

Protect Your Business against a Disability

While many business owners understand the need for life insurance coverage, they often overlook the potential risk associated with a disability. A lack of awareness about the possibility of sustaining a disability or being diagnosed with a serious illness leaves many business owners, as well as their businesses and their families, vulnerable to financial risk. According to the Insurance Information Institute (2013), 43% of all people age 40 will have a long-term disability event (lasting 90 days or more) by age 65.

If you were to sustain a disability or an illness that prevents you from working, consider how you would pay for daily expenses, including housing, insurance, food, transportation, and clothing. Consider also whether your business would be able to continue generating income to meet its expenses. If the disability becomes permanent, more complex issues may arise. Fortunately, you can prepare for these risks.

Disability Income Insurance

First, let's take a look at coverage for your personal expenses. Individual **disability income insurance** can replace a portion of your income should you experience a qualifying disability. Your business may already have **group long-term disability (GLTD)** insurance. Most employer-sponsored GLTD insurance replaces 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 benefit amount. However, you can expand your coverage by purchasing an individual disability income insurance policy as an adjunct to your GLTD policy.

When purchasing an individual disability income insurance policy, pay particular attention to the definition of the term "disability." 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. Other important features to consider are the length of the elimination period, which is the waiting period before benefit payments begin, and the maximum benefit provided, which could be stipulated by dollar amount, length of time, or a combination of both. Once a policy is purchased, be sure to review your coverage and needs on a regular basis to help ensure you are adequately protected.

Business Overhead Expense Insurance

Next, let's consider coverage for your business. 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 is often one to two years. Therefore, if you are temporarily unable to work due to a qualifying disability, thus affecting your business's ability to generate revenue, the BOE insurance policy provides a benefit that can be used to pay business bills without interruption.

Buy-Sell Agreements

While it may be difficult to contemplate, 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 they 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. In the contract, your co-owners could agree to use the proceeds from a disability income insurance policy to purchase your share of the business.

Don't let a disability derail 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. Be sure to consult a qualified insurance professional to help determine the appropriate amount of coverage to help protect you and your business no matter what life brings your way.

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