



Why Insuring Principal Employees and Owners May Keep Your Business Operating

By Tom Anderson

Envision a scenario that's all too real in Alaska. You're a company owner; you have several partners. Your owner group manages the business cohesively and all of you are integral to operations and revenue generation. Corporate vitality is thriving and profit is a reality.

Now let's darken the picture a bit. Consider the Alaska expanse and your business services involving travel to remote, rural work sites with inclement weather. Mix diverse geography, flight limitations, and less than desired meteorology together, and suddenly this hypothetical is not only possible but also probable.

Here comes the worst part of the story that isn't common but remains an unnerving outcome: one of your business partners

or a valuable employee has to travel into the harsh environment described and succumbs to an early demise in a plane wreck.

Now you have one less business partner or staff member in the company. The loss is devastating. Beyond the absence of revenue-generation and work performance by the deceased co-owner, into your offices walks an entitled spouse, offspring, or distant relative sniffing for assets or ownership and stock value.

Without certain kinds of business life insurance like key person coverage or an insured buy-sell agreement on the partner who died, our fictitious business may have serious problems and be forced to liquidate or even close shop.

Keep Your Business Operating Through Good Times and Bad

The story of a business losing a partner or crit-

ical employee can be sad, but it doesn't have to be tragic in terms of business continuity.

Losing an employee with special expertise or knowledge can clearly affect a company's bottom line and operations, says Charles Villarreal, Alaska's New York Life Insurance Company managing partner.

The easiest fix to avoid harm to one's business upon the loss of personnel is to meet with an insurance agent who specializes in business coverage. Key person coverage is life insurance on a "key" employee, proprietor, or partner integral to ongoing operations of a business, explains Villarreal, who has been with New York Life Insurance for more than ten years. This special insurance is purchased by the company and can cover essential owners, employees, or board members. If the insured person dies, the company is the beneficiary.

Villarreal notes that it is not uncommon for family members to inquire as to assets owned by the deceased and the process through which to secure what is owed to the estate. The key person insurance is the alternative to forcing the company to pay out a large sum of capital that is depended upon or critical to the business's function.

Loss of life or injury to critical personnel and management in a company goes well beyond family members expecting a pay-day. Recruitment to replace, training and learning curves, and new roles for an incoming owner or manager require capital outlays and expenditures which a business may not have available but for an insurance policy like the key person coverage.

It makes sense, adds Villarreal. Coverage of this nature, as a preemptive strike against asset depletion, is prudent business planning. "When starting a new business, assessment on how you want your structure to be legally formed, and then meeting with an insurance agent to review options to protect the business, is a responsible foundation to success," he says. The same goes for a business already in operation and continued review of its policies.

As for the amount of life insurance to acquire, that depends on business forms and differences in legal protection require-

ments. A partnership where owners are inextricably linked to services rendered and performance may need more coverage than a C and S-Corporation. Policies can range from \$25,000 to more than \$25 million.

Other considerations tethered to key person insurance include injuries, incapacitation, and taxes. Long-term care insurance may be an appropriate accompaniment to key person insurance as illness or accidents surface. Disability insurance is another consideration in the business insurance umbrella, as a benefit to an employee and incentive to work for the business. As people live longer and companies become more diverse, Villarreal believes a plan for protection of assets and operations should include review of who needs to be covered and how best to achieve an assurance that the business will be least affected.

When it comes to the insurance industry, Villarreal is highly confident in New York Life Insurance since it was founded in 1845 and is 170 years old, remaining the largest mutual life insurance company in United States.

"When a business client is deciding on what services and coverage is needed, we've learned longevity, high ratings, and reputation matter," says Villarreal. He adds New York Life has eighty insurance agents

throughout the state ranging from the Kenai Peninsula to Fairbanks, including Juneau and with representation in rural Alaska. Anchorage is home to the firm's headquarters.

Personal Relationships and Knowing the Business

Tom Betti is a graduate of Chugiak High School and has worked in Southcentral Alaska with Allstate providing life insurance and retirement consultation for more than seventeen years.

"When you think of Allstate, automobile and home insurance may be what comes to mind, but we're actually quite diverse in services," says Betti. As a financial specialist with the company, he handles everything from death, disability, and long-term care to retirement.

Betti agrees with Villarreal that key employee insurance is essential for a business with multiple partners and management in specialized roles, as well as for a business comprised of owners that have spouses and family who are beneficiaries to the owner's business assets.

Allstate's statewide coverage is notable, and like New York Life, eponymous in name and reputation with insurance. When it comes to new and active businesses, Betti says a corporate-owned life insurance

(COLI) policy may be the best bet. COLI is a life insurance policy on an employee or partner purchased by a corporation for its own use. The company is the beneficiary on the policy while an owner, employee, or group of employees are the insured.

"There are various ways a business can protect itself through comprehensive insurance planning," adds Betti. "A split-dollar life insurance policy affords the business a recoup of the premium outlay for an employee or owner as the beneficiary of the policy, and when payout occurs, the insured gets the remainder. The key person and buy-sell agreements protect the business and make sure it can keep operating. In concert they all bring advantage to a business's value, stability, and longevity."

Betti offers the example of an insured buy-sell agreement. Consider a business with four owners and one dies. The buy-sell agreement says that upon death a set amount of money will be available to buy the shares of a company-owned stock and distribute to a spouse or dependent. Life insurance funds liquidity—most businesses don't have \$500,000 available in a bank account—the insurance component of the process prevents company collapse. The remaining three owners can keep everything operating as a result.

When asked about premium amounts

and what costs and range policies are associated with business life insurance coverage, Betti explains it depends on the age, health, and level of coverage desired. There is a difference between a partner or vital employee who is seventy-years-old compared to a thirty-year-old computer programmer or pilot.

If a business has a rainmaker or person who is a primary revenue generator, and she becomes incapacitated or deceased, key employee insurance activates resources that can cover day-to-day operations like payroll and benefits, office space, bills, recruitment, and securing a replacement and even training for a new hire. "Avoiding interruption of revenue flow and output can make a huge difference in a business's success," says Betti.

The one extra dimension that is unique to Alaska is the mosaic of industries and locations that have used business life insurance options. Betti's experience working with Alaska Native corporations and subsidiaries has been particularly enlightening. He explains that many of the companies' managers he's counseled and guided that ultimately decide to purchase key person and COLI insurance have done so because they care about employees and recognize the possibility that injury and fatalities occur because of flying and environmental conditions. "Alaska Native corporations really

take care of their employees, and that's an endearing business mentality," adds Betti.

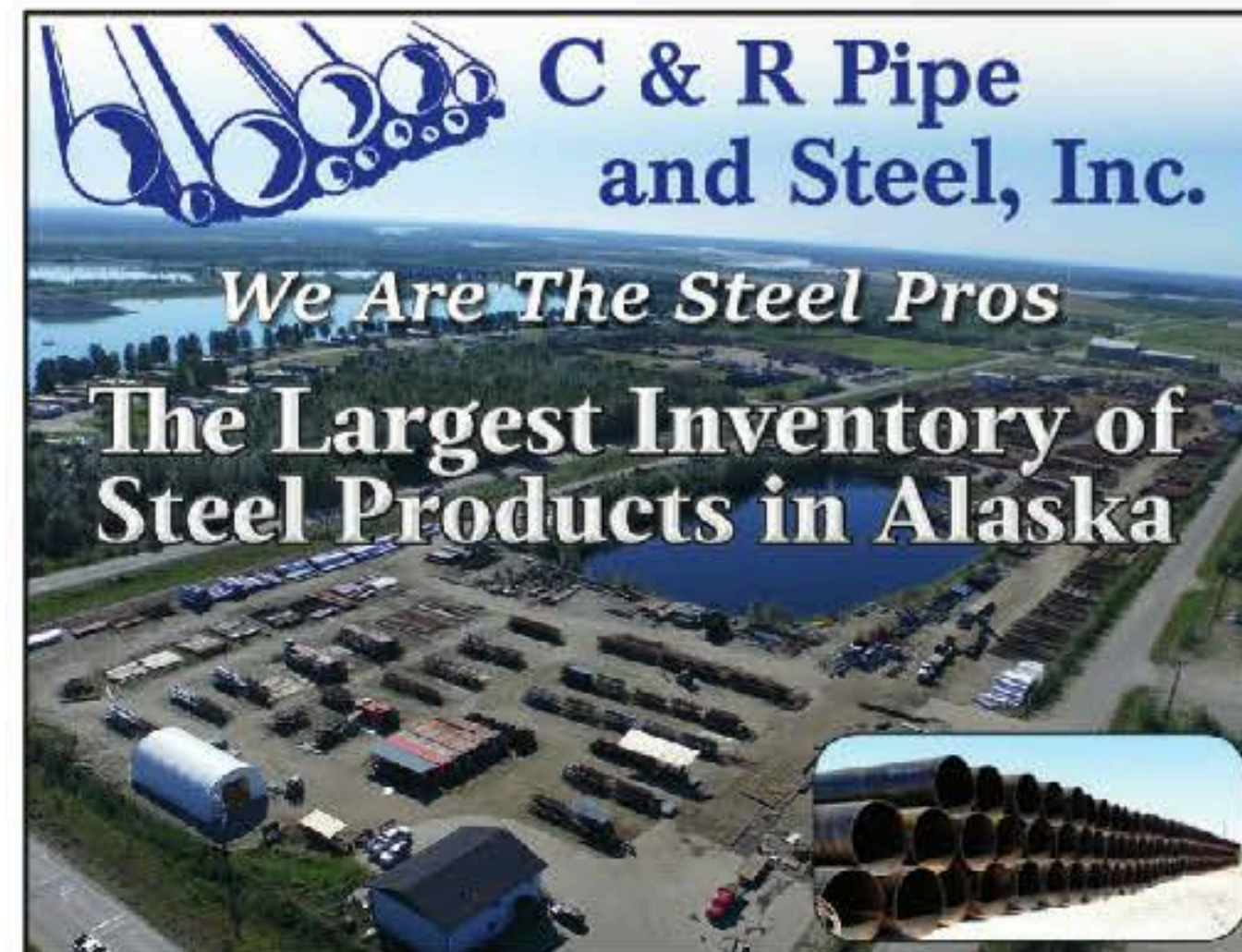
Prepare and Consider Your Options

Business life insurance can literally keep the doors open and lights on for a company, partnership, or sole proprietorship. Insurance benefits can mean the difference between draining savings and available credit to pay ownership equity to the spouse of your employee that has died or not.

Whether purchasing a key person policy, COLI, or an insured buy-sell agreement, or all of the above, companies like New York Life Insurance and Allstate offer trained personnel and resources statewide in Alaska to assist in business planning.

No one likes hypotheticals, let alone the real thing, when it comes to death and loss of life. There can be light on the horizon after such a dark day however, if business insurance and benefits are researched and acquired to protect business, employee, and estate prosperity. Think about it and do your research before it's too late. You business's existence may literally depend on it. ☪

Tom Anderson writes from across Alaska.



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