



Advisor Life Insurance

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# Life Insurance For Business Owners: Types, Tips & More



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## Life Insurance Basics

No one knows when their time will come, but if you run a company, having life insurance for business owners is a must. Here's why.

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## How much does life insurance cost?

Age      Gender      ZIP code

Policy length      Coverage amount

20 yrs      \$500K

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## Why Business Owners Need Life Insurance

[Life insurance](#) for business owners is about financially protecting your company just as much as it's about protecting your loved ones. Here are some ways you can use life insurance as a business owner.

### To keep your business running

Business owner life insurance is also a great way to keep your company afloat in good times and bad. It could be used to pay off your business debts, supplement cash flow and cover expenses needed to find your replacement if you died.

Likewise, if your business owner life insurance policy has a cash value component, you could tap into those funds to fuel tax-free business growth—even while you're still alive.

**Related:** [Cash value life insurance](#)

### **To fund partnership agreements**

If you have business partners, you most likely have a [partnership agreement](#) in place. This agreement typically stipulates that if one partner dies or becomes incapacitated, the surviving partners have the right to buy out their share of the business. Life insurance can help fund this buyout.

### **To equalize an estate**

If you own a family business, you could also use life insurance to make sure everyone gets an equal inheritance.

For instance, say you have two kids. One works for the family business, while the other one doesn't. "Insurance can assist in estate planning to allow the child in the business to inherit the corporation's shares while the other child receives an insurance payout," says Daniel Kachani, a financial strategist and partner at Aria Wealth Solutions. In the end, everything's equal.

### **To protect your family**

What would happen to your family's finances if you were to die unexpectedly? They could be left with substantial debts, a lack of income and potentially no way to move forward. Life insurance can replace your income so your loved ones can maintain the same standard of living.

## **How Does Life Insurance for Business Owners Work?**

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The main purpose of life insurance for business owners is to provide financial protection for a company in the event of the owner's death. The beneficiary can use the death benefit to pay off debts, support the family, or keep the business running—whatever the policyholder wishes.

For example, if you have business partners, business life insurance could be used to buy out your share (or their share) of the business should one of you die. That way, the business can continue running as planned, and your family doesn't have to stress about what to do with it.

### 3 Types of Life Insurance for Business Owners

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Insurance type	What it's best for
Personal life insurance	Protects your family and personal finances
Key man life insurance	Covers the financial hit your company would take if it lost a key owner, executive or employee
Buy-sell agreements	Allows business partner(s) to buy out your share of the business should you die or become incapacitated

#### 1. Personal life insurance

Personal life insurance is for your family and any personal debts you may have. It can be used to

replace your income, pay off personal debts, leave an inheritance to your kids and keep your family financially secure.

A general rule of thumb is to have a personal life insurance policy 10 times larger than your annual income. For a more accurate estimate, [use our life insurance calculator](#).

**Related:** [How does life insurance work](#)

## **2. Key man life insurance**

[Key man life insurance](#), also known as key person life insurance, protects your business if you lose an owner or employee who's critical to the company's success.

“An owner or key person fills various roles that are vital to a business's survival—from maintaining assets to fulfilling debt obligations and operations roles—and the sudden loss of such an individual can throw a business into a tailspin very quickly,” says Matt Miller, the founder and CEO of Embroker.

“Key person life insurance focuses on maintaining the business's needs until it can get back on its feet by covering outstanding debts and share buybacks, covering the cost of hiring and training a new employee, and even paying out severance obligations in case the business needs to close or lay off workers,” says Miller.

## **3. Buy-sell agreement**

The final type of business owner insurance you should consider is a buy-sell agreement. This one is especially important if you have business partners.

A buy-sell agreement is a legally binding contract between business owners that dictates what will happen to the business if one of the owners dies,

becomes disabled, or wants to sell their interest in the business.

There are two main types of buy-sell agreements:

### **Cross-purchase buy-sell agreement**

In a cross-purchase buy-sell agreement, the business owners each buy a life insurance policy on the other owners. The death benefit is paid to the surviving owners, who then use the money to buy out the deceased owner's interest.

### **Entity purchase buy-sell agreement**

In an entity purchase buy-sell agreement, the business itself buys a life insurance policy on each of the owners. The death benefit is paid to the business, which then uses the money to buy out the deceased owner's interest.

## **Term vs. Permanent Life Insurance: Which Should You Choose?**

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[Term life insurance](#) and permanent life insurance are the two main types of life insurance. [Permanent life insurance](#) includes products like [whole life insurance](#) and universal life insurance. Here's a look at the main differences of term life vs. permanent life insurance.

#### **Term life insurance**

Provides level premiums for a set period of time, typically 10 to 30 years, with the option to renew

#### **Permanent life insurance**

Can provide coverage for your entire life, so long as you

after the initial term ends, but at a higher price	pay your premiums
Does not build cash value	Can build cash value that you can access through a policy loan or withdrawal for business needs
Acts as a liability on your balance sheet	Acts as an asset on your balance sheet because it builds cash value
Less expensive than permanent life insurance	More expensive than term life insurance

Whether you should choose term or permanent life insurance depends on your situation. For instance:

“If your need is temporary, such as with a key person situation, then a term life policy may fit the bill. But if it’s a permanent situation, as is the case with a buy-sell agreement, then a permanent policy may be warranted,” says Jason Veirs, President and Owner of Insurance Experts.

“The cheapest to access is term life insurance products, but they don’t provide the growth potential of permanent policies that have a cash value. Consider your cash flow and where your business is in its life cycle,” says Catherine Valega at Green Bee Advisory.

## How Much Life Insurance Should a Business Owner Have?

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“If your life insurance is funding a buy-sell agreement, then your coverage should typically be commensurate with the fair market value of the business,” says Veirs.

For other types of insurance for business owners, consider factors like:

- The size of your business
- Your overhead costs
- The number of employees
- The company’s financial stability
- Your personal financial situation
- The amount of debt the company has
- Whether you have a buy-sell agreement in place

Ultimately, the goal of business life insurance is to make sure your business (and family) can continue to run smoothly without you.

It’s smart to consult a financial advisor or insurance agent who can help you identify the right type of life insurance and coverage amount.

## **How to Get Life Insurance for Business Owners**

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You can get business life insurance directly through major companies such as State Farm, Fidelity Life, MassMutual and Nationwide. You can also buy coverage through an independent broker, who can shop around with multiple companies for you. Here’s how to get started:

### **Decide how much coverage you need.**

Consider factors such as how much money your business would need to compensate for the loss of key personnel, the replacement of lost revenue and paying off any debts or loans.




**Shop around for the best rates.** Business owner life insurance rates can vary widely, so [compare life insurance quotes](#) from different companies before you make a decision.

Life insurance for business owners helps ensure your company can stay afloat in the event of your death. It can also provide the funds needed to pay off debts.

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