



Small-Business Strategies

Plan Ahead for a Thriving Business

What You Need to Know

As a small business owner, you want to do everything within your means to limit your risk and to keep your business running smoothly. Planning ahead can help you identify, address and be ready for business realities, such as an unexpected loss of a valuable employee or having the ability to put your own retirement dreams into action.

There are many solutions available to both ensure the future of your business and protect its operations by rewarding and holding onto valuable employees. We will take a high-level look at three concepts that may help your business and the associated benefits of each.

Ensure Your Business Continues

The first one is an arrangement called a Buy/Sell Agreement that creates a change of the ownership of your business from you, as the business owner, to the remaining owners or a new owner. This is a legally binding agreement and needs to be arranged through an attorney.

Benefits:

- Gives you a way to keep your business in capable hands should you no longer be able or want to manage it.
- The price is predetermined and has been agreed upon. This promotes an even and orderly transfer of ownership and management.
- It defines what qualifying event(s) trigger the Buy/Sell Agreement, such as disability or death.
- It guarantees your heir(s) a buyer and provides them with cash to pay estate debt, expenses and taxes, and provides income for the future.

Protect Your Business Operations

The second is a type of life insurance called key person coverage. This type of policy covers one or more of your key employees, with the primary goal of protecting the value and ongoing operations of your business and any associated expenses of hiring and training a replacement employee.

Benefits:

- Provides cash to help you survive the expenses and losses caused by the death of a key employee.

- The death benefit proceeds are generally income tax-free to your business, though premiums are not deductible.
- The death benefit can be used to fund the recruitment and training efforts to replace key employees.
- Provides the opportunity to accumulate cash values, which may be utilized for business purposes.

Reward and Retain Valuable Employees

The last potential strategy is a way to show appreciation to a valuable employee. A life insurance policy can be purchased on that employee for death benefit protection and supplemental retirement income. This way of utilizing life insurance is called an executive bonus plan. The business pays the premium in the form of a bonus and the valuable employee is the owner of that policy.

Benefits:

- As the owner and insured, the valuable employee will have full control of the life insurance policy and access to the cash value for retirement.
- At the death of the valuable employee, their beneficiaries would receive a tax-free death benefit.
- The employee bonus is generally deductible by your business according to the same rules as other forms of cash compensation.
- Executive bonus plans can help your business attract and keep top talent. Keep in mind, you may also set up a plan for yourself!

Ready to discuss if any of these options might be appropriate for you? Contact me to learn how life insurance can play an important role in your business planning.