



# Life Insurance for businesses.

This guide will explore the importance, benefits, and options available for life insurance tailored specifically for business owners.



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# Life Insurance for Business Owners



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Life insurance for business owners is a strategic tool that ensures the continuity and stability of a business in the event of the owner's death. This guide will explore the importance, benefits, and options available for life insurance tailored specifically for business owners.

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# Life Insurance for businesses.



- Life insurance for business owners offers a financial safety net, covering debts and operational costs to ensure business continuity if the owner dies.
- Lenders often require life insurance as collateral for business loans to ensure repayment if the business owner dies unexpectedly.
- Life insurance funds the buyout of a deceased owner's shares, ensuring a smooth and financially strain-free business succession.
- Key person insurance helps a business by covering the costs of replacing a vital employee and offsetting lost revenue if they die.
- Life insurance ensures the owner's loved ones are financially secure, providing stability even if the business faces challenges after their death.





# Why Do Business Owners Need Life Insurance?

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Life insurance is often considered essential for individuals, but it takes on an even greater significance for business owners. Here are several reasons why life insurance is a crucial tool for business owners:

- **Protecting the Business:** As a business owner, life insurance provides a financial safety net for your company in case something happens to you. The proceeds can cover debts and bills and keep the business running during a transition.
- **Securing Business Loans:** Banks and financial institutions often require business owners to have life insurance when applying for loans to ensure the loan will be repaid if the owner passes away unexpectedly. Life insurance also demonstrates financial responsibility to potential investors and partners.
- **Ensuring Continuity for Key Employees:** Key person insurance protects businesses from losing critical employees, such as top executives or specialists. If a key employee dies, the insurance provides funds to cover the costs of finding and training a replacement and offsets lost revenue.
- **Facilitating Business Succession:** Life insurance is crucial for business succession planning. It provides funds to buy out a deceased business owner's shares and ensures a smooth ownership transition without financial strain.



# Why Do Business Owners Need Life Insurance?

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- **Help Providing for Loved Ones:** Life insurance helps ensure that your loved ones are cared for, providing them with financial security even if the business faces challenges after your death.
- **Supporting Business Buy-Sell Agreements:** A buy-sell agreement outlines what happens if a business partner dies or leaves. Life insurance can fund these agreements, ensuring surviving partners can buy out the deceased partner's share without straining the company's finances.
- **Maintaining Business Value:** A business owner's sudden death can cause uncertainty and instability, reducing the business's value. Life insurance provides funds to stabilize the company, preserving its value for future sale or ownership transition.

**Life insurance is a vital tool for business owners. It protects the business and its employees and ensures that personal and family financial goals are met. By incorporating life insurance into your business planning, you can help secure a stable and prosperous future for your company and your loved ones.**



# Types of Life Insurance Policies for Business Owners |

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As a business owner, securing your company's future is as important as running it. Life insurance can be a crucial part of your business planning. Here's a rundown of the main types of life insurance policies that can benefit business owners.

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# Types of Life Insurance Policies for Business Owners



## Term Life

Term life insurance is simple and affordable, offering coverage for 10, 20, or 30 years. If you pass away during the term, your beneficiaries receive a death benefit. It's ideal for covering business loans or providing income during crucial growth periods. However, the policy ends with no payout if you outlive the term.



## Whole Life

Whole Life Insurance: Whole life insurance offers lifelong coverage and includes a cash value savings component. While premiums are higher than term life insurance, part of the premium builds cash value over time. This policy provides insurance protection and a savings element that can be borrowed against business needs.



## Universal

Universal Life Insurance: Universal life insurance is like whole life insurance but more flexible. You can adjust premiums and death benefits over time. It includes a cash value component that earns interest, making it ideal for business owners who want permanent coverage that can adapt as their business evolves.



# Life insurance policies for business owners.

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## Key Person Insurance

Protect your business if a vital employee or partner dies. The company owns the policy, pays the premiums, and is the beneficiary. The death benefit can cover financial loss, recruit and train a replacement, or provide a cushion during the transition.

## Covering Key Person Losses

Every business has critical employees whose skills and knowledge are vital to success. If a key person passes away unexpectedly, it can significantly impact the industry. Life insurance for critical employees provides the business with funds to cover the costs of finding and training a replacement, helping to maintain operations during a difficult time.



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## Business Loan Security

When taking out business loans, lenders often require collateral to secure the loan. Life insurance can serve as collateral, reassuring lenders that their money is protected. If something happens to you, the insurance payout can cover the outstanding loan, preventing your family and business from being burdened with debt.

## Funding Buy-Sell Agreements

If you have business partners, a buy-sell agreement funded by life insurance can be invaluable. This agreement is a contract where the remaining partners agree to buy out the deceased partner's share of the business. The life insurance policy provides the necessary funds to complete the buyout, ensuring a seamless transition and preventing disruptions.



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# Life insurance policies for business owners.

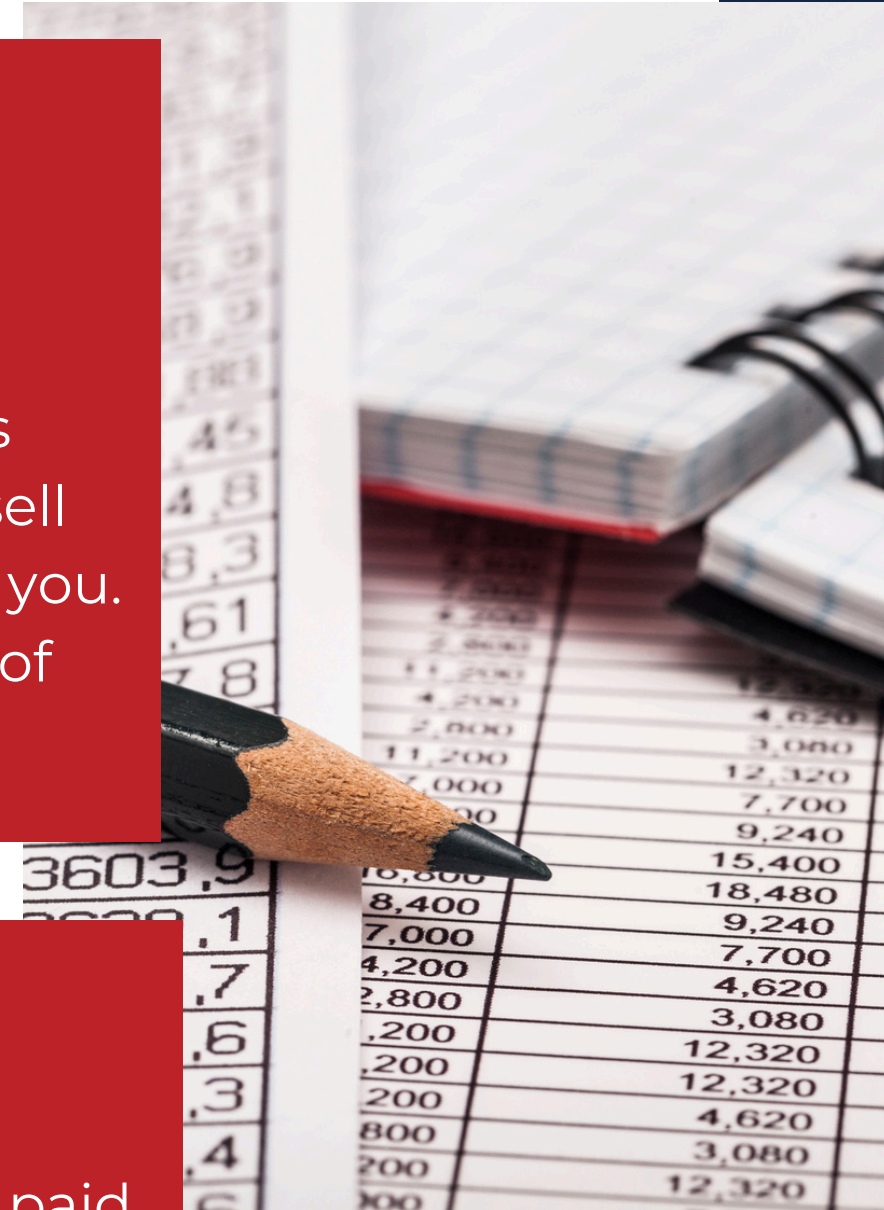
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## Protecting Your Family and Business

As a business owner, you might have personal and professional assets intertwined. Life insurance ensures that your loved ones won't have to sell parts of the business to cover expenses or debts if something happens to you. It provides financial stability, helps your family maintain their standard of living, and ensures that the industry continues operating smoothly.

## Tax Advantages

Life insurance policies come with various tax benefits. The death benefit paid out to beneficiaries is usually tax-free. Additionally, specific policies accumulate cash value over time, which can be borrowed against or withdrawn, often with favorable tax treatment. This can provide a valuable financial resource during your lifetime.



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## Attracting and Retaining Employees

Offering life insurance as part of an employee benefits package can help attract and retain top talent. Employees appreciate the added security of knowing their families will be financially protected. This can set your business apart in a competitive job market and foster loyalty among your team.

## Estate Planning

Estate planning is a crucial consideration for business owners. Life insurance can help ensure that your estate has sufficient liquidity to cover taxes, legal fees, and other expenses. This can prevent the forced sale of business assets and ensure that your business and personal estates are handled according to your wishes.



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## Providing Financial Flexibility

Many life insurance policies offer features like cash value accumulation, which can be accessed through loans or withdrawals. This can provide additional financial flexibility to invest in your business, cover emergencies, or plan for retirement.

Life insurance is a versatile tool for business owners, that can help offer protection, financial stability, and peace of mind. Whether you're looking to safeguard your family's future, secure business continuity, or enhance employee benefits, life insurance can be a crucial part of your financial strategy.



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# Life insurance policies for business owners.



**Funding Buy-Sell Agreements**



**Key Person Insurance**



**Business Loan Security**



**Attracting and Retaining Employees**



**Executive Bonuses**

# How to Choose the Right Policy

Whether you're a sole proprietor, a partner, or a corporation owner, choosing the right life insurance policy can safeguard your business and ensure its continuity. Here are steps to help business owners make an informed decision.



# ≡ | 🔍 How to Choose the Right Policy

As a business owner, choosing the right life insurance policy involves careful consideration of your personal and business needs to secure your business future and provide a safety net for your loved ones.

**Assess Your Needs:** Could you determine the **purpose** of the life insurance? Are you looking to protect your family, business, or both? Calculate your coverage by considering debts, operational costs, and future earnings.

## **Evaluate Policy Types:**

For **Temporary** Needs: If you need coverage for a certain period, like until a business loan is paid off, term life insurance might be the best choice.

For **Permanent** Protection: If you want a policy that builds cash value and provides lifelong coverage, consider a permanent life insurance policy.



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# ☰ | 🔍 How to Choose the Right Policy

As a business owner, choosing the right life insurance policy involves careful consideration of your personal and business needs to secure your business future and provide a safety net for your loved ones.

**Compare Quotes:** Get quotes from multiple insurers to find a policy that fits your budget and needs. Please read the fine print regarding premiums, benefits, and exclusions.

**Consider the Insurer's Reputation:** Choose a reputable insurance company with a solid financial rating. This ensures that the company will be around to pay out claims when needed.

**Consult with Professionals:** Speak with a financial advisor or insurance broker who understands the complexities of business ownership. They can offer tailored advice and help you navigate the various options.



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# Life Insurance for SBA Loans

When you're applying for alternative financing like an **SBA** loan, you may need a life insurance policy before your loan can close. Many small business owners are surprised when this requirement comes up, and it can potentially delay your loan application if you're not ready for it, but it's an important part of the SBA lending process. Explore why you'll need life insurance for SBA loans, what you'll need to do to meet the requirement, and more.



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# Life Insurance for SBA Loans

## Two types of SBA loans:

- An **SBA 7(a)** loan is a popular Small Business Administration (SBA) loan program that provides small businesses with access to affordable capital, with **loan amounts ranging from \$200,000 to \$5 million and repayment terms up to 25 years**, depending on the asset being financed.
- An **SBA 504 loan**, offered through Certified Development Companies (CDCs), **provides long-term, fixed-rate financing** for small businesses to purchase or develop major fixed assets like real estate, buildings, and equipment, with a **typical financing structure of 50% from a bank, 40% from the SBA, and 10% from the borrower**.



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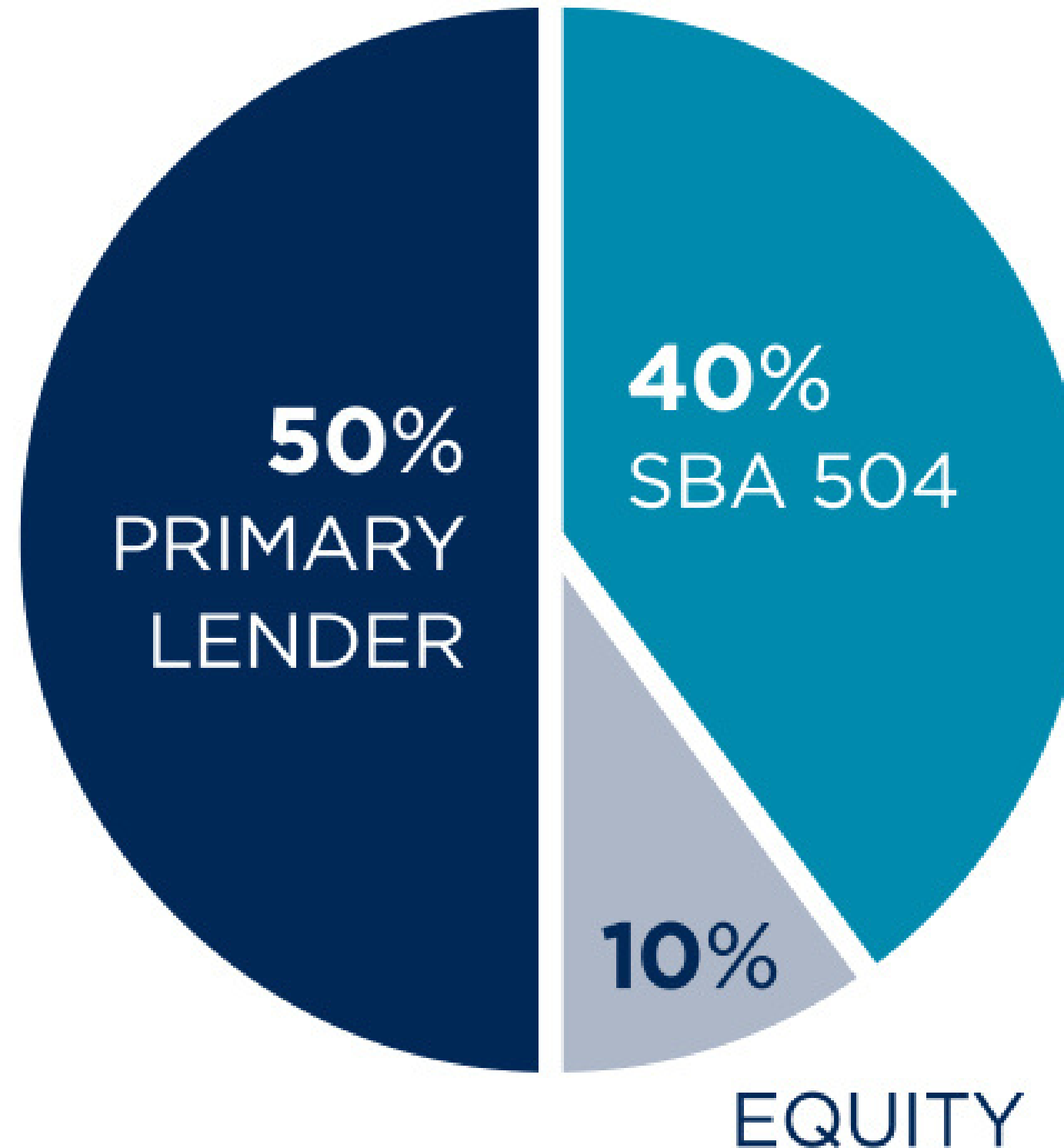
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# Life Insurance for SBA Loans

An **SBA 504 loan**, offered through Certified Development Companies (CDCs), **provides long-term, fixed-rate financing** for small businesses to purchase or develop major fixed assets like real estate, buildings, and equipment, with a **typical financing structure of 50% from a bank, 40% from the SBA, and 10% from the borrower.**



# Main Differences

SBA 7(a)	SBA 504
Can be used for working capital, refinancing business debt, expanding business, new construction, and equipment purchasing.	Can be used for purchasing new buildings or land, purchasing equipment, remodeling existing building, or improving grounds.
Available for all U.S. for profit small businesses	Available for small businesses with net income below \$5 million and assets below \$15 million
Variable loan terms	10yr, 20yr, and 25yr terms
\$5 million limit, up to 85% backed by SBA	No limit by SBA, 40% financed by CDC, 50% by financial institution, must create 1 job per \$65K borrowed





## Life Insurance for SBA Loans

### When do you need life insurance for an SBA loan?

Every small business loan is different, so there's no blanket answer for when life insurance will be required for your loan. Here are some general guidelines regarding life insurance for SBA loans to help you get a better sense of this requirement:

- An **SBA 7(a)** loan **typically requires life insurance for the full loan amount.** However, in certain cases, the life insurance requirement may be reduced or waived if you've pledged significant collateral or have a succession plan in place to continue operations.
- For an **SBA 504 loan, life insurance is typically only required if your collateral doesn't fully cover the loan.** In some SBA 504 loan deals, the property or equipment you're purchasing with the loan is enough.



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# Life Insurance for SBA Loans

Should you use an existing life insurance policy or take out a new one?

If you already have a life insurance policy (and your insurer allows it), you can **assign part of your policy as collateral** coverage. You could also take out a new policy that includes your lender as an assignee on the policy.

With a term life insurance policy, your lender may require that the **term of the policy matches the term of the loan** to ensure full coverage throughout the life of the loan.

If your business has multiple owners who are active in its operations, then the **assignment can be split evenly**. For example, if two active owners apply for a \$1 million small business loan, then each owner would only need to assign \$500,000 of their individual life insurance policies. If you're the only one that's active in the business's operations, then you'll need to assign the entire \$1 million to your lender.

If your business can continue to run even if you (or your business partner) pass away, then the life insurance requirement may be waived. **This can only be done at the SBA's or your lender's discretion.**



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# Life Insurance for SBA Loans

## How to keep your loan process on track when life insurance is required:

When you're applying for a small business loan, ask your lender if life insurance is required as soon as you get started with the process. If it is, ask for the specifics, such as the amount that will need to be assigned. You should also:

- **Determine whether you'll use an assignment from an existing policy or take out a new one.** Get either process started right away with an insurer of your choice.
- Reach out to your insurance provider to make sure assigning an existing policy (if you have one) is possible based on information from your lender's closing attorney.



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# Life Insurance for SBA Loans

## How to keep your loan process on track when life insurance is required (cont.):

Setting up a new life insurance policy can take some time, so you should **start it early in the application process**. Keep in mind that your insurer may require a doctor's appointment, which can take time to complete (and if multiple owners need appointments, this can take even longer), so give yourself as much time as possible.

Whether it's a new or existing policy, work with your insurance provider to complete a collateral-assignment agreement before the loan closing.



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# Life Insurance for SBA Loans

## Extra protection for your lender and your family.

The life insurance requirement for SBA loans and other financing options gives you, your lender, and your family an extra layer of financial protection and peace of mind. When you apply for an SBA loan with Pursuit, you'll have full transparency on what's required to get to the closing table.



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# Life Insurance for SBA Loans

## Why do lenders require life insurance for SBA loans?

Your lender may require you to have life insurance before closing on your loan because it protects everyone involved if you (or a business partner) pass away. While this is a circumstance that no one wants to imagine, it's a reality in small business lending. Many small businesses are owned and operated by one owner or partnership. If the sole owner or a business partner passes away, it may mean that the business will no longer be in operation.

Life insurance for SBA loans and other loans not only protects your lender's interest, it protects your family from taking on your outstanding business loan. Instead, the life insurance policy will pay off the loan.



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# Life insurance policies for business owners.

## Conclusion

Life insurance is not just a safety net; it's a strategic tool for ensuring the longevity and stability of your business. Don't wait for a crisis to strike. Act now to secure the right life insurance policy, protect your business, and provide for your loved ones. Contact a financial advisor to explore your options and take the following proactive step toward safeguarding your future.



# Why BusinessBridge Insurance?

BusinessBridge Insurance and Investments operates under World Financial Group and TransAmerica, which gives us access to 100 A+ rated insurance firms. This strength in selection allows us to find the best insurance products tailored to fit you and your unique business.

BusinessBridge Insurance and Investments is also a partner with DealTeam USA, a top industry leader in business acquisitions. You will have access to the top insurance products and professionals to help you every step of the way.



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