

Help Protect Your Business with Disability Income Insurance

While many business owners understand the need for life insurance coverage, they may overlook the potential risk associated with sustaining a serious *disability*. According to the Council for Disability Awareness (CDA, 2014), over 37 million Americans are classified as disabled, and more than half are between the ages of 18 and 64. How long would you be able to cover your personal and business expenses if your income and revenue were to stop suddenly due to a disability?

Consider the following example: At age 48, Don was the president and cofounder of a small, but growing, machine tool company. He thought he was in excellent health. However, one day, without warning, he suffered a minor cardiac event. Although it left no permanent damage, the follow-up surgery resulted in complications that sidelined him for the next two years. By the time Don was finally able to return to work, he had narrowly missed declaring personal bankruptcy and losing his business. Unfortunately, his retirement savings had been depleted in the process.

According to the CDA (2014), roughly 90% of disabilities are caused by illnesses rather than by accidents. What would *you* do if you became unable to fully perform the duties of your job? As a business owner, you could find yourself in a dire situation.

There are two important types of insurance protection that can help safeguard both a portion of your income *and* your business. First, **disability income insurance** can replace a portion of your income, should you sustain a disability. Your business may already have a group long-term disability (GLTD) plan. Most employer-sponsored GLTD plans replace a portion of an employee's salary, but monthly benefits and benefit periods may be limited. In addition, benefits from a GLTD policy are often taxable, thus reducing the amount available for disability expenses. However, you can extend your coverage by either purchasing an *individual* disability income insurance policy outside of your GLTD plan or participating in a *group* plan through a business or professional association. When purchasing a policy, pay particular attention to the way the term "disability" is defined. Some policies cover you if you are unable to work in your *own* occupation, while others cover you only if you are unable to work in *any* occupation.

Second, a **business overhead expense (BOE) insurance** policy can help cover business expenses and other continuing fixed costs, such as utilities, rent, and equipment leases, should you experience a disability under the terms of the policy. In general, benefits are paid monthly after a predetermined waiting period, limited to a maximum amount, and restricted to a specified length of time, which often is one to two years. Therefore, if you are temporarily unable to work, which therefore affects your

company's ability to generate revenue, you can rest assured that the bills will continue to be paid without interruption.

While it may be unpleasant to think about, consider what might happen to your company if you became permanently disabled. Would you be forced to sell the business below fair market value (FMV)? If you have co-owners, they may agree to continue your salary on a temporary basis, but may be unable to do so indefinitely. One way to prepare for such a situation is to establish a **disability buy–sell agreement**, which is a contract that specifies who will purchase the business and at what price, in the event of a disability. Through the agreement, your co-owners could use the proceeds from a disability income insurance policy to purchase your share of the business.

Help prevent a disability from derailing your business. Disability income insurance, business overhead expense insurance, and a disability buy–sell agreement are tools that can help keep your future—and your business—on track.

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