



101 GUIDE

Business life insurance

You and your employees are assets—likely the most valuable assets your business has. You purchase insurance policies on your home and your car, so why wouldn't you purchase coverage for you and your employees in case something happens?

Business life insurance policies are customized to help your business move forward in case something happens to you or one of your most valuable employees.

WHY YOU SHOULD CONSIDER

Primary reasons your business should consider life insurance for you, your employees, and key staff members include:

- **Protect personal or family assets.** For many businesses, a sole proprietor is an owner whose family depends on the business as a primary income source. If the owner passes away, most of the business value may be lost. As a result, the odds of being able to continue a profitable business or sell the business after the individual passes are very low, meaning the owner's family may be at financial risk.
- **Maintain business value in case of leadership changes.** Many businesses with more than one owner choose to have a buy-sell agreement. This isn't insurance, it's an agreement between co-owners that stipulates what should happen to business assets should an owner unexpectedly pass away. Buy-sell agreements are customizable, legally binding, and establish an agreed upon price so the deceased's share of the business can be purchased. Life insurance can be used as the funding vehicle for a buy-sell agreement.
- **Cover key personnel.** Some employees are so vital to a business that if they left the company or passed away prematurely, the business would incur a major loss. If your business is reliant on key team members, key person insurance is worth considering. Overall, it helps protect the business and its owners in the event that one of the most productive, important, or valuable employees passes away prematurely or leaves the company.

The employee can also benefit from key person coverage. Some businesses offer a deferred compensation plan—also referred to as golden handcuffs. When you purchase a whole life policy on a key employee, the cash value builds up over time. You can choose to use that cash value to fund a deferred compensation plan. If that employee stays for a set period of time, the employer may pay a bonus to the employee, at which time the employee can continue the policy or cash out.

- **Safeguard against outstanding debt.** Many business owners personally sign for loans to fund their business operations. If the owner dies and the business can't repay these loans, his or her personal estate is still responsible for repayment. Business life insurance provides debt protection so an owner's family is not left to pay off loans. In some cases, lenders may require business owners to obtain business life insurance policies to guarantee they are paid off in the case of death.



DETERMINING WHAT IS BEST FOR YOUR BUSINESS

Business life insurance policies are typically highly customizable. At their most basic level, they are separated into two categories:

- **Term life policies.** These policies provide coverage for a set period of time, such as 10, 15, 20, or 30 years. Determining the term period is often based on the amount of time coverage is needed for a particular need such as key person coverage or protection for business debt.
- **Whole life policies.** Also referred to as permanent policies, whole life policies cover an individual for their entire lifetime. While usually more expensive than term, traditional whole life policies include level premiums and increasing cash value for the life of the policy. With most providers, premiums are paid up until age 100 and policies last until age 121. If you die before then, your designated beneficiary is paid the death benefit.

Industry professionals often compare these two categories to renting versus owning a house. With a whole life policy, you pay premiums on the policy and build cash value. You could walk away with your remaining cash value if you surrender the policy, or you could borrow against the cash value of your policy in times of need. With a term policy, you pay premiums throughout your policy, but don't receive anything in return after the term is complete.

Unlike some other, more standardized coverages, the amount of business life insurance that should be purchased varies greatly. Working closely with your representative is important in helping to ensure your business is set up for success.

EVALUATING PROVIDERS

When selecting a business life insurance provider, business owners should always consider:

- The financial stability of the provider
- The relevance of their offerings to your business and your employees
- The comfort and confidence you have in the representative

Business life insurance coverage can be quite complex, and some business owners may feel more confident in their future if they have an experienced representative working with them to help customize their policies. Partnering with a provider who has the experience, stability, and capacity to guide you through these important decisions will help protect your family, your business, and your owners in times of need.

For more information, check out [sentry.com](https://www.sentry.com).

Or to talk to a representative, call 800-4SENTRY (800-473-6879).