Life insurance for business owners: Here’s why you need coverage.

Typically, we buy life insurance to protect our families. But when you’re a business owner, you have two families to think of: your home family and your work family. Both represent legacies you’d like to thrive into the future. That’s why getting the right life insurance for a business owner takes a little extra planning.

Life insurance to protect your business

- **Key Person Insurance**
  Whether you own your business by yourself or with partners, you are a “key person” in insurance terms. A key person is anyone critical to the business’s operation and survival, whose loss would significantly impact the health of the company.

  When your business purchases **key person insurance**, a form of life insurance, your company is the beneficiary in the event of your death, providing the necessary funds to hire someone to replace you. This form of insurance should be purchased for all critical members of the business.

- **Buy-Sell/Cross-Purchase Agreements**
  A buy-sell agreement between you and your business partner(s) is a bit like a will. You and your partners agree upon the terms by which the remaining partner(s) can purchase a deceased partner’s share of the business. (Buy-sell agreements can also pertain to a living partner leaving the business voluntarily.)

After a buy-sell agreement is established, business partners can take out life insurance policies on each other. In the case of a partner’s death, the remaining partner(s) can use the policy’s death benefit to buy the deceased partner’s share of the business, according to the terms established in the buy-sell agreement. This is called a cross-purchase agreement.

Key person insurance, and buy-sell and cross-purchase agreements protect your business partners from unnecessary financial hardships in the event of your death, allowing the company you’ve created to live on.

Life insurance to protect your family

Whether or not you own a business, you have to protect your family with enough life insurance to cover their living expenses and future needs. If you want help determining how much your family may require, use our life insurance estimator.

That said, business owners may need to purchase more life insurance to fully protect their families than non-business owners. Here’s why:

- **You have fewer employer-provided benefits.** Entrepreneurs are less likely to have company-provided life insurance, disability coverage, or retirement accounts. A larger term life or whole life insurance policy may be necessary to ensure your family’s living expenses will be met.
- **You need collateral coverage.** If you have taken out loans for your business that are secured by personal assets, like your home, these debts could jeopardize your family’s financial situation after you’re gone. Make sure you have enough life insurance to cover any business debts your family may be responsible for.
- **You want to buy time for your family to sell.** If your family wants to sell your business, extra life insurance proceeds will provide a cushion for them until they find a buyer. This way, they won’t be pressured to take the first offer that comes along.

As you can see, for business owners, determining life insurance coverage needs can get complicated. An independent, local agent can help you make sure your family and business partners are all protected, and give you an essential asset for any business owner: peace of mind.