



## Business Owners and Disability Insurance

Many business owners have **life insurance** to help protect their families' financial well-being in the event of their death. They also have **property and casualty insurance** to help cover the value of their personal belongings in the event of damage, fire, or theft. However, many business owners may overlook one of their most valuable assets—their ability to earn an income.

### Increasing Awareness

Despite the risk involved of sustaining a disability, many business owners lack **disability insurance**, making them vulnerable to financial challenges. For example, if you were to sustain a disability that prevents you from working for a period of time, how would you pay for housing, insurance, food, transportation, clothing, etc.? Would your business be able to continue generating income? Do you have money in savings to support yourself and your family during a six-month disability or an extended illness? If an employee was suddenly disabled, would you be able to fund disability benefits for that employee?

### Cost-Effective Solutions

Business owners have the option of establishing a **wage continuation plan** for themselves and their employees. These plans can help ensure that owners and employees can continue to be paid during a long-term disability. Consider the following advantages:

- If structured properly, the payment of benefits to a disabled employee or owner may qualify as “necessary business expenses.” Under Section 162 of the Internal Revenue Code, these expenses may be tax deductible.
- A wage continuation plan may promote loyalty among current employees, and attract and retain new employees.

### Funding the Plan

Once a commitment has been made to establish a wage continuation plan, potential funding options need to be considered, such as current revenue, retained earnings, or borrowing. On the other hand, a disability income

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## Life Insurance: How Much Is Enough?

You may already be aware of the importance of having enough **life insurance** coverage to handle financial matters that could affect your family in the event of your death. However, determining the appropriate amount of life insurance coverage for your family can be complicated. Rather than use an arbitrary formula, such as having enough coverage to equal five to seven times your annual salary, you may want to conduct a “**needs analysis**.”

A needs analysis incorporates an evaluation of your family’s most important financial obligations and goals. It can help you plan to address mortgage debt, college expenses, and funds for your family’s future, as well as liquidity for meeting potential estate tax liabilities with life insurance coverage.

### *Mortgage Debt*

You may want to consider whether your life insurance proceeds will be sufficient to help pay the remaining mortgage on your home. If you are carrying a large mortgage, you may need to increase your life insurance coverage. If you own a second home, you may also want to factor in that mortgage into the formula.

### *College Expenses*

Many people want life insurance proceeds to help cover their children’s college, and possibly graduate school, expenses. The amount needed can be roughly calculated by matching the ages of your children with projected college costs adjusted for inflation. Because it may be difficult to project costs that far into the future, it is important to revise this calculation periodically as your children get closer to

college age. When estimating long-term savings goals, it may also be a good idea to be as conservative as possible.

### *Your Family’s Lifestyle*

The amount you may need to help provide for your surviving spouse and dependents will vary according to your age, health, retirement plan benefits, Social Security benefits, and other assets, along with your spouse’s earning power. Many surviving spouses may already be employed or will find employment, but your spouse’s income alone may not be sufficient to cover your family’s current lifestyle. Providing a supplemental fund can help your family maintain its standard of living in the event of your death.

### *Estate Taxes*

Life insurance has long been recognized as a method for establishing liquidity at death to pay estate taxes and maximize asset transfers to future generations. Be sure to consult your qualified tax and legal advisors to help ensure the desired results.

### *Existing Resources*

If your current assets and any other death benefits are sufficient to cover your financial needs and obligations, you may not need additional life insurance for these purposes. However, if they are inadequate, the difference between your total assets and your total needs may be funded with life insurance.

There are many factors to consider when completing a needs analysis. In addition to the areas already mentioned, ask yourself the following questions:

1. What are your estimated Social Security benefits upon retirement?
2. How do you “inflation-proof” your family income, so the real purchasing power of those dollars does not decrease?
3. What is the earning potential of your surviving spouse?
4. How often should you review your needs analysis?
5. How can life insurance help provide resources for your retirement?
6. How do you structure your estate to reduce the impact of estate taxes?
7. Which of your assets are liquid and which would not be reduced by a forced sale?
8. Which of your assets would you want your family to retain because of sentiment or future growth possibilities?

As you evaluate your insurance needs, remember to assess your existing policies. Calculate the additional coverage you may need based on your family’s financial obligations and any other resources, such as retirement benefits and personal savings. Planning *now* may help to protect your family’s financial future. ■



## Financial Strategies for “Boomerang” Children

In recent years, many Baby Boomers have witnessed a growing trend: Their children are moving back home after graduating from college. In part, the return of the “boomerang” children to the nest may be due to the high cost of living and a tight job market. Yet, parents who may have already spent a considerable amount of money on a child’s college education, and also helping with other expenses, may be concerned about this turn of events.

After college, many young adults find themselves struggling to stand on their own feet financially. While this may be due to a highly competitive job market and high cost of housing in certain parts of the country, in other cases, spending habits that some younger adults have grown accustomed to, rather than saving, may be the culprit. Therefore, these individuals lack the necessary financial self-sufficiency to live on their own.

Parents who wish to see their children leave the nest and make it on their own may consider establishing the following two ground rules:

**Rule number one.** Adult children may be asked to contribute cash or services in lieu of rent to the household. At the same time, they may also be expected to save a significant portion of their earnings for a down payment on a home; first month, last month, and a security deposit on a first apartment; or start-up funding for a business.

**Rule number two.** Parents can help their children achieve financial self-sufficiency by encouraging them to set goals and monitoring their progress in meeting those goals. An



incentive plan could further help this effort. For example, for every dollar an adult child saves, his or her parents may wish to contribute a certain percentage.

For parents who are too emotionally involved to teach their adult children good spending and saving habits, a professional advisor can perform a valuable function as a neutral, outside party in counseling young adults on how to loosen the “ties that bind” and pursue financial freedom. ■

## Remarriage and Your Estate Plan

Despite the best intentions, marriages may not last forever. If you are divorced or widowed, and planning to remarry, you may want to take the opportunity to review and revise your estate conservation strategies. This is especially important if you and your future spouse have children from previous marriages.

Consider the following points:

1) Regardless of the details of your situation, it is important to be aware of the potentially sensitive aspects of estate planning. When multiple families are involved,

objective professional counsel may help you achieve your desired results.

2) Familiarize yourself with the advantages and disadvantages of different types of asset ownership. If you would like your assets to pass entirely to your children, you may want to put them in your own name. It is important to know that new assets acquired in **joint tenancy** with your spouse will automatically be passed on to the surviving spouse.

3) Consider a pre-marital agreement to legally detail your property arrangements. While you may feel

ambivalent about broaching this subject, a formalized agreement can help facilitate your wishes.

4) Review your **will** and update the beneficiary arrangements of your **life insurance policy** to ensure that your property is distributed according to your wishes upon your death.

As you prepare for and experience a major life change, such as remarriage, be sure to consult with an estate planning team comprised of qualified tax, legal, and financial professionals to help ensure that you meet your overall objectives. ■

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insurance policy can provide distinct benefits, including the following:

- Policies transfer the risk of salary continuation from the employer to the insurance company. So, a potentially open-ended expense is replaced with a leveraged, fixed business expense, such as the premiums.
- When a qualified wage continuation plan is funded by a disability income insurance policy, the policy premium may be tax deductible as a business expense. To create a qualified wage continuation plan specific to the needs of a business, owners are advised to consult with their qualified legal counsel.

If a business pays the premiums for a disability income insurance policy, the business may be able to deduct the premium payments as a regular business expense, provided such contributions are reasonable. Although the premiums are not considered taxable income to the employee, any disability income insurance proceeds received by the employee generally would be taxable income. Disability income benefits received from a policy during the first six months of a disability may be subject to Social Security tax (FICA) and Federal unemployment tax (FUTA).

However, if you are a **sole proprietor**, a **partner** in a partnership, or a more than 2% stockholder in a **subchapter S corporation**, you may not be able to deduct the cost of disability income insurance for yourself as a business expense, but you may be able to deduct the cost of such insurance coverage for your employees.

### *Customizing a Policy*

Typically, disability income insurance policies can be tailored, often with riders, which may be available at an additional cost. Total cost for the policy is usually determined by the type and extent of coverage. For example, “own” occupation coverage (benefits paid for a disability that limits the ability to work in one’s chosen occupation) tends to be more expensive than “any” occupation coverage (benefits paid for a disability that limits ability to perform any gainful work).

The length of the **elimination period** (the waiting period before benefit payments begin) and the maximum benefit provided (stipulated by dollar amount, length of time, or a combination of both) are other significant variables in plan design and cost.

Another consideration in business disability planning is the completion of retirement funding for an owner

who has sustained a disability. What happens when there are no contributions to an eligible retirement plan resulting from a disability? This problem may be addressed by purchasing a disability income insurance policy designed to help fund a shortfall in retirement planning.

**Key person disability insurance** and **business overhead expense policies** are two other important coverage options. Key person disability insurance provides a monthly benefit to the business based on the key employee’s pre-disability earned income. The benefit can then be used to provide revenue to hire and train a replacement or to strengthen the company’s cash flow. The second option, a business overhead expense policy, can help pay for overhead expenses should you become disabled under the terms of the policy. Therefore, if you are temporarily unable to generate revenue, the policy provides funds to reimburse specific business expenses, helping to keep the business operating without interruption.

Having a realistic understanding of the risks associated with sustaining a disability and the impact on your business and family, is the first step in looking for an appropriate policy to meet your needs. Be sure to consult with a qualified insurance professional for specific guidance particular to your situation. ■

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