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**Harmony Wealth
Strategies**

BUILDING AND SAFEGUARDING
YOUR FINANCIAL WORLD

Business Overhead Expense Insurance





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Business overhead expense insurance is a type of disability insurance that's designed to protect your business if you become disabled. Specifically, it provides monthly payments to your business for a specified period of time so that your business can meet its routine expenses and remain open while you're disabled. Though you're the insured under the policy, the business is the owner and the beneficiary.

Why should you consider it?

The ability to continue business operations while you're disabled can be reassuring to your customers, creditors, and employees. Without business overhead expense coverage, you might find yourself using personal funds or taking on debt to meet business expenses. You might even be forced to close the business. With this coverage, you'll be able to keep your business afloat, at least for a period of time. And if you decide to sell your business after becoming disabled, the benefits paid under such a policy can keep your business operating and give you some breathing room to find a suitable buyer.

Keep in mind that business overhead expense insurance doesn't replace the personal disability insurance you need to have--it supplements your personal coverage. While a personal disability policy replaces a portion of your own income if you become disabled, business overhead expense insurance covers the routine expenses that your business may incur during your disability. Your personal disability policy pays benefits to you; your business receives the benefits under the business overhead expense insurance policy.

What's covered?

Business expenses eligible for reimbursement usually include:

- Lease, rent, or mortgage payments
- Loan and mortgage interest
- Utilities and telephone
- Laundry, janitorial, and maintenance services
- Accounting and legal services
- Professional trade dues and subscriptions
- Automobile expenses
- Employee benefits
- Employee salaries (but not your salary)
- Salary for a professional replacement for your position (depends on policy)
- Equipment depreciation
- Equipment lease payments
- Insurance premiums
- Taxes
- Other fixed expenses normally incurred in running the business

However, certain expenses aren't eligible for reimbursement under most policies:

- Your salary
- Salaries of family members hired after the onset of your disability
- Salaries of any other co-owners who are members of your profession or occupation (e.g., your business partner in a medical or legal practice)

Benefit period is subject to time limits

There are two important time periods to keep in mind: the elimination period and the coverage period. The elimination period is a waiting period between the start of your disability and the start of benefit payment. The elimination period is commonly 30, 60, or 90 days. The coverage period is the maximum length of time that benefit payments will be made, usually 12, 18, or 24 months. Benefit payments begin after the elimination period and continue for the length of your disability or the coverage period, whichever is less. You choose both the elimination period and the coverage period when you buy the policy. The longer elimination periods have a lower premium.



Benefits can vary and are subject to a monthly maximum

During the coverage period, the policy will reimburse your business each month for its overhead expenses up to a certain amount, known as the monthly benefit. When you buy the policy, you select the monthly benefit based on your business's normal monthly expenses. Generally, the actual monthly payment is equal to the amount of your business's actual expenses or the amount of your monthly benefit, whichever is less. Keep in mind that expenses can vary from month to month, so the actual amount paid each month can also vary.

Some policies allow your business to carry from one month to the next the difference between its actual expenses and the monthly benefit. If the monthly expenses are lower than the monthly benefit, your business will accumulate extra funds to offset months when its monthly expenses exceed the monthly benefit. Some policies will pay benefits past the end of the coverage period until the balance you're carrying forward is depleted. Since several methods can be used to pay benefits, check with your insurance agent.

Tax issues

Even though you're the insured party under the policy, the business owns the policy and pays the premium. The premium payments that the business makes are deductible as a business expense. As a result, any benefits that the company receives under the policy are treated as taxable income. This taxable income is offset when the business uses the benefit payments to pay deductible business (operating) expenses.

How can you buy business overhead expense insurance?

Call several reputable companies to compare rates and offerings, and the financial strength of the insurance company. Premiums will be based on your age, health, type of business, and the amount of coverage you want to buy.

To buy this coverage, you'll need to go through both medical and financial underwriting, as you do when applying for a disability income policy. An experienced agent can help you find the best policy for your circumstances.

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