



PARTRIDGE FINANCIAL

3 Ways Life Insurance Can Help Small Business Owners

For small business owners, ensuring your investment is covered is critical to ensuring the survival of your business after you are gone. One of the ways in which small business owners do this is by applying for life insurance in the event they were to die before they retire. Life insurance benefits small business owners and their heirs in many ways, from providing for loved ones to providing financial stability to your company after you're gone. Check out some of the more important reasons small business owners should carry one or more life insurance policies for their business.

1. To Ensure the Business Will Continue

One of the biggest reasons small business owners purchase life insurance is for the continued survival of their business after their death. When a small business owner passes, finding people to replace their responsibilities and deal with all of the costs of succession may be an unnecessary struggle. A life insurance policy will help your business to find a suitable replacement for your duties, help pay off business debts to improve company cash flow and provide the company with the funds to handle unexpected expenses that may come up. If you have a life insurance policy with a cash value, you will also have the ability to tap into those funds if the business is struggling. This is an added benefit many life insurance policies may bring.¹

2. To Satisfy a Partnership Agreement

You probably have a partnership agreement if you own a small business with others. These agreements plan for the event of death or disability of one of the partners. In most agreements, the remaining partners will be able to buy out the shares of the partner who passed or became permanently disabled. Even when business is good, it may be difficult for the other partners to buy the shares from the survivor's family, depending on their equity. The life insurance policy will often be used to buy these shares from the deceased partner's heirs.¹

3. It May Be Required for a Loan

Suppose you fund your business with a small business loan or have taken one out to gain additional capital. In that case, the bank may require a Buy/Sell agreement and life insurance policy for the business owners that are guaranteeing the loan. While this is not always a requirement and will depend on the loan amount, the bank, and their underwriting requirements, it may be expected if the lender suspects the business may struggle if the owner were suddenly gone. Essentially, the bank will want to ensure that their debt will be covered in the event of your death, which means the policy will typically need to be a larger amount than the loan debt if required.²

Important Disclosures:

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual or business owner. To determine which insurance product(s) may be appropriate for you, consult your financial professional prior to purchasing.

This information is not intended to be a substitute for individualized legal advice. Please consult your legal advisor regarding your specific situation.

All information is believed to be from reliable sources; however LPL Financial makes no representation as to its completeness or accuracy.

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Footnotes: ¹ "Life Insurance For Business Owners: Types, Tips & More," Forbes <https://www.forbes.com/advisor/life-insurance/life-insurance-for-business-owners/>

² "Protect the Future of Your Small Business With Life Insurance—Yes, Life Insurance," All Business, <https://www.allbusiness.com/protect-the-future-of-your-small-business-with-life-insurance-104608-1.html>