Help Protect What Matters Most to Your Business

Mutual of Omaha Advisors

Helping Your Business is Our Business

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Owning your own business can be one of the most satisfying experiences of your life. You can follow your dream, earn a good living, provide employment opportunities for others, and maybe even make a difference in the world. But owning a business also entails a lot of responsibilities.

With proper planning, taking care of the things that matter most to your business – building a strong foundation, preparing for the future and taking care of your employees – can help you and your business thrive.

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Building a Strong Foundation

One of the first things any business owner should consider is how to protect against events that may threaten the future of your business, beyond the basic property/casualty protection.

Controlling ownership
A buy-sell agreement is an agreement between owners that allows you or the business to buy out a co-owner's share based on a number of triggering events like retirement, death, bankruptcy, disability, divorce or selling the business to a third party. You can enter into a buy-sell agreement with your co-owners at any time, but it often makes sense to do so shortly after the business is formed and when new owners are brought in.

Protection from the loss of a key employee
Have you thought about what would happen if one of your key employees were to die unexpectedly? Would your business be able to continue without serious financial consequences? Coverage to protect your business against the loss of a key employee can help you navigate through a difficult time.

Protection against a disability
If you're disabled and can't work, business overhead protection can help keep your business afloat by providing benefits that generally help cover expenses like employee salaries, taxes, employee benefits, rent, mortgage, utilities and equipment.

Tax deductions
Don't forget to take advantage of tax deductions, which can help you have access to more capital you need to help grow your business. Things that business owners can claim as tax-deductible expenses include wages/compensation, office supplies, travel expenses, as well as some insurance premiums.

Buy/Sell Agreements Using Life Insurance

A buy/sell agreement can help ensure your business remains intact and your family has financial security. There are several strategies that allow you to use life insurance to help fund a buy-sell agreement – ask your insurance agent/producer about your options.

Here are the advantages of having a buy-sell agreement:

- It minimizes the possibility that the business may fall into the hands of outsiders
- It can help establish a value for the business and for estate tax purposes
- It creates a market for the business by providing the deceased owner's estate with a purchaser of the deceased's business interest
- It takes an otherwise illiquid asset and creates immediate liquidity for the deceased's heirs

Key Employee Using Life Insurance

The loss of a key employee's skills can put your business at serious financial risk. Life insurance can play an important role in protecting your business if you lose a key employee.

Here's how it works:

- You, as the business owner, determine the key employees and their value (the value can be calculated by using a multiple of the employee's income or estimating the employee's contribution to the company's profit and the replacement cost of the employee)
- Once the key employees and their value are determined, the business purchases life insurance on each employee and names the business as the owner and beneficiary
- The business pays the policy premiums – and in the event of a key employee's death, the business receives the proceeds from the policy tax free*

* Employer Owned Life Insurance (EOLI) – Failure to satisfy IRC Section 101(j) notice and consent requirements, as well as the reporting requirements contained in the federal regulations, may result in the loss of the income tax-free treatment of the life insurance policy's death benefit.

"A small business is an amazing way to serve and leave an impact on the world you live in."

Nicole Snow, bestselling author

Preparing for the Future

You may want to stay in your business for 5, 10, 20 or more years from now. But if adversity strikes or if you decide to embark on a new adventure, do you have a plan in place to help protect your business partners and family members?

Here are some things to consider:

Who's going to run your business?
If something happens to you, you might think your family would carry on the passion you put into your business. While this plan may work perfectly for some, in many cases, family members may not have the qualifications or desire to continue running the business and your co-owners may not welcome the idea of an unknown partner.

How might you exit your business?
Even though you aren't thinking about this now, someday you may decide you'd like to retire, work fewer hours or sell the business. When that time comes, do you have an exit strategy? The graphic below shows many of the elements involved in a successful exit plan. Which is the most important to you?

Increasing the number of employees correlates with increased innovation, while increasing revenue does not.

- BizEquity, 2016

What's your business worth?

Knowing the true value of your business is critical to proper business planning and achieving your personal goals. This is especially important when you want to retire or sell the business – and a business valuation will provide you with one of the details you need to plan the sale of your business.

A business valuation can help:

- Ensure that your business and family are properly protected
- Plan for your retirement, your estate and a buy/sell agreement, if necessary
- Create a succession plan for the future of your business
- Prepare for taxable events

Passing on the Family Business

You've worked hard to build your business and you want to help ensure that it continues even after you are no longer around. The challenge is figuring out how to pass your business to the next generation – especially if some children participate in the family business and others don't.

One solution to help protect the business – and keep family harmony – is to purchase a life insurance policy. You can leave your business to the participating children and use the life insurance proceeds to provide an inheritance to other family members. Although the inheritances do not necessarily need to be the same, life insurance can help ensure they are more equitable.

Taking Care of Your Employees

As a business owner, you're often challenged to find ways to do something extra to retain valuable employees and attract new talent.

Special Compensation Arrangements for Key Employees

You might not want to think what would happen to your business if one of your key employees left. Here are some benefit options that can help retain your key employees:

- Executive bonus plans – this offers a select group of employees important financial protection for themselves and their family, such as income replacement, college funding, estate liquidity and supplemental retirement
- Deferred compensation plans – these plans can help your employees save taxes now while building cash for their future

Benefits for Employees

Many firms without benefits are unfamiliar with voluntary products and how those offerings can help retain and attract their employees.

If your employees need coverage to supplement or fill in the gaps of their current benefits package, you can offer certain products that may be able to be paid by the convenience of payroll deduction. The voluntary coverage you offer to your employees could include:

- Life insurance – even if you provide life insurance equal to the employee's base salary, an employee can purchase an additional policy to help supplement his/her existing coverage or that of his/her spouse
- Disability income insurance – as with life insurance, employers who are not in the position to fund a disability insurance program for their employees can offer a voluntary benefit, which is employee-paid. This allows workers to get coverage more easily than if they were to purchase an individual policy on their own outside of the workplace
- Critical illness insurance – this is a relatively new type of insurance that pays benefits when a person is diagnosed with cancer or has a heart attack; the idea is that the benefit can be used to help pay for costs not covered by health insurance like travel expenses, prescription drugs, etc.
- Other coverage – you may also consider offering health, dental and/or vision insurance

Executive Bonus Plans Using Life Insurance

Executive bonus plans using life insurance can be a smart – and simple – way to recruit, retain and reward your key employees.

Here's how it works:

- The employer selects one or more employees
- The employee applies for a personal life insurance policy
- Once approved, the employer pays the life insurance premiums directly to the life insurance company. The employer gets to deduct the premium as an ordinary and reasonable business expense
- The premium amount is treated as taxable income to the employee; however, the employer has the option to provide the employee with an additional bonus amount to compensate for the increased taxes
- The employee retains full ownership rights to the policy, including the ability to name and change the beneficiary. The employee can also access the cash value at any time and for any reason
- In the event of the employee's death, the death benefit is paid income tax free to the employee's beneficiary*

* Death benefit proceeds from a life insurance policy are generally not included in the gross income of the taxpayer/beneficiary (Internal Revenue Code Section 101(a)(1)). There are certain exceptions to this general rule including policies that were transferred for valuable consideration (IRC §101(a)(2)). This information should not be construed as tax or legal advice. Consult with your tax or legal professional for details and guidelines specific to your situation.

Deferred Compensation Using Life Insurance

Deferred compensation plans are a great way to recruit, retain and reward your highly-compensated or key employees.

Here's how a deferred compensation plan using life insurance works:

- The employer and employee enter into a written agreement. The employer agrees to pay a supplemental retirement benefit if the employee stays with the employer until retirement
- The employer applies for and owns a life insurance policy on the employee, paying premiums out of after-tax income. To have funds to pay the promised benefits, the employer is also the beneficiary of the policy
- The employer uses the policy's cash values to help provide the promised benefits to the employee. At the employee's death, the employer receives the life insurance proceeds income tax free*
- Payments the employer makes to the employee are deductible as a business expense because of the written agreement. They are taxable as income to the employee or the employee's beneficiary when received

*Employer Owned Life Insurance (EOLI) – Failure to satisfy IRC Section 101(j) notice and consent requirements, as well as the reporting requirements contained in the federal regulations, may result in the loss of the income tax free treatment of the life insurance policy's death benefit.

Why Mutual of Omaha

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