



Understanding business owner protection

Protecting your clients and the business they've built



We often talk about helping your clients protect their most valuable asset — their income. With a business owner, however, their income is wound tightly around the business they've built. Their business is their income.

Talk to your business owner clients about protecting their business with our suite of business owner products:



Overhead Expense

Protect the business' ability to meet ongoing expenses should an owner become disabled.



Key Person Coverage through PayGuard Plus

Provide a benefit to cover the financial loss of a key employee's disability or to hire a replacement.



Disability Buy-Out

Fund a buy-sell agreement to help a disabled business owner transition out of the business with minimal impact to the business and parties involved.

Guiding you through the business

Use this guide to understand how our suite of business products work and how they can best provide the protection your business owner clients need:

Sole Proprietor of a Small Business

Hands-on Owner with 10 or Fewer Employees

Traditional DI Industries and Markets

- Overhead Expense
- Disability Buy-out (One-way Buy-sell)
- Keyperson Coverage

Small Business Owners (2 – 10 owners)

Hands-on Owners with 10 or Fewer Employees

Owners Generate Revenue for the Business (Partnerships Included)

Traditional DI Industries and Markets

- Overhead Expense
- Keyperson Coverage
- Disability Buy-out

Large Business Owners (2 or more owners)

Executive Level Owners — Do Not Directly Generate Revenue for the Business

Both Traditional and Non-traditional DI Markets

- Keyperson Coverage
- Disability Buy-out

Overhead Expense

Primary Purpose

Protects the business owner's ability to meet everyday business expenses when the owner is too sick or injured to work.

Solving the Problem

Whether your client is a business partner or sole proprietor, a disability can have a devastating effect on their ability to maintain their day-to-day business expenses. As an owner and key asset to business operations, their inability to work due to disability would likely diminish the business' ability to provide the services their customers expect, greatly reducing business revenue.

And although revenue would decrease, the routine expenses such as rent, utilities, and employee salaries would continue as normal. Overall, a business owner's disability would put a heavy strain on both the owner and business.

Overhead expense (OE) disability insurance covers up to 100% of the routine business expenses during a period of disability. This allows the disabled owner to focus on recovery and getting back to work without the need to worry about maintaining expenses.

Covered Expenses

There are numerous routine expenses that business owners face. To help them understand which expenses are covered with an OE policy, we created four primary categories to consider:

Business Location Expenses

This includes the expenses typically associated with maintaining business' building. This can include property taxes, rent, utilities, janitorial and maintenance fees, etc.

Employee Payroll Expenses

Expenses such as employee salaries and employer-paid benefits for employees that have no ownership interest in the business and who are not members of the owner's profession.

Business Equipment Expenses

This category features recurring payments for the owner's business equipment. This can include motor vehicles, fixtures, furniture, etc. As long as the owner personally has no ownership of the item, we cover the equipment used in the continued operation of your business.

Other Business Expenses

Lastly, this includes additional expenses that don't typically come to mind. For example, liability, malpractice, or other business insurance premiums. The owner might also have association dues; licensing, legal, and accounting, fees; etc.



Occupation Classes

6/6M – 3/3M; 3D, 4D

Elimination Period

30, 60, or 90 Days

Definition of Disability

True Own-Occupation

Issue Limits

6/6M - 4/4M Per-month Limits:

\$60,000: 12-month benefit period

\$45,000: 18-month benefit period

\$35,000: 24-month benefit period

3/3M/3D, 4D Per-month Limits:

\$50,000: 12-month benefit period

\$40,000: 18-month benefit period

\$30,000: 24-month benefit period

Discounts

10% Association

10% Preferred Occupation

20% Multi-Client (3+ Lives)

5% Multi-policy (any IDI and

OE Combo)

Additional Features

Accelerated Benefit Endorsement

This feature helps the business owner receive their benefits sooner by providing their maximum monthly benefit prior to providing proof of their expenses. They must, however, still satisfy the elimination period and provide proof of total disability.

Additional Overhead Expense Benefit Rider

Business owners often face fluctuating expenses, making it difficult to plan ahead, especially in the event of disability. This rider provides a pool of funds that the owner can use during periods of disability to help account for the fluctuating expenses.

Extension of Benefits

If the owner remains disabled following the benefit period, this feature will continue to provide benefits until the maximum aggregate benefit is met.

Future Increase Option Rider

As the business and its expenses continue to grow, it's important that the owner's policy keep up to provide the necessary protection. This rider provides an opportunity each year for the owner to increase their OE coverage up to the maximum allowed by the rider.

Benefit Purchase Rider

At no additional cost, this rider provides another excellent way for the policy to keep up with increasing expenses. This rider allows the owner to increase coverage every three years without medical underwriting.

Partial Disability Benefit Rider

Provides a benefit that is proportionate to the loss of monthly revenue in the business. There must be at least 15% loss of revenue, and the owner must be unable to perform one or more material and substantial duties or be unable to perform them for the length of time normally required.

Professional Replacement Endorsement

Many times, a small business owner provides an essential service as part of the business. For example, an accountant or attorney. This feature provides an additional benefit for the purpose of providing a replacement should that owner go on disability. This helps the business maintain its essential services to its customers.

Business Loan Protection Rider

If the owner is totally disabled, this rider will reimburse the business for covered business-related loan expenses from a financial institution.

For clients who wish to obtain business loan protection only, we also offer the rider on a \$100 base Overhead Expense policy. Any Overhead policy over \$100 would need to reach the policy minimum of \$500.

Your Income Protection Rider

Provides an income replacement benefit to the insured if no other income-based disability benefit (IDI, LTD, or STD) is in force or being applied for.

Tax Treatment

What is covered	This coverage is for	Tax treatment of premiums	Benefits received will be
Most normal, necessary and customary expenses incurred to run the business	LLCs, Sole proprietors, Partnerships, C-corps, S-corps	Premiums are tax-deductible.	Reportable as income



Key Person Coverage though PayGuard Plus

Primary Purpose

Covers a business owner’s key employees to help minimize the impact of their inability to work due to disability. The benefit provided can be used to hire a replacement while the employee recovers.

Solving the Problem

Whether small or large, businesses often have several key employees. These are the employees the business often relies on for its continued success, so the loss of such an employee can leave the business in a diminished capacity.

With Key Person Coverage, if a covered key employee is unable to work due to disability, the policy provides a benefit to the business to cover the financial loss or to hire a replacement while the employee recovers.

It’s also important to note that not only does Key Person Coverage help protect the business, it helps assure the continued success of the business to the employees, creditors, and customers.

The Policy

Key Person Coverage is provided through our PayGuard Plus product and is offered as a term of 5 years.

When choosing a benefit amount, you should choose one that best matches the financial loss that would incur upon the key employee’s inability to work—typically the compensation that employee receives.

Refer to the [Field Underwriting Guide \(Pub7492BL\)](#) for more details.

Tax Treatment

What is covered	This coverage is for	Tax treatment of premiums	Benefits received will be
A key employee’s inability to work due to disability.	LLCs, Sole proprietors, Partnerships, C-corps, S-corps	Premiums are non-deductible.	Tax-free



Occupation Classes

6/6M – 3/3M

Elimination Period

90 or 180 Days

Benefit Terms

5 Years

Definition of Disability

True Own-Occupation (as a rider)

Issue Limits

Occ Class 6/6M, 5/5M, 4/4M
\$30,000

Occ Class 3/3M
\$10,000

Discounts

None

Disability Buy-Out

Primary Purpose

Provides funding for a buy-sell agreement should an owner become disabled. The disabled owner can transition out of the business with minimal disruption to the business' continued operation.

Solving the Problem

An important step in helping protect your clients and their business, is to put in place a business continuation plan. Whether a partner or sole proprietor, a continuation plan will help a disabled partner transition out of the business while keeping the business intact for the other parties involved.

Additionally, having a plan in place helps reduce uncertainty in the future of the business, and provides security and assurances to the employees, customers, and even creditors of the business.

There are a variety of buy-sell plans that owners can put in place, and the right solution will depend on how the business is structured. For more information on the types of plans and how to determine which is best for your client, review the [Business Continuation Guide \(Pub9802\)](#).

You should also consider the **one-way buy-sell agreement for sole proprietors**. This is a special type of agreement where the disabled owner plans to sell the entire business to another person, typically a key employee.

Once you and your client have determined which plan to put in place, you need to consider how you will fund the agreement. In this case, Disability Buy-Out Insurance (DBO).

In the event an owner becomes disabled without the prospect of returning, the DBO policy provides the funding necessary to buy-out the disabled owners interest in the business. The disabled owner is paid for his or her share of the business while those shares are transferred to the remaining owners (or the buyer in the case of a one-way buy-sell).

The Policy

Guardian's Disability Buy-Out Insurance policy provides a variety of options allowing you to choose a policy that best fits your client's needs.

Business Valuation

An important part of the business continuation plan is the valuation of the business. When determining how much an owner's interest is worth and ultimately how much the DBO policy will pay, it's important that the estimate be as accurate as possible.



Occupation Classes

6/6M – 3/3M; 3D, 4D

Elimination Period

360, 540, or 720 Days

Definition of Disability

True Own-Occupation

Issue Limits

360 Day EP - \$2,000,000

540 Day EP - \$2,500,000

720 Day EP - \$3,500,000

Discounts

10% Multi-Client (3+ Lives)

10% Preferred Occupation

With Guardian's DBO policy, there are three methods that can be used when assessing the value of the business:

- **Gross Receipts**
 - This amount is based on the average business' annual gross receipts for the three tax years immediately prior to the date the owner becomes disabled.
- **Net Worth**
 - The formula uses a valuation based on the total owner compensation in the two tax years prior to the date the owner becomes disabled.
- **Traditional**
 - The traditional method uses an independent certified public accountant to determine the fair market value of the owner's interest as of the date the owner becomes disabled.

Funding Method

The buy-sell agreement will typically dictate how the funds will be paid to the parties involved. Whether it's paid as a one-time lump sum, over period of monthly installments, or a combination of the two, you'll want the DBO policy to match the agreement terms. With Guardian's DBO, the insured chooses the method that best meets their needs:

- Lump Sum
- Monthly Payments
- Combination (Down-payment Method)

Eligibility

To purchase a DBO policy, all owners must be actively working full time in the business and must apply for coverage.

Note:

- Two of three owners will be accepted if the third owner is uninsurable.
- No more than 10 partners in a professional/personal service business
- No more than 5 owners in a commercial business

DBO will be unavailable when there are only two partners, they are more than 15 years apart in age, and the older partner is at least 51 years old.

The One-Way Buy-Sell

Newly added to our Disability Buy-Out policy, is the ability to fund a one-way buy-sell. This is an excellent way to safeguard the sole proprietor's future plans.

A sole proprietor will typically expect to someday sell the business — a common method for funding their retirement. But should a disability occur, the owner may have to consider selling the business sooner than expected.

With Disability Buy-Out, the policy can provide the funding necessary to facilitate the one-way buy-sell should total disability occur. This provides clear advantages to the owner and intended buyer:

- Provides liquidity — helps ensure that funds are available to buy out the disabled owner's business interest in a timely manner.
- Cost-effective funding — pay affordable premiums instead of depleting cash reserves or credit lines or drawing on current revenues.
- Third-party determination of disability avoids potential conflict between the business owner and the key employee.

Additional Features

Future Increase Option Rider

As the business continues to grow, it's important that the owner's policy keep up to provide the necessary protection. This rider provides an opportunity each year for the owner to increase their DBO coverage to help meet the increasing value of the owner's interest in the business.

Tax Treatment

What is covered	This coverage is for	Tax treatment of premiums	Benefits received will be
Funding for the buyout of a disabled partner.	LLCs, Sole proprietors, Partnerships, C-corps, S-corps	Premiums are non-deductible.	Tax-free

Coverage Options Summary

Use When the Objective Is	Product or Program	This Program Is for	Who Can Be Covered	Tax Treatment of Premiums	Benefits Received Will Be	Choice of who is covered?	Policy Form No.	Rates	Minimum Number of Participants	Discount Available
Protect the Owner's Income	Individual Disability Insurance	Individual Business Owner	Business Owner(s) or Any Individual	Premiums paid by the business (except for sole props) for the owner's coverage are tax deductible to the business; the owner must claim these as income. Also applies to S-corp shareholders who are more than 2% owners.	Tax-free	N/A	18ID	Gender Distinct (Level or Graded)	1	10% Assoc.
Protect Employees and Take a Business Tax Deduction on the Premium	Qualified Sick Pay Program (Traditional)	Sole Proprietors, Partnerships, C-corps, S-corps, LLCs	Employees and Owner-Employees with 2% or Less Ownership Interest	Deductible by employer; employer-paid premium is excluded from employee's taxable income.	Reported as Income	Yes	18UD	Unisex (Level or Graded)	3	25%
Reward Key Employees	Executive Bonus Plan	Sole Proprietors, Partnerships, C-corps, S-corps, LLCs	Select Key Employees	The bonus paid by the employer, if reasonable, to cover the premium is deductible; the bonus is included in the employee's taxable income. This tax-free benefit can serve as a reward or form of extra compensation for select valued employees of any business type.	Tax-free	Yes	18UD	Unisex (Level or Graded)	3	25%
Provide Employer-Sponsored Coverage on a GSI Basis to Groups of 5 or More Employees; to Supplement Existing Group LTD	Supplemental Income Protection Program (Employer or Employee Paid)	Sole Proprietors, Partnerships, C-corps, S-corps, LLCs	Employer-Paid Groups of 5+ Eligible Participants; and Employee-Paid Groups of 75+ Participants	If employer paid, business may deduct premiums paid as additional compensation to employees. If employee paid, no impact to the business.	Tax-free to Employee if Premiums are Paid with After-tax dollars	Yes: Employer can Define Which Groups of Employees are Eligible	18GI	Unisex	5	10 – 35%
Obtain Discounted Coverage for 3 or More Employees Who are Not Part of an Employer-sponsored Group	Professional Group Discount Program	Groups of 3 or more Employees Working for the Same Company where there is No Voluntary Coverage in Place.	Eligible Employees	No impact to the business. Premiums are paid by the employee with after-tax dollars.	Tax-free	N/A	18ID	Gender distinct (Level or Graded)	3	10%
Protect Employee and Employer Retirement Contributions to an Eligible Retirement Plan	Retirement Protection Plus ¹	Individuals, Sole Proprietors, Partnerships, C-corps, S-corps, LLCs	Those Enrolled in Qualified Retirement Plans	No impact to the business if premiums are paid by the employee with after-tax dollars. If employer paid, it is taxable compensation to the employee.	Benefits are Believed to be Tax-free	Yes, When Part of an Employer sponsored Plan	18ID 18UD	Unisex or Gender Distinct (Level or Graded)	1	3 or More Participants Eligible for 10%

Use When the Objective Is	Program	Who Can Establish this Program	What Is Covered	Tax Treatment of Premiums	Benefits Received Will Be	Policy Form	Rates	Discount Available
Cover Routine Business Expenses	Overhead Expense	Business Owners Including: Sole Proprietors, Partnerships, C-corps, S-corps, LLCs	Normal, necessary, and customary expenses incurred to run the business.	Tax-deductible.	Reportable as Income	18OE	Unisex or Gender Distinct (Unisex in MT) (Level)	10% Association 10% Preferred Occ 20% Multi-client (3+ lives) 5% Multi-policy (any IDI and OE combo)
Protect Against the Loss of Key Employees	Key Person Coverage	Business Owners Including: Sole Proprietors, Partnerships, C-corps, S-corps, LLCs	Key employees in the business.	Non-deductible	Tax-free	18PG	Unisex or Gender Distinct (Unisex in MT) (Level)	None
Fund the Purchase of a Totally Disabled Owner's Interest in the Business	Disability Buy-Out	Business Owners Including: Sole Proprietors, Partnerships, C-corps, S-corps, LLCs	Funding for the buy-sell agreement.	Non-deductible	Tax-free	18DB	Unisex or Gender Distinct (Unisex in MT) (Level)	10% Association 10% Preferred Occ 10% Multi-client (3+ lives)

Next Steps

Talk to your business owner clients and assess their needs with the Learn [About the Business Worksheet \(Pub5774BL\)](#). This will help you and your clients identify areas that need additional protection.

Most small business (10 partners or fewer, including sole proprietors) will typically need to consider Overhead Expense. Use the [Overhead Expense Consumer Brochure \(Pub4374BL\)](#) to talk about protecting their business' ability to meeting on going expenses. Use the expense worksheet within the brochure to help your clients understand the potential gaps should a disability occur.

Finally, continue the conversation as needed based on the Learn About the Business assessment.

General Business Protection

- [Consumer Infographic \(Pub10541BL\)](#)
- [Consumer Presentation \(Pub5743BL-PPT\)](#)
- [How Would Your Life be Affected? \(Pub6514BL\)](#)

Overhead Expense

- [Consumer Brochure \(Pub4374BL\)](#)
- [Consumer Flyer \(Pub4388BL\)](#)

Key Person Coverage

- [Consumer Flyer \(Pub10542BL\)](#)

Disability Buy-Out

- [Consumer Brochure \(Pub4376BL\)](#)
- [Consumer Flyer \(Pub7760\)](#)

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