FOR BUSINESS OWNERS

Life Insurance That Protects Your Business

How life insurance is put to work when the risk isn't just personal — protecting your revenue, funding an ownership change, and rewarding the people who make your company run.

START HERE

Two Ways Life Insurance Solves A Business Problem

Business coverage is built out of the same life insurance products you already know — usually whole life, universal life, or indexed UL — arranged two different ways:

A structure is *how a policy is owned, paid for, and titled* to solve a business problem — who buys it, who pays, and who collects. That's what makes a plan a "key person" plan or a "buy-sell." **A rider** is an add-on that enhances the policy inside a structure. Part 1 covers the structures; Part 2 covers the riders that go with them.

FIRST, A FEW TERMS

Premium
What you pay the insurance company to keep the policy in force — monthly or annually.

Death benefit
The money paid to your chosen beneficiaries when the insured passes away — the policy's payout.

Beneficiary
The person, people, or business entity that receives the death benefit.

Cash value
Savings that build up inside a permanent policy over time, which you can borrow against and pay back, or withdraw.

Key person
An owner or employee the business would struggle to replace — a founder, top producer, or irreplaceable expert whose loss would hit revenue.

Buy-sell agreement
A written contract deciding what happens to an owner's share if they die, leave, or become disabled — and how the remaining owners pay for it. Life insurance is what funds the buyout.

Structure
How a policy is owned, paid for, and titled to solve a business need (see the callout above).

Tax-free death benefit
In most business structures the payout is received income-tax-free, and the premiums are generally *not* tax-deductible to the business. The main exception is the Executive Bonus, where the business deducts the bonus that funds the premium — see that card.

PART 1

The Structures — How The Policy Is Set Up

Seven ways a policy can be owned and paid for to solve a specific business problem. Each involves tax and legal setup, so they're built alongside your CPA and attorney. The "Worth It When" note is the honest read on the business profile where each one earns its keep.

Key Person Insurance

PROTECT REVENUE

The company owns, pays for, and is the beneficiary of a policy on a critical owner or employee — so a death benefit cushions the blow if that person is lost.

IDEAL BUYER

Companies whose revenue hinges on a founder, top producer, or irreplaceable expert.

HOW IT WORKS

- Death benefit offsets lost revenue, recruiting costs, and lender concerns
- Premiums aren't deductible; the benefit is generally tax-free (requires §101(j) notice & consent at issue)

WORTH IT WHEN

Any stage — even a months-old business built around 1–2 key people. Because it can be funded with low-cost term, it's affordable from day one, and the need is even stronger when a lender or investor requires coverage on you to secure financing. It's the best-fit structure for a solo entrepreneur — a company-owned (or collateral-assigned) policy on the one person the business can't run without.

Buy-Sell — Cross-Purchase

OWNERSHIP TRANSFER

Each owner buys a policy on the other(s). If one dies, the survivors use the proceeds to buy the deceased owner's share.

IDEAL BUYER

Partnerships and closely-held firms with 2–3 owners wanting an orderly, funded ownership transfer.

HOW IT WORKS

- Funds a binding buy-sell agreement
- Gives heirs cash and keeps control inside the business
- Gets unwieldy past 2–3 owners (many policies)

WORTH IT WHEN

A 2–3-owner firm with roughly equal stakes has real value worth protecting — usually a year or two in. Skip it for a single owner.

Buy-Sell — Entity / Stock Redemption

OWNERSHIP TRANSFER

The business itself owns one policy per owner and uses the proceeds to buy back (redeem) a deceased owner's shares.

IDEAL BUYER

Businesses with several owners wanting one centralized, easy-to-administer buyout plan.

HOW IT WORKS

- Simpler with many owners — fewer policies, one payer
- No cost-basis step-up for the surviving owners

WORTH IT WHEN

An established firm with 3+ owners and a formal valuation, where cross-purchase would become a policy tangle. Overkill for a young solo or two-person shop.

Executive Bonus Plan (§162)

REWARD & RETAIN

The employer pays a bonus that funds a permanent policy the executive personally owns and keeps.

IDEAL BUYER

Owners wanting to reward and retain a key executive with a portable benefit and a clean deduction.

HOW IT WORKS

- The bonus is tax-deductible to the business, taxable to the exec
- The exec keeps the policy and cash value even if they leave

WORTH IT WHEN

Steady profit to fund the bonus — realistically 1–3+ years in — plus a genuinely key non-owner employee worth keeping. Little use to a solo owner.

Split-Dollar Plan

REWARD & RETAIN

Employer and executive share a permanent policy's premiums, cash value, and death benefit under a written agreement.

IDEAL BUYER

Businesses providing a high-value benefit to a key exec while recouping their contribution.

HOW IT WORKS

- Lets the exec get coverage they couldn't afford alone
- The employer often recovers its outlay over time

WORTH IT WHEN

Several years of stable cash flow and a high-value exec where a plain bonus isn't enough. Too complex and costly for early-stage firms.

Nonqualified Deferred Comp (NQDC)

REWARD & RETAIN

A promise to pay an executive future income, often informally funded with a company-owned policy.

IDEAL BUYER

Profitable firms giving highly-compensated execs retirement savings beyond 401(k) limits.

HOW IT WORKS

- No ERISA contribution limits
- A golden-handcuff retention tool (vesting schedule)
- Must follow IRC §409A

WORTH IT WHEN

Consistently profitable (steady six-figure-plus) with execs already maxing their 401(k). Wants years of predictable profit behind it — not a startup tool.

COLI — Corporate-Owned Life

BALANCE-SHEET ASSET

The company owns permanent policies on key people or execs and holds them as a tax-efficient asset on its balance sheet.

IDEAL BUYER

Mid-to-large employers financing benefit obligations or building a tax-efficient asset.

HOW IT WORKS

- Tax-deferred cash-value growth informally funds benefits or offsets liabilities
- Needs employee notice and consent (IRC §101(j))

WORTH IT WHEN

Long-established, profitable mid-size employers with several key people and a CFO/advisor bench. Essentially never fits a young or small business.

PART 2

The Riders — Enhancing A Business Policy

Add-ons that strengthen the policies inside the structures above. Availability varies by insurance company and product, and most can only be added when the policy is issued.

Business Increase / Guaranteed Insurability

Lets the business raise its coverage as the company — or a key owner's value — grows, with no new medical exam. Keeps key-person and buy-sell coverage matched to a rising valuation.

Additional (Other) Insured

Covers several partners or key employees under one base policy — cheaper and simpler than issuing a separate policy for each.

Cost-of-Living (COLA)

Automatically steps up the death benefit to keep pace with inflation, holding key-person or buy-sell coverage at its real value over a long horizon.

Waiver of Premium

Waives the business-paid premiums and keeps the policy in force if the insured key person becomes disabled and can't work.

Chronic Illness / Long-Term Care

Adds living-benefit and long-term-care access to a policy used in an executive package — a valued personal perk that helps attract and retain top talent.

Paid-Up Additions

Extra dollars buy paid-up whole life, accelerating the cash value that funds plans like an executive bonus or deferred compensation.

Overloan Protection

Prevents a heavily-loaned cash-value policy from lapsing and triggering a large taxable gain — safeguards executive plans built around policy-loan income.

Rider names, triggers, costs, and availability vary by carrier and product — always confirm against the specific policy and illustration.

PART 3

Which Structure Fits The Need?

A starting point, not a prescription — the right choice depends on your ownership, profitability, and goals. That's the conversation to have together, with your CPA and attorney.

"Losing a key employee or founder would cripple our revenue."	Key Person Insurance
"We're 2–3 co-owners and want a funded plan to buy out a departing owner."	Buy-Sell — Cross-Purchase
"We have several owners and want one simple, centralized buyout plan."	Buy-Sell — Entity Redemption
"I want to reward and retain a key executive with a portable benefit."	Executive Bonus (§162)
"I want to give a top exec coverage they couldn't afford alone — and recoup our cost."	Split-Dollar Plan
"We want to offer highly-paid execs retirement savings beyond the 401(k)."	NQDC
"We want a tax-efficient asset to fund future benefit obligations."	COLI

Let's protect what you've built.

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