



Sales guide | Individual disability insurance for businesses

Help owners address their **business protection** needs.

Business owners are busy running their business, and when it comes to protecting what they've built, Principal® offers a variety of disability insurance solutions depending on the need. This guide provides examples and tips that can help you approach owners about their business protection needs.

Overhead Expense insurance

Overview

Overhead Expense (OE) insurance helps owners pay their expenses to keep the lights on and doors open during a disability. If a disability occurs, one of two things needs to happen. They recover and resume normal business operations, or they'll need to sell the business. Overhead Expense insurance allows owners to sell the business at fair market value if they don't recover. During a disability, expenses are reimbursed for up to 30 months.



Example

A small insurance agency has 7 employees. The owner is the sales representative and revenue generator at the agency, creating \$100,000 in revenue per month. Assume the owner has a stroke and is out of the office for 9-12 months. The Principal OE policy reimburses for expenses such as paying staff, rent, utilities, insurance, and benefits up to \$50,000 a month—and the value of the business remains stable.

Sales tip

In positioning OE insurance, approach the topic through preservation of the business that they have worked so hard to build. The alternative to OE insurance is relying on partners to cover costs, using personal savings, borrowing money, or closing the business temporarily, all of which may not be sustainable and could lead to closing the business for good. Like Individual DI, list their top covered expenses—rent or mortgage, taxes, leasing equipment, salaries, insurance premiums, electricity, and utilities. Then discuss how OE insurance pays those expenses during a disability allowing them flexibility in deciding when the time is right to either return to work or sell the business more readily, if needed. OE coverage is perfect for small to midsize businesses with one owner and at least six employees.

Business Loan Protection

Overview

Business owners can consider adding business loan protection if they have a new or outstanding loan. The coverage provided will equal the loan amount, and it can be a standalone coverage. When discussing with business owners, position it as a separate product versus an add-on rider. Disability is still a leading cause of foreclosure, and business loan protection can help protect against foreclosure due to a disability. If you can't generate revenue, you still have a loan to pay. This coverage allows owners to maintain control of their business if they become disabled.



Example

Two partners at a mountain bike manufacturing business take out a loan. The loan is \$300,000 for five years. They pay equal monthly payments of \$2,500 (\$5,000) for five years (60 months). During a disability within the loan period, the Principal Business Loan Protection rider they purchased with their OE policy made the monthly payments of the disabled owner. The scenario could also be someone buying the business from a retiring owner(s), and the new owner needs to take out a loan to buy out the retiring owner. The new owner is personally liable, which is the main reason to purchase the coverage.

Sales tip

So, who are good prospects for business loan protection? In addition to manufacturing companies, think about graduates from dental school. They spend a lot on equipment and staff to get started and typically have bank loans to purchase the business. Another example could be a real estate company. There are big and small mistakes in considering business loan protection. The small mistake is that owners pay for the coverage and don't get sick. The big mistake is not having the coverage, and their personal credit is affected during a disability. The cost could be as little as \$900 a year to protect a \$300,000 loan after a 30-day elimination period.

Key Person Replacement insurance

Overview

Key Person Replacement insurance is a simple solution that provides benefits to help replace a key employee due to a disability.



Example

Two equal owners of a software business rely on each other for the success of the business. One owner focuses on software development while the other focuses on sales and generating revenue. If something happens to either owner, it will jeopardize the business. Assume they have a Principal Key Person Replacement policy that would pay a lump sum of \$500,000 if one of them becomes disabled. When one of the owners becomes disabled, the business uses the funds to hire a recruiter as well as a new employee with a sign-on bonus. It uses the remaining funds to supplement the loss of income to the business.

Sales tip

With Key Person Replacement insurance, owners must have 50% or less ownership. Benefits are not required to be in a lump sum. But most people like to keep it simple with a lump sum and receive the whole benefit after the elimination period—typically 180 days. The owner(s) can use the benefit however they choose, including family purposes, too. A 6-month disability could equal \$100,000 of lost income.

Disability Buy-Out insurance

Overview

Disability buy-out insurance can round out the umbrella of protection by providing a benefit to buy out a disabled owner.



Example

Assume two owners of a real estate company have 50-50 ownership. Most businesses have a buy-sell agreement legal document that lays out what the business will do when one owner becomes disabled, but they don't have the funding in place. Assume their financial professional looked at their document and asked if one of them can't work for 365 days, where would the money come from to buy out the other owner? Their business is valued at \$5 million. They would need a buy-out benefit of \$2.5 million dollars if one of them became disabled. Both owners take out a Principal Disability Buy-Out policy for their share in the business. One owner becomes disabled and is unable to return to work. A buy-out benefit of \$2.5 million was provided to the remaining owner who now becomes sole owner of the business through a clean exit strategy.

Sales tip

If the two owners had failed to fund the agreement, they're committed with family members to keep the business running and/or risk not getting fair market value if forced to sell. Make sure a lawyer is involved when setting up the buy-sell funding to help facilitate how long they wait to transition the business.

Tips on positioning business protection

- To help with premium fatigue many business owners may have from purchasing other benefits, show the importance of what you're selling, and illustrate what could happen without it. The biggest opportunity is through adding business protection to group benefits. You can say, "You've done a great job protecting your employees and offering competitive benefits. But how about protecting your business? Let's look at ways you can help safeguard what you've worked so hard to build."
- When meeting with business clients, recommend they have their team of advisors involved when making business decisions—banker, lawyer, CPA, or insurance provider.



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