



Harmony Wealth Strategies

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BUILDING AND SAFEGUARDING
YOUR FINANCIAL WORLD

Disability Insurance: Business Applications

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What is it?

You will typically face a higher risk of becoming disabled than dying. If you are a business owner, formulating a strategy to protect yourself against this risk is important, because if you suffer a disability and can no longer work, both you and your business may suffer financially. How will you earn a living? Will you be able to continue to pay your company's bills and overhead expenses? The loss of an employee due to disability can have negative consequences as well, particularly if the employee generates a great deal of income for the business or has unique skills and talents that make the business a success. Fortunately, as a business owner, you can purchase several types of disability insurance to protect your business from financial disaster.

What types of businesses need disability insurance?

Sole proprietors and self-employed professionals

Disability poses a particular threat to sole proprietorships and self-employed professionals, because they may be solely or mainly responsible for the success of the business. The business may be hurt financially, or even fail, if the sole proprietor or professional is not able to generate income and handle day-to-day business matters. In addition, the sole proprietor or self-employed professional often relies primarily upon his or her business for personal income to support himself or herself. Disability insurance can protect both the personal and business income of the sole proprietor or self-employed professional.

Partnerships

Partnerships (businesses owned by two or more people) need disability insurance, even though the disability of one partner may not be devastating to the business when the other partner or partners can continue to work. However, the disabled partner may have had skills or talents different than the other partner(s) and may be hard to replace, either temporarily or permanently. Also, how will the partnership afford to pay a substitute employee, find a permanent replacement, or continue to pay the salary of the disabled partner until he or she recovers? All of these needs can be met with disability insurance.

Corporations

Corporations can benefit from buying business disability insurance, even if they are large. Although corporations may have more owners and employees than sole proprietorships or partnerships, the risk posed to them by disability may still be great. Even though a corporation owned by several individuals may be able to withstand the loss of one owner or employee, the overall chance that an owner will become disabled increases as the business gets larger. For instance, if a business has two owners with an average age of 32, there's a 26 percent chance that one of the owners will become disabled. However, if the business has four owners, this chance rises to 45 percent. In addition, corporations may be interested in offering their employees group disability insurance as part of a fringe benefit package.

Planning a comprehensive protection strategy

No single disability insurance policy can protect every business from every disability hazard. Different policies insure against different risks. One may protect your personal income, while another may protect your business income. The best way to protect your business is to buy one or more of the following types of disability protection, depending upon your needs. Often, you can coordinate different types of protection to ensure more comprehensive protection than a single policy can offer. For instance, you may purchase a business overhead expense policy to pay the operating expenses of your business while you are disabled until your interest can be bought out under a buy-sell agreement. Then your disability buyout policy will provide the money to purchase the business. Or, you may purchase an individual disability insurance policy that will provide income to a key executive when he or she becomes disabled, and also purchase a key person disability policy that will provide income to your business when the key executive becomes disabled.

Caution: *Not all disability insurance policies can be purchased by all types of business entities. For instance, self-employed individuals who work out of their homes may have difficulty purchasing private individual disability insurance policies. Key employees who are also majority owners in a business are usually prohibited from being insured by a key person disability policy. In addition, most insurance companies require that a business establish a track record of consistent earnings (usually two to three*

years worth) before they will issue coverage. Before purchasing any disability insurance for your business, consult an insurance professional who can advise you on your specific needs and how to meet them.

Individual and group disability income insurance policies

If you own a business and want to protect your own earned income, you might purchase an individual disability income policy . This policy will pay benefits to you after a predetermined waiting period for a specified period of time. As a business owner, you can also purchase an individual disability income policy for a specified key executive. Offered as a fringe benefit often as part of a formal salary continuation plan (part of a welfare benefit plan), such a policy may be used to attract and retain key executives.

You can also protect the earned income of your employees by covering them from short-term or long-term disability with a group disability insurance policy . A short-term disability policy will protect employees who are disabled for 24 months or less, while a long-term disability policy will protect them for longer, usually five years or up until age 65. Group disability insurance policies can be used to fund salary continuation plans. They offer you peace of mind because you know your employees are taken care of, and they are an important fringe benefit to the employee.

Tip: Both the premiums for individual income insurance policies for key executives and group disability premiums are considered tax-deductible business expenses if the business pays the premium.

Business overhead expense insurance and key person disability insurance

If you want to protect the income of your business, you might purchase a business overhead expense policy or a key person disability policy . The business owns the policy and receives benefits from the policy, even though the insured is an individual (the business owner or a key employee). A business overhead expense policy pays benefits to the business in the event you become disabled and can no longer work. It covers the normal operating expenses of the business such as utilities, employee salaries, advertising, and maintenance costs. A key person disability policy will protect your business income in the event an employee who is crucial to the success of your business suffers a disability. It will pay benefits to the business to make up for the lost income the employee generated, or to pay for the cost of replacing the employee, temporarily or permanently.

Disability insurance policy to fund a buy-sell agreement

Buy-sell agreements are binding arrangements between a business owner and a second party whereby the owner agrees to sell his or her business interest, and the second party agrees to buy it, upon a specified triggering event. One of these triggering events is the disability of the owner. The disability clause in a buy-sell agreement establishes the buyer for your interest, and the conditions under which he or she must buy. When you become disabled, the purchaser (usually a partner or co-owner) will buy your share of the business from you, and the policy proceeds will be used to fund the agreement to compensate you for your share of the business.

Tip: You can purchase both life insurance and disability insurance to fund your buy-sell agreement. Your life insurance policy will fund the agreement in the event that you die, and your disability insurance will fund the agreement in the event you become disabled.

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