



101 GUIDE

Essential employee coverage

Every company needs insurance for protection when things go wrong. But if you're like us, you know there's a bigger picture. Planning for the future and protecting your bottom line go hand-in-hand. That's where essential employee coverage can help.

In any business, there are people who are invaluable to the company—think the owner, founder, chief engineer, or top salesperson. If something happened to any of these people, how would your business handle the loss? In many cases, it would have a negative impact on your business. It's important to have coverage to protect these people and ensure business continuity.

Three key policies to consider when covering essential employees include:

- Key person protection
- Buy-sell protection
- Business debt and family income protection

KEY PERSON PROTECTION

Key person protection provides life insurance for people who are invaluable to the success of the company. Key people vary depending on the business and the industry it operates in. It could be the business owner, the executive chef, or the salesperson that holds all of the contact information to your most important customers. With key person life insurance, if one of these key people dies or leaves your company, your business receives either the death benefit, or possibly the cash value, to help you manage until you find a suitable replacement.

In the event of his or her premature death, key person insurance would pay the death benefit to the business. This money can be used to fund recruiting expenses, relocation expenses, training expenses, and added salary for the new employee. Some businesses offer a deferred compensation plan—also referred to as golden handcuffs. When you purchase a whole life policy on a key employee, the cash value builds up over time. You can choose to use that cash value to fund a deferred compensation plan. If that employee stays for a set period of time, the employer may pay a bonus to the employee, at which time the employee can continue the policy or cash out.

Key person protection can provide your business with peace of mind in the long run.

BUY-SELL PROTECTION

A buy-sell agreement is a legally binding document that outlines what will happen should an owner of your business die unexpectedly. It addresses items such as the value of a business interest and how surviving heirs should be compensated.

For example, if you own a business in conjunction with your classmate from college, and you die unexpectedly, your family will be able to sell your share of the business to your partner for a fair, previously determined amount. They won't have to worry about picking up your work or selling the business at an unreasonable price.

With a buy-sell agreement, you can:

- Make sure your loved ones are provided for
- Determine a fair price at which you all agree to sell your business interests
- Ensure a secure future for your family, employees, and business partners

There are two basic types of buy-sell protection:

- **Cross-purchase agreement:** This agreement is ideal for two or three business owners. It states that each business partner will purchase the other's stock should he or she leave the company, die, or become disabled.
- **Stock redemption agreement:** This agreement is ideal when there are three or more business owners. It states that the company will purchase a stakeholder's share in the company should he or she leave the company, die, or become disabled.

No matter which kind of buy-sell agreement is selected, it should be fully funded upon the agreement's execution and the coverage should be equal to the business interest of each owner. This ensures that in the event of a key person's death or departure, the assets will be distributed fairly among the remaining stakeholders.



BUSINESS DEBT AND FAMILY INCOME PROTECTION

Many business owners personally sign for loans to fund their business operations. If something happens to you as an owner and your business is unable to repay these loans, your personal estate is still responsible for repayment.

Debt protection is important so your family isn't left to pay back business loans. In some cases, lenders may require business owners to obtain business life insurance policies to guarantee they're paid back in the case of death.

It's important to protect your company should an owner die or leave the company. If an owner passes away, the land, business, and personal assets can all be claimed. The business debts, lack of income, and mortgage will be a huge financial burden for the owner's family. To protect your family during a difficult time, it's important to have a business life insurance policy.

For more information, check out [sentry.com](https://www.sentry.com). Or to talk to a representative, call 800-4SENTRY (800-473-6879).

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