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Three Life Insurance Strategies for Small Businesses

You may already have insurance to help support your family financially if you should pass away. But could your small business benefit from additional life insurance that would protect your employees, business partners, and their families?

Here are three life insurance strategies that could play a role in your business.

Group Plans

Small businesses have a hard time competing for qualified workers, many of whom may expect group life insurance as part of a standard benefits package. One cost-effective way to recruit and retain top talent is to provide a group term policy that provides a death benefit for the employees' beneficiaries.

With group policies, the premiums may be employer-paid, employee-paid (voluntary), or a combination of the two. If the company pays some or all of the premiums, it may be possible to deduct the policy costs as a business expense.

Bonus Plans

As an incentive for critical employees, consider funding an executive bonus plan with cash-value life insurance. The business pays the life insurance premiums with bonuses that are tax deductible to the employer but taxable to employees. The company determines the amount of each bonus and when to pay it. A bonus plan may also be

designed with vesting requirements that make the life insurance policy more valuable for an employee who remains with the company.

The employee owns the policy and bears the responsibility for keeping it in force. He or she can borrow against, and sometimes withdraw from, the cash value for any purpose; and if the policy is in force at the time of death, the employee's named beneficiaries will receive the death benefit, minus any outstanding loans. (Loans will reduce the policy's cash value and death benefit, could increase the chance that the policy will lapse, and might result in a tax liability if the policy terminates before the death of the insured.)

Succession Plans

Business partners often hold life insurance to fund buy-sell agreements. The death benefit can be used to purchase the business interests of the deceased partner from his or her heirs.

The cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased. Before implementing a strategy involving life insurance, it would be prudent to make sure that the individuals for whom you are purchasing the policies are insurable. As with most financial decisions, there are expenses associated with the purchase of life insurance. Policies commonly have mortality and expense charges. If a policy is surrendered prematurely, there may be surrender charges and income tax implications.

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