

Insurances essential for peace of mind, keeping doors open

Small-business owners can reduce some of the inevitable uncertainty and stress associated with company ownership and management by giving themselves the gift of adequate insurance coverage.



Michael Joyce

Business owners often have ample life insurance on themselves as well as property insurance on their company facility, but they may want to consider increasing their personal disability insurance and

adding these lesser-known forms of insurance to their business insurance portfolio: key person life and disability insurance, insurance to fund a buy-sell agreement, umbrella liability insurance and business interruption insurance.

When it comes to personal disability insurance, it is common for business owners (and many others) to be underinsured. The U.S. Social Security Administration reports that 64 percent of wage earners believe they have a 2 percent or less chance of being disabled for three months or more during their working career – but the odds for a worker entering the workforce today are about 25 percent.

Business owners would, therefore, be well-advised to analyze whether their personal disability insurance is sufficient.

KEY PERSON INSURANCE

To protect a company from the loss of deceased or disabled key persons, businesses should buy key person life and key person disability insurance.

A key person is someone who brings in significant business to a company, someone who has specialized knowledge and talent and someone who would be very challenging and expensive for the business to replace.

With key person insurance, the immediate loss of income and reduction in business development resulting from death or illness will be covered, and the expensive and potentially time-consuming training of the replacement can be more easily afforded and endured.

BUY-SELL AGREEMENT

Another worthwhile form of coverage that business owners might not anticipate a need for is insurance to fund a buy-sell agreement in the event of a shareholder's death.

In this scenario, the business buys life insurance on a shareholder, owns the policy and is the beneficiary of it. The insured is the shareholder.

The shareholder agreement can be designed to obligate the company to use

the proceeds of the life insurance policy to partially or fully buy out the ownership share of the person who dies.

VALUE OF OWNERSHIP

Ideally, the amount of insurance coverage on the shareholder's life should equal the value of his or her ownership. This offers the business liquidity while keeping the funds out of the insured's estate.

Funding this form of insurance can be complicated since some shareholders are less insurable from a health and age standpoint than others, so some premiums will be more expensive than others.

Of note: Companies should not pay premiums for life insurance policies owned by shareholders since insurance proceeds would then be taxable income to heirs. Ownership should be assigned to the corporation.

UMBRELLA LIABILITY

For limited liability companies that own rental real estate property, uneasiness about possible accidents on investment property can be ameliorated by buying umbrella liability insurance.

This way, if someone trips on a walkway, the small business will be covered.

The umbrella liability policy should cover not only physical injury but also discrimination, libel, slander, retaliatory eviction and invasion of privacy experienced by tenants and guests.

BUYING VALUABLE TIME

Recent disaster events such as hurricanes Harvey, Irma and Maria and the fires in Napa Valley should remind business owners of the necessity for business interruption insurance.

Businesses often invest in property insurance that covers only damage to a facility and does not account for lost revenue as the result of a disaster.

For companies affected by a disaster, business interruption insurance buys valuable time and peace of mind when rebuilding.

OPERATIONAL EXPENSES

Business interruption insurance also can be used to cover operational expenses if a business owner or key shareholder becomes disabled.

His or her disability insurance may pay a claim, but that will not keep the lights on or pay the company's payroll.

Certainly, a complete review of insurance coverage and consideration of these lesser-known forms of insurance is advisable for small-business owners. Better safe than sorry.

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