Plan. Risk. Live.

THE SCIENCE OF

LIFE INSURANCE FOR BUSINESS OWNERS & EXECUTIVES

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Table of **Contents**

Chapter 1

Introduction

For many of us, owning a business is simply a way of living the good life, following a dream, and providing the best for our families. We desire to become independently wealthy and do what we want with our time. Life insurance is instrumental in this desire.

Yet with so many details involved in running a business, it's easy to overlook a product that nonetheless provides the foundation of your financial security. In this book, I'm going to show you why life insurance is vital to the success and prosperity of not just your business, but your family and estate as well.

I'll give you the three must-knows about corporate life insurance... the correct way to set up policies to protect your family... and how to use a policy to preserve your estate for your heirs.

I'll also explain how to use life insurance to indemnify your business against the loss of a key person... cover business loans... and fund a partnership agreement.
In addition, I'll show you how to provide bonuses to select executives... make charitable gifts ... and properly use a collateral assignment of your policy.

All of these uses of life insurance share one thing in common: a determination to preserve and protect that which we hold most dear. I have spent decades helping business owners, executives, and their professional advisors purchase this protection efficiently and economically.

But the biggest benefit is the peace of mind and freedom that come from knowing your business, your loved ones, and your assets have been secured against tragic loss.

I feel privileged to be able to help you reach this important milestone.
ON TO CHAPTER ONE!

- Steven H. Kobrin

Chapter 2
Three Must-Knows About Corporate Life Insurance

Many large employers sponsor term life insurance as an employee benefit. Corporate sponsorship has its perks: the price is typically pretty low. It's fairly easy to qualify for the benefit. And, the employer typically foots all or a large portion of the bill. Nonetheless, as with everything else, you get what you pay for. Here is what I see as the downside of the product.

The price goes up

Usually, the rate increases when you enter a new five-year age bracket, i.e. 30 to 34, 35 to 39, 50 to 54, 55 to 59, etc. As you get older, the percentage increase gets higher. You may get hit with a smaller increase when you're younger, and a larger increase when you're older. Depending on how much you are paying, and the rates for which you might qualify on the outside, a policy obtained on the open market could give you better long-term price stability than the corporate product.

It's almost never enough coverage

The typical scenario is for a certain amount of corporate coverage to be issued on a guaranteed underwriting basis. Then, you must be eligible for any additional amount. But these increases are underwritten on a simplified basis. It's most often a take-it or leave-it decision. People who have a higher- risk factor, such as a medical condition or adventurous hobby, often do not qualify. Even if they do, there is usually a cap on how much you could buy. For most of us with multiple responsibilities and obligations, that amount is just not enough coverage.

You can't take it with you

The corporate policy offers bargain prices (at least initially) because a large pool of people participates. It needs that pool to remain large to keep the price down. So, certain disincentives are in place to make people think twice about leaving their employer. One major disincentive is a lack of portability. If you do switch jobs or go off on your own to start your own business, you probably cannot take your coverage with you. So, you are left fending for yourself in the marketplace, paying a higher price simply because you're older. And, if you do have a higher-risk factor, that could affect the new price as well. Then again, the corporate product could be portable – if you medically qualify. Or, you may be able to take the coverage with you only if you convert it to a permanent product – which of course would cost more than the term.

Putting this all together, I find that this general rule should apply to your life insurance planning: treat the corporate policy as icing on the cake. Make a policy that you own and that you control the foundation of your coverage. Even though the corporate policy can provide short-term convenience, it could pose for you long-term trouble that is simply not worth it.

Chapter 3

How Business Owners Use Life Insurance to Protect Their Families

Owning your own business has many perks and can bring plenty of freedom and success. You may have started a business because you like your independence, or you wanted to get rich. You may like a challenge or simply want to build a better mousetrap or mop. Maybe you believe you can make the best pie, or computer, or automobile, and want to share your passion with the world. But will your business alone be enough to take care of your family in the future?

Taking Care of What's Important

For many of us, owning a business is simply a way of living the good life, following a dream, and providing the best for our families. We desire to become independently wealthy and do what we want with our time. Since we are devoted to our spouse and children, we want to make sure our surviving family members can maintain the same standard of living even if we meet our tragic demise prematurely. As business owners, we often make provisions so our business can at least partially subsidize this ideal life in our absence.

However, the business usually cannot fully care for your family the way they have become accustomed. The full range of family financial needs, such as income replacement, mortgage protection, and retirement supplementation, cannot be met through the business alone. There is usually not enough to cover college funding or elder care for senior parents who become dependent, along with regular life expenses. As a result, life insurance is typically used to pick up the slack.

So how can you, as a business owner, ensure that your family is covered? Here are three quick tips for business owners for using life insurance to take care of their families.

1. Use Separate Policies

In many cases, the owner and beneficiary of a personal policy are different than for a business policy. A trust may be utilized, and a separate policy is therefore needed.

A personal life insurance policy will provide for your family and their future, while a business policy can provide for a buyout if your business has multiple partners. Make sure all your policies are separate and up-to-date so that there is no confusion or legal hold-ups if a tragedy occurs.

2. Use Multiple Policies

Most personal financial needs have different timelines. You may need 20 years to plan for college, but 40 years to plan for retirement. Separate policies with various face amounts and different guarantee periods can be employed to provide the exact sum of money for specific needs and further ensure that every aspect of your family's life is taken care of. Take the time to look at all your family's needs and determine what is necessary to provide for each one.

3. Beware of Tax Traps

Business owners like to have the business pay for everything. This practice can be very convenient and beneficial, but you need to know what you're doing when it comes to taxes. You don't want to get into a tax mess with incorrect deductions for your life insurance payments. Get good tax advice from the right professional and cover your bases.

There is something that is very important: before you submit a formal application, be sure to get prequalified for coverage. Prequalification is the process of getting an insurance quote based on your underwriting risk profile without the need for submitting an actual application.

How does this help?

- Get an accurate quote without any cost.
- It doesn't impact your life insurance application history since you don't submit a formal application.
- When properly done, prequalification dramatically increases the chances of finding both competitive and reliable rates.

If your broker charges you to get prequalified, then you definitely need to consider looking for a new broker.

Now that you know the basics of life insurance, let's find out how it can be used to protect your estate.

Chapter 4

How Business Owners Use Life Insurance to Take Care of Their Estate

Many successful businesses are family-owned and operated. You can find family-run enterprises in every industry: manufacturing, construction, real estate, insurance, law, financial services, hotel and restaurant management, and the list goes on. Every trade, every profession. The business often becomes a way to create a family legacy, to achieve a reputation as people of quality, of service and of commitment to one another, their employees, their clients and vendors, and the community.

But when it comes to planning for the future of your business, how do you handle the tricky matter of estate preservation?

The Value of Life Insurance

Many of us know the importance of life insurance for providing for our families, but it is equally important when it comes to preserving your estate and equalizing estate distributions.

Family businesses can get complicated. Some children choose to join their parents' profession and eventually take the company over to continue the family legacy.

At the same time, however, many children choose their own paths. This type of situation creates a dilemma for the parents when they create an estate plan. They can certainly leave the business to the child who has decided to join it, but what can they bestow to the child who has opted out? In addition, they need to think about strategies to shield their assets from estate taxation. The last thing they want is for their heirs to be forced to sell off properties just to pay hefty tax bills.

This is where life insurance provides a solution. Let's suppose a business is worth $10 million. The parents can decide to pass on their shares to the child who will carry it on, but they could also take out a $10 million life insurance policy and make their other child the beneficiary. In this way, each child would be the recipients of a gift of equal amount. Any other assets worth more than the available estate tax credit could be protected with a separate life insurance policy.

If this is something you want to pursue, here are three quick tips for using life insurance for estate preservation and equalizing estate distributions:

1. Use the Opportunity to Reflect

Estate planning is all about making sure your life continues to have meaning after you pass away. What was your life all about? What is your legacy? What did you stand for? For whom did you care? People will understand what is important to you by your documented declarations, the assets you transfer, and the gifts you leave. Don't be afraid to throw yourself into the process and make the most of it.

2. Get the Help of An Expert

Estate planning is both an art and a science. It is also a specialized area of law due to all of the intricate details. When businesses and other significant assets are involved, you need the counsel of an attorney who specializes in estate and business planning so that your plans are legitimized, and you can have peace of mind that everything is in order.

3. Research All Your Options

A sophisticated estate plan could have multiple needs for life insurance. Various products can apply to your situation, such as single life, joint survivorship, term, guaranteed universal life, and whole life. Think outside the box when investigating what will work for you, and make sure your attorney and insurance broker team up to design the proper mix of policies.

Your estate is of utmost importance. You've dedicated your life to building something significant so make sure your life's work and those you love are protected and provided for through life insurance.

I am sure you can see life insurance is to protect your estate. Contact me now to learn how you can best leverage it. I will definitely ensure that your estate has the protection it needs.

Chapter 5

How Business Owners Use Life Insurance to Protect Against the Loss of a Key Person

As any business owner knows, when it comes to running a company, everyone counts. You can't bring in money without a salesforce. You can't count the money without an accounting department. You can't run the computers without an IT specialist.

You can't secure the building without security personnel. And you can't keep the floors clean without the maintenance staff. The same goes for every clerk, administrator, secretary, supervisor, manager, and executive. Your business runs on the shoulders of many people in a variety of positions. Have you made sure that the loss of a key player won't harm your business?

Why Do You Need This Coverage?

While everyone is integral, some people play principal roles. For example, revenue may suffer if you lose a top salesperson, and investors and shareholders might get anxious if you lose a chief executive. Clients and vendors might get nervous if a key manager leaves, and future production may be jeopardized if you lose a key technician, inventor, scientist, or idea person.

These situations show why businesses insure leading personnel. They take out life insurance to protect themselves against the loss of men and women whose death could impair the operation. The insurance benefit protects you by giving you the time needed to recruit the right replacement. In the meantime, client service continues, bills get paid, and employees have reassurance that the show will go on. Business can take place as normal.

Here are three quick tips for business owners to make the right decisions when insuring key personnel.

Determine the Policy's Face Amount

How do you value the services of primary employees? Your answer to that question will vary according to the role they play. The service of a key chief executive would be assessed differently than the service of a key technician. Your firm's accountant or chief financial officer should consult with an insurance company advisor to calculate the appropriate insurance benefit for your situation.

Decide on a Time Period

Key person coverage came about at a time when the main employees tended to make long-term commitments to their employers. Today, many key men and women tend to switch jobs more frequently. If you think that is the case in your business, then term insurance might be more applicable than permanent insurance.

Establish Your Options

What should you do with the policy on a vital person if he or she does leave? You have a number of options to choose from. You could simply terminate the policy, or, if it is a cash value policy, you might be able to surrender it for value. In some cases, the former employer keeps the policy in force and collects the benefit when the former employee passes away. The policy may also be sold for cash in a life settlement depending on the age, medical condition of the insured, and other factors related to the policy.

Your business is built on the shoulders of all those who work for you. How protected are you if one of your principal players passes away? I'd love to hear from you and answer any questions you may have. Ask anything by connecting here.

Chapter 6

How Smart Business Owners Use Life Insurance to Cover Business Loans

If you are a business owner, you know that businesses need infusions of cash on a regular basis. Whether you are starting a business or growing an established company, you need capital to get going. Capital, in the form of cash, is necessary to open the doors of your business. It's required to expand into a new marketplace. Cash is needed when setting up a new branch or division.

Sometimes you can access this money from currently-owned business assets or accounts, but often, you need outside resources to make your dreams a reality. You have multiple options when it comes to getting a business loan, such as turning to commercial or private lenders and even investors to obtain the capital you need. But regardless of where the money comes from, one thing is consistent: your lenders will want their money back if you default on the balance or die before the loan is paid back.

Why Life Insurance Matters

This is where life insurance comes in. Lenders typically will not close a deal until a policy is in force. They simply don't want to have to chase down the surviving family members, or the executor of the estate in order to get their balance due. The life insurance benefit will provide the exact amount needed exactly when it is needed. That's one major creditor that family and business associates don't have to worry about.

Here are three quick tips for business owners for using life insurance to indemnify a bank loan or other debt:

1. Purchase Your Policy First

Life insurance underwriting can take several months, especially if a history of serious illness must be reviewed. Don't wait until the last minute to get prequalified and apply. The last thing you want is to be conditionally approved by a lender, only to have to delay closing because your insurance is not yet finalized. If your banker starts getting antsy, make sure your broker reaches out to him to reassure him that the process is underway.

2. Forget About Loan Protection Policies

Lending institutions will often offer life insurance to indemnify their loans. These products are sometimes called "Loan Indemnification" policies, or "Mortgage Protection" policies. They are simply term insurance with a face amount that decreases as your loan is paid back. But most of the time, they are more expensive than a straight term policy you can buy in the open marketplace.

3. Choose Your Beneficiary Wisely

Sometimes business owners think the lender must be the owner and beneficiary of their life insurance. Not only is that not true, but it's also not a good idea.

Let's suppose you have a policy for $2 million, to match the initial amount of the loan. After five years, you have paid off $500,000, leaving a balance of $1.5 million. Tragically, you pass away, leaving the loan unpaid. If the bank is the beneficiary, they will get the full $2 million, $500,000 more than they are owed.

The wise choice is to make a family member or other sensible entity the beneficiary and then use a collateral assignment to ensure the lender receives his benefits. When a claim is paid, the insurance company will then make the lender prove the balance due, pay them, and give the beneficiary the rest. In this way, everybody gets what they deserve. As a bonus, by making yourself, your business, or a trust the owner of the policy, you prevent the lender from tampering with the policy.

As we've seen in previous articles, life insurance is vital to the success of a business owner. It protects you, your family, and your business, and gives you peace of mind if unanticipated events happen. With so many details involved in running a business, it's easy to overlook something like the need for life insurance to pay back loans.

Let me help you find the best policy and answer any questions about how life insurance can make a difference for your business. Ask anything by contacting me here.

Chapter 7

How Business Owners Use Life Insurance to Fund Partnership Agreements

It’s a common practice for business owners to take on partners. While there are many reasons behind why you may want to take this step, there are also some crucial things to consider when entering into a business partnership. What legal bases do you need to cover? How can life insurance protect you, your business, and your family?

What a Partnership Looks Like

Some business owners enter a partnership because they need someone to complement their personal strengths. For example, one person could be an expert in operations, the other in sales and marketing. Sometimes professionals with the same area of specialization will join to serve more clients. In other arrangements, one partner could be passive and responsible primarily for funding, while the other is the active manager of the enterprise.

The partnership could and should be a very structured relationship. A legal agreement should be formulated and should cover all the financial technicalities such as the percentage of ownership, tenure of the partnership, how and when the business is to be valued, etc. It should also plan for events that may dissolve the partnership, such as the death, disability, long-term sickness, or early retirement of a partner.

How Life Insurance Can Help

Life insurance plays a key role in the funding of a partnership agreement. When a partner dies, that person’s spouse or estate will probably end up with his shares of the business. The surviving partners want those shares, but they need money to buy them.

Life insurance can provide the exact amount of money to do that at the exact time it is needed. It is typically a much more economical way of taking care of things compared to other options such as taking cash out of the business, selling assets, or borrowing from a bank.

What are some integral factors to consider when using life insurance to fund your partnership agreement?

Finalize Your Agreement

Before you do anything else, get the arrangement finalized before you get approved for your policy. There is nothing worse than getting approved at a great rate, only to delay paying for the policy because the legal work has not been completed. Until it is, you won't have coverage, and something disastrous could happen that could either raise the price significantly or disqualify you altogether.

Costs Will Vary

Remember that not everybody qualifies for the same price. Each person represents a different risk profile to a life insurance underwriter. Age, gender, smoking status, health history, and a multitude of other factors affect the rate. Don't expect life insurance to cost the same for each partner.

Explore Your Options

Research your options for policy ownership. In some instances, your business should be the owner and the beneficiary of the policies. In other cases, partners should own policies on one another. Talk this through with your business advisor to make sure your policies are issued correctly and fit your needs.

Life insurance is critical for business owners. It covers you, your business, your partner, and your families, and can be a game changer if the unexpected occurs. Don't get caught without it. I'd love to hear from you and answer any questions you may have. Ask anything by emailing me here.

Chapter 8

How Business Owners Use Life Insurance to Provide Bonuses to Selected Executives

As a business owner, you invest copious amounts of time, money, and energy into your employees. Don't you want your investment to pay off? Employee turnover can be extremely costly to your business, and this is especially true when it comes to key executives.

The Cost to the Business

When you lose indispensable employees, money must be reallocated to provide for recruiting, training, orientation, and management of a new hire. It can also take a lot of time to ensure that you find someone who is the best fit for the role. The longer the recruitment process takes, the more the business is exposed to a setback.

Therefore, companies spend significant amounts of money on compensation packages for key executives. The longer they can get these men and women to stay in their employment, the better return they get on their investment in them. Employers are always looking for benefits that can be legitimately offered to selected personnel only. How does life insurance fit into this equation?

Life Insurance as the Answer

Life insurance is frequently at the top of this selected benefit list. If several factors fall into place, then the use of this product can be a big win for both the executive and the firm. Here are some factors that will ensure the success of life insurance for this purpose:

- The executive has a need for life insurance for personal reasons, such as family protection and retirement planning.
- The executive qualifies for a policy that can provide both significant cash accumulation and a sufficient survivor benefit.
- The executive is willing to let the firm control policy proceeds.

If your executives meet these criteria, what are some tips to take into consideration?

1. The Importance of Underwriting

The lower the cost of the insurance, the higher cash value and survivor benefit a policy will provide. If the executive qualifies for a comparatively low rate, then additional money can be paid into the policy for use in retirement, as well as for the protection of beneficiaries. If the executive has a chronic illness or another higher-risk factor that drives up the cost of coverage, a policy may still be a worthwhile bonus from the employer. Be sure to contact your life insurance provider to talk through any extenuating circumstances and how they could affect the policy.

2. Seek Advice on Premium Payments

The whole point of this benefit is for the employer to subsidize the cost of a life insurance policy that can have a major impact on the life of the executive. Because these policies can cost substantial amounts of money, the employer will take on a considerable expense in financing them. Make sure your financial experts talk to your insurance advisor about how to minimize the tax impact for both your firm and your executive.

3. Implement Sensible Policy Controls

The primary purpose of providing this benefit is to lock executives into a commitment that protects the business. What kind of stipulations can be applied to ensure the benefit pays off? One option is to build controls into the executive's contract that give access to increased policy benefits over time. Secondly, provisions can be made to reimburse the employer for their expense while still providing the executive with a lucrative cash account and survivor benefit. Speak to your business advisor to review your options in this regard.

You build your business to be successful and a major piece of that success is in holding on to key personnel. Don't overlook the important role life insurance can play to ensure loyalty from your chief executives. I am here to answer your life insurance questions and help you find creative ways to protect your business. Ask anything by connecting here.

Chapter 9

How Business Owners Use Life Insurance to Make Charitable Gifts

What is one trait that successful business owners share? An attitude of gratitude! Business owners who have advanced in their field don't forget those who helped them get to the top. They honor their parents, they give credit where credit is due, and they see the importance of every contribution to the cause, whether from the janitor or the CEO.

On top of that, they also value and appreciate charities and the work they do. It might be that the business owner was touched and assisted by a religious congregation. Maybe a family member benefited from the services of a medical research group, hospital, or home care facility. Many business owners support universities or advocacy groups. Regardless of the reasons or the particular charities, they often desire to give back to the organizations that made a difference in their life. Other than donating funds from time to time, how can successful business owners give back in a way that will significantly impact the charities they choose?

Using Life Insurance to Give Back

Life insurance is ideally suited for charitable giving. By taking out a policy on yourself for the benefit of the charity, you can turn a small amount of money into a substantial gift. Each dollar of the benefit costs only pennies in premium. This means that the gift does not have to be an excessive expense for the donor, but the benefit can considerably impact the charity's cash flow.

Here are three quick tips for business owners for using life insurance to make charitable gifts:

1. Familiarize Yourself with the Legalities

Make sure you understand the laws regarding the use of life insurance for charitable giving. Many states recognize that charities have an insurable interest in contributors. They realize that these organizations can be as dependent on donors as businesses can be dependent on key personnel. Work with an attorney who can guide you on the best way to structure the policy and help you answer the questions of who should be the owner, beneficiary or premium payer.

2. Get Creative with Permanent Life Insurance

The life insurance policy you are gifting will be part of your estate plan, and thus must last as long as you do. That means you need permanent life insurance. But just because the policy will last your lifetime doesn't mean you have to pay for it for your entire life. You can design the policy so you can make one single payment, payments for ten years, or even payments for twenty years, yet still retain a lifetime guarantee. Work with your broker to generate some options and pick the one that best meets your financing preferences.

3. Work with a Team

Collaborate with your fellow contributors to maximize the benefits to the charity. The healthy charity is the one that receives support on an ongoing basis. Long-term contributions could be generated for a charity if donors of all different ages took out policies for its benefit. Year after year, big dollars could roll in as donors pass on and benefits are paid out.

Generous business owners can increase their donations to their charities by using life insurance. By naming a charity as a beneficiary, you can give that charity an extraordinary amount of money that can create a lasting legacy for a cause that is important to you.

If you are interested in contributing to a life insurance policy for the benefit of a charity, I'd love to walk you through the process and answer any questions you may have. Get in touch with me by simply clicking here.

Chapter 10

How the Collateral Assignment Helps Business Owners Control Their Life Insurance Benefit

Growing your business is the name of the game, and bank loans often fuel that growth. When a bank lends you money, it wants to be sure it will get paid back – even if you predecease the loan. So it typically requires life insurance to close the deal.

Using life insurance is good for everybody

This makes sense. Your loan officer doesn't want to have to chase down your spouse and force him/her to squeeze money out of your estate to pay the balance due. You certainly don't want to have to put your grieving partner through that. Life insurance is the way to go to secure that debt, because each dollar of benefit literally cost pennies. It is a much more economically sound strategy than paying off the debt dollar for dollar out of cash, or liquidating assets at a potential loss.

Ownership of the policy is key

But who should own the policy? This is where many business owners are tempted to make a serious planning mistake. It may sound simple to make the bank the owner and beneficiary of the policy. This way, the insurance company could just send them a check and settle things once and for all. But here's the thing: what if you take out a $2 million loan, and owe only $1 million at the time of death? If the bank is the beneficiary, they will get the full $2 million benefit – even though they are due only half that much! Why overpay them? You can still keep things pretty simple, and retain control over the amount paid, by using a collateral assignment.

A collateral assignment keeps you in control

A collateral assignment is simply an amendment to the policy. You get to designate the owner. It could be yourself, your estate, a trust, your business – whatever makes sense, according to your financial plan. You will also get to designate the beneficiary. The assignment is filed to inform the insurance carrier that you have agreed to pay your lender first out of the benefit. When a claim is filed, the carrier will check with the lender and ask them to prove any amount due. They do so and are paid accordingly. Your beneficiary will then get the balance of the benefit. This way all interested parties get what they deserve, and not any more or less. And, if you happen to pay off the loan before any claim is filed, you simply get a letter from your bank to this effect and instruct the carrier to remove the assignment.

A post-policy issue requirement

A collateral assignment is really the last requirement to be met when you get your coverage. You go through full underwriting, get approved, and pay for the policy. In the meantime, you work with your bank to get the assignment form completed. It could be a form the carrier mandates, or, if they have no preference, the bank should have a template. The completed form should be submitted to the carrier along with all your policy delivery requirements – payment, health forms, amendments, etc. Then, when the policy is put into force, the assignment can be executed. This usually happens on the same day.

Your broker should provide reassurance to your banker

Sometimes, the purchase of life insurance can take a while. This is especially true if the insured has a higher-risk factor, such as a medical condition or adventurous hobby. Your broker has to first prequalify you in order to quote both a competitive and a reliable rate. He then has to advocate on your behalf throughout the underwriting process, to obtain an approval at the rate quoted. In the meantime, both you and your lender can get a little antsy because you want to close the loan, get the money, and supercharge your business. Encourage your broker to reach out to your banker periodically, provide reassurance that progress is being made. This is usually all that is needed for the banker to remain optimistic and interested in doing business with you. Before you know it, the deal will be sealed, and you can march on.

Please feel free to contact me directly with any questions that you may have. If you need a quote now, or a second opinion on a quote you have received, the best thing to do is to call me toll-free at (201) 633-1818 or email me here.

I hope you found this ebook to be valuable and educational.

THANK YOU