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Insurance needs for small business owners

Plan appropriately to safeguard the future

Great-West Life statistics show that, on average, 1 in 3 people will be disabled for 90 days or longer at least once before the age of 65 and that the average length of a disability over 90 days is 2.9 years. With statistics like those, and a rising incidence of debilitating diseases like dementia and other disabling events, a business owner must ask: "If I was unable to work, what would happen to my family and my business?"

It's a tough question but too often there is a rush to find an easy answer, such as tapping into existing savings or liquidating assets. Unfortunately, that is a very short-term solution. Actuaries estimate that if you saved 5% of your income for 10 years, you would run out of money after only six months of total disability. And what about your business? Your ability to contribute ceases while business commitments continue.

The simplest way to safeguard your personal and business financial futures is to incorporate appropriate and adequate insurance coverage into your planning. It is a risk management tool invaluable to ensuring long-term financial stability. In addition to disability insurance, other types of coverage for small business owners and partners include life, partnership or buy-sell, critical illness, and key person.

Life insurance protects the business owner's family in the event of death, while disability and critical illness insurance replaces income if an

accident or medical condition prevents a person from earning it in their occupation. Insurance can provide funds to pay the mortgage, finance medical expenses, and maintain family routines. It can be especially valuable for sole proprietors because it can ease the personal liabilities associated with owning a business.

Key person insurance protects the business in the event that important expertise or knowledge is lost through death or disability. The business purchases a policy on the life of the person(s) most important to the company. If death occurs, the life insurance pays tax-free proceeds to the business, which can use the funds to meet immediate cash needs while looking for the person's replacement. Leftover money can be used to fund other business activities including buy/sell agreements.

Partnership insurance or buy/sell agreements are important for business succession. They ensure that the estate of the deceased partner realizes the full value of the business interest. It also makes sure that the remaining partners survive the transition by avoiding perils such as forced liquidation or loss of goodwill. Insurance is often the most efficient way of funding the buyout.

Insurance appears to be a basic concept – providing funds to carry on after a negative event – but it's not that simple. The protections required by a two-partner software business are going to be

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different than those for a three-partner construction business, and determining any company's insurance needs are further complicated by the fact that it is entirely unpredictable if or when the insurance might be needed.

Insurance can provide business owners with a means of protecting profitability during tough times, and some of the deductibles can even be

considered business expenses, but there are many questions that require clear and informed answers in order to tailor the planning. It is advisable to discuss your specific needs with an insurance professional.

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