

INSURANCE IN BUSINESS

By: Ron Knight

As an Insurance Advisor and Agent, I have spent a good deal of time talking to business owners. I have focused more on small businesses and single proprietorships in showing them how to use insurance to minimize some of their business risks. Most business owners readily accept the need for property insurance, Errors & Omissions Insurance and Medical Insurance, but do not as readily accept the need for other forms of insurance.

There are several other insurance products that could help business owners protect their investments and manage other risks. The following are some examples.

Disability Insurance, often referred to as Income Protection Insurance, should be given a high priority in risk management if your employer does not provide it as a part of their benefits package, or if you are a business owner. This is especially important for business owners that get paid by their direct labor. Statistics show that a person has a one in three chance of experiencing a disability that results in a loss of income. Consequently, disability is one of the top three causes of foreclosures in the US. Disability Insurance is reasonable and several companies offer a return of premium at age sixty five if the policy holder has not experienced a disability.

Buy/sell agreements supported by life insurance on the owners is an important risk management tool for businesses. The death of a partner can cause the business to fail if the remaining partner cannot purchase the other partners interest in the business. The way a buy/sell agreement usually works is for a purchase value to be established for the partner's interest in the business and an agreement for the surviving partner to purchase the other partner's interest in the business. Life insurance is used in these agreements and each partner purchases a policy for the value of his partner's interests and names the other partner as the beneficiary.

Critical to business operation is Key Employee Insurance. This is another way a business can protect itself in the event of the death of an employee. In this case a life insurance policy is purchased for the key employee with the company being the beneficiary. In the event of the death of the key employee, the proceeds from the insurance policy can be used to recruit and/or train a replacement or to make up for the loss of income to the business resulting from the loss of the key employee.

Life Insurance can also be used to provide a business owner with additional protection while he is working and at the same time provide deferred income if the business is a "C" corporation. The "C" corporation can purchase a Return of Premium Term Insurance Policy for the owner or employee with their survivors as the beneficiary. The premium is tax deductible to the business, but the insured is taxed on the premium. At the end of the term of the policy the insured will be refunded all the premiums paid into the policy tax free.

Insurance is often referred to as a necessary evil in terms of expense to a business, but if used correctly it can be an important tool in a business's risk management program.

