



Don't Let a Disability Derail Your Company

Many business owners, who don't question the need for life insurance coverage, often tend to overlook the potentially greater risk from a serious disability. According to the Insurance Information Institute (III, 2005), an individual of age 40 has a greater chance of missing at least three months of work due to an accident or illness than of suffering an untimely death (21% compared to 14%, respectively).

How long would you be able to cover your personal and business overhead expenses if your income and revenues were to stop today? As a business owner, you could find yourself in a dire situation.

Consider the following hypothetical example. Dave Harrison learned this the hard way. At age 48, he was the president and co-founder of a small but growing electronic components company. He thought he was in excellent health. However, one day, without warning, he suffered a minor cardiac incident. Although it left no lasting damage, the follow-up surgery resulted in complications that sidelined Dave for the next two years. By the time he 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 National Center for Chronic Disease Prevention and Health Promotion (2005), chronic conditions, such as heart disease, diabetes, and cancer, are leading causes of disability and affect the quality of life of 90 million Americans. What can you do if such a situation prevents you from fully performing the duties of your job?

There are two important types of insurance protection that can help safeguard a portion of both your income and your business.

- First, disability income insurance helps replace a portion of your lost income while you are disabled. Most employer-sponsored plans replace salary for only a minimum period of time, typically 26 weeks or less. However, you can extend coverage either by purchasing an individual disability policy or by participating in a group plan through a business or professional association. When purchasing a policy, carefully examine the definition of disability. Some policies protect against loss if you are unable to work in your own occupation, while others cover you only if you are unable to engage in any work at all.
- Second, a business overhead policy helps pay for a variety of overhead expenses once you become disabled under the terms of the policy. Thus, if you are temporarily unable to generate revenue, you can rest assured the bills will continue to be paid without interruption.

If your disability becomes permanent, there still is one glaring issue that will need to be addressed—what will happen to your company? Will you be forced to sell it below fair market value? If you have co-owners, they may agree to continue your salary on a temporary basis, but they may be unwilling to do so indefinitely. With a disability buy-out agreement, your salary would continue for a specified period of time. If it appears that you are permanently unable to return to work, your co-owners would be able to use the proceeds from a disability buy-out policy to purchase your share of the business.

Don't let a disability derail your business. Disability income insurance, a business overhead policy, and a disability buy-out agreement are tools that can help keep your future—and that of your business—on track. A qualified insurance professional can assist you in creating a business disability protection plan that is appropriate for your needs.