

By Willy Campbell

Learn the basics of Business Life Insurance

If you're a small business owner, chances are you've caught yourself dreaming about the future. You may picture yourself networking with industry leaders, cornering the market with an innovative product or service, or directing the work of hundreds of employees.

Entrepreneurs often fail to consider a less cheerful scenario: what happens to the business if they die suddenly? Then what would happen? Would your business close? Would it be clear who controls the assets? Would your family's interests be protected?

The best way to avoid this uncertainty is to have life insurance for your business. And, it may not be optional. Before making a business loan, many banks require the business owner to have a life insurance policy. Typically it is in the form of term life insurance that covers the cost of the loan in the event the borrower dies. The bank would be the beneficiary.

Life insurance can provide for the successful liquidation of your financial interest in the business, thereby protecting your heirs. If your employees are scheduled to assume ownership following your death, the insurance policy can be designed to provide funds for the purchase of the business. In addition, the life insurance policy can be used to pay federal estate taxes. It also can fund a buy-sell agreement between partners.

If the business is to be sold outright after your death, the policy will provide working capital for the transition period. The availability of a ready source of cash will make the business much easier to sell. Assets are usually discounted during such a sale and the availability of insurance funds will help your heirs.

A related type of insurance is "key person" or "key man" insurance which compensates your company for the loss of any other employee who is vital to the business operation. The business has funds to tide it over while the business slows down, and there are funds to search for and compensate the key person's successor. For businesses with multiple owners, each partner should have a life insurance policy to facilitate an automatic buyout of the deceased partner's interests.

You should consult with family, attorney and insurance agent when pulling together a sound life insurance program. And, chances are your professional association has an affinity program that offers affordable insurance.

To learn more about insurance issues, contact the Sandhills Chapter of SCORE "Counselors to America's Small Business". SCORE is a nationwide nonprofit association of expert business counselors who provide free and confidential business counseling to small business owners. The Sandhills Chapter is very active in counseling, mentoring and

presenting free business seminars. It is currently expanding these activities and is seeking motivated volunteers. You can reach the Chapter via the web at www.sandhillsscore.org or at 910-692-3926. In addition the SCORE office in the Chamber of Commerce building is open 10am – 12 every Tuesday.

Remember – send your business questions to me at www.contact@sandhillsscore.org and don't forget to provide a way to contact you. I may not be able to answer all of them in this column but every one will receive a personal answer from one of our Sandhills SCORE counselors!