

BUSINESS

Key to security: Don't overlook insurance policies

Many small business owners may feel particularly vulnerable to risk because



ZIMMERMAN

much of their businesses success depends on one person or a few key employees. Because no business can insulate itself completely from very risk, getting protection and planning ahead is vital to being prepared for the worst-case scenario.

As part of this planning, small business owners should consider key employee life and/or disability insurance. Key employee life insurance is insurance written on the life of an organization's officer or other key employee, the loss of whom would cause the organization financial hardship. In general, a key employee can be anyone who is responsible for management decisions, is highly paid, has a significant effect on sales or has a special rapport with customers and creditors. If a key employee dies, a business typically suffers in four ways:

- Loss of management skill and experience.
- Disruption in sales or business production.
- Credit difficulties.

New expenses as a result of hiring and training a replacement for the key employee. Key employee life insurance works like individual life insurance; when the insured dies, the policy pays out a benefit. However, instead of an individual insuring him or herself or a family member, the business owns the policy and pays the premium. If the insured dies, the business is the beneficiary and will receive the policy payout.

Structurally, many key employee life insurance policies are set up as permanent policies that build cash value over time. However, a smaller business can choose a term life policy instead, if cash flow is an issue. The term policy may be able to be connected to a permanent policy at a later date.

In this case, premiums are paid until the employee retires or leaves the company. The cash value can then be used to informally fund a deferred compensation plan out if the key

employee remains with the company for a certain length of time.

How much coverage is necessary? The amount can range from the equivalent of the key employee's base salary to as high as 10 or 16 times his or her salary. Most small businesses do best with a payout of two to three times the key employee's salary. Key employee life insurance policies are not only affordable, but investors and lenders often will insist you purchase a policy to protect their investment.

Typical benefits of key employee life insurance include:

- Corporate redemption of stock owned by the key employee.
- Indemnification of lost corporate profits.
- Payment of outstanding obligations.
- Increased working capital.

When the right type and amount of insurance are used, key employee life insurance can also include informal funding of a key employee's death, disability or retirement benefits. Premiums are not included in a key employee's income and are not

deductible. The proceeds of a key employee life insurance policy paid to the business are exempt from income tax.

When considering key employee life insurance, it is also a good idea to put together a business continuation plan, including details of how your business will function without key employees. Not only is this helpful, but it is also often required by insurance companies.

Because the chance of being disabled is greater than the chance of death before the age of 65, key employee disability

insurance may be more important than life insurance in protecting your company.

Although disability can be a great economic loss to a business, small business owners are often unsure about using this insurance.

One reason business owners may be deterred from disability insurance is the potential cost. Expect to pay \$3,500 to \$4,000 a year to cover a nonsmoking 40-year-old male for a benefit of \$15,000 a month for two years (after a 90-day waiting period). Disability insurance is also hard to find because the number of

providers is diminishing. Premiums may be deductible, but if they are not, the benefits are tax-free.

As with most safety nets, key employee insurance may seem expensive and can be tough to think about. When planning for the unknown, however, there is one thing you can surely count on. The price of key employee insurance and the time associated with planning for it will seem like a bargain if you ever need to use it.

Eric J. Zimmerman is a personal financial advisor based in Southfield.

Schoolcraft seminar teaches how to do business with government

In the U.S. Navy a potential customer for your goods or services? Find out what the Navy procurement needs are at a day-long seminar at Schoolcraft College Tuesday, June 11. A team of specialists from the Small Business Office of the Navy at Mechanicsburg, Penn., will not only explain what the Navy needs, but will describe how to become a Navy supplier. Topics include the Navy's current business practices, electronic commerce and the Navy's online business practices. There will be a question and answer period.

Reservations are required. A continental breakfast and box lunch are included in the \$40 registration fee. The event is sponsored by the Schoolcraft College Business Development Center and the office of U.S. Rep. Joe Knollenberg. For information or to register, call 734-462-4438.

High-end information technology companies can learn about providing goods and services to the General Services Administration at a business seminar scheduled 9 a.m. to noon Tuesday, June 18, seminar at Schoolcraft College. The

GSA is the largest government buyer, purchasing more than 4 million products and services directly from 9,000-plus commercial suppliers.

A GSA representative from Washington, D.C. will describe the steps involved in becoming a GSA supplier. Reservations are required. The fee is \$35 per person. For information, call the Business Development Center at 734-462-4438.

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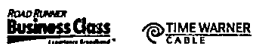
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