance that employees have. In addition to offering tax advantages to the employer, it is a good tool for boosting employee satisfaction and retention because it helps employees provide some general security for their families. For employees, term life policies are very valuable because employees can convert the insurance if they leave their employment, without having to go through a medical exam. Employees also can have the right to name and change their beneficiaries and add dependents.

Employers can provide workers with valuable protection at group rates, and have the option of choosing what kind of insurance to provide, whether voluntary or supplementary. Employers also have the option of including Accidental Death and Dismemberment insurance, depending on the plan that the employer chooses.

There are other more complex and expensive forms of executive life insurance that are used to ensure the continuation of a business in the case of a bad event. One such policy is used to fund buy/sell agreements between corporations, LLC's and partnerships and their principal owners. It allows those who are interested in continuing their business to do so by funding the payment of the deceased party's interest in the entity to their spouses or significant others. In addition to providing liquidity for the estate, this kind of agreement may help to establish the value of the business for Federal tax purposes, and help to ensure that your beneficiaries may receive the fair market price for your interest.

The buy/sell agreement is a legal document that spells out the terms under which the entity or the remaining principals will buy your interest in the business if you die, retire or become disabled. It usually includes the actual purchase price or provides a formula for determining the price, and identifies how the agreement will be funded. While there are several funding options, insurance on the owner's life is one of the most popular, because it helps ensure that beneficiaries will receive the agreed-upon price for the business and provides necessary cash for an immediate buyout. Proceeds may be income-tax free in most instances. You should review the creation and implementation of any such arrangement with your legal and tax advisors.

Another complex form of insurance that is usually reserved for corporate officers is termed "Split Dollar" insurance, in which the premiums for the life insurance policy on an employee are split between the insured employee and his or her employer. In the most traditional form of split-dollar, the employer pays the portion of the premium that relates to the yearly build-up in the cash value, while the employee pays the portion that relates to the term protection.

Executives should assess the worth of the insurance products they wish to purchase to ensure that they provide good value and benefits to themselves and their employees. Products offered should be simple to buy and easy to understand, and have manageable payment options and methods. SBLI USA offers a group term life plan that is both very simple to apply for and administer. The master application form is just two pages long. The only required information is the number of people to be covered, gender, dates-of-birth, coverage amount and schedule. The company can be billed off of a single statement.

Having enough insurance and the right kind of policies in place is vital to any business plan, and executives who are making life insurance decisions should conduct due diligence in selecting

insurance products and companies. It is important that executives have total faith in the insurance company chosen. Companies that are undergoing regular examination will have an up-to-date annual statement known as the "Blue Book" on file at the local state insurance department. SBLI USA, for example, continues to be ranked an A- "Excellent" company by the A.M. Best Company, an independent firm that specializes in evaluating and rating insurance companies.

If you have just started your own business, or wish to review the insurance needs of an established business, SBLI USA can complete a needs assessment for you to ensure you have enough coverage to help protect your business, yourself and your family. You can call 877-SBLI USA for a free needs assessment or for a free Planning Guide to explain insurance basics. For further information on SBLI USA employee group term insurance, call 212-356-0300.

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*SBLI USA and its subsidiaries are licensed in 49 states, the District of Columbia, the U.S. Virgin Islands and Puerto Rico. With more than \$1.4 billion in assets, \$120 million in surplus capital, 250 employees and over 400,000 customers, the company is committed to offering affordable, flexible and easy-to-access products through a variety of integrated channels, including direct mail, telemarketing, the Internet and licensed agents, as it expands nationally.*

*SBLI USA Mutual Life Insurance Company, Inc. is the parent company to SBLI USA Holdings, Inc., which owns subsidiary companies S.USA Life Insurance Company, Inc., ("S.USA"), and SBLI USA Diversified Services Company, Inc.*

*Additional information about SBLI USA and S.USA products and services can be found at [www.sbliusa.com](http://www.sbliusa.com).*