



# Financial Planning

Chartered Financial Planners : Independent Financial Advisers



## **Introduction to Financial Protection**

for Directors, Business Owners, and Partners



## Contents

<b>Why your business needs financial protection</b>	<b>3</b>
<b>Who needs protection?</b>	<b>4</b>
<b>Types of protection</b>	<b>5</b>
<b>Key-person Insurance</b>	<b>6</b>
<b>Critical Illness</b>	<b>7</b>
<b>Relevant Life Insurance</b>	<b>8</b>
<b>Executive Income Protection</b>	<b>9</b>
<b>How you can protect business partners and directors</b>	<b>10</b>
<b>How does it work?</b>	<b>11</b>
<b>How BBi Financial Planning can help you</b>	<b>12</b>



## Why your business needs financial protection



Your business is a valuable machine, one built from many moving parts;

- Physical assets, like machinery, computers and property.
- Financial assets such as your bank accounts, client list and order book.
- People assets, your staff, your directors, and you.

It makes sense that you insure your physical and financial assets, either through insurance policies or system backups or careful processes.

You have put things in place to ensure your business can continue if disaster strikes.

But what about your people? And what about you?

The right protection policy shields you from the effects of accidents, illnesses and tragedies that can strike you or your key staff at any time.

Why work hard to build a business if you're not going to take care of its most valuable assets?

Good protection advice can identify the biggest risks and the most affordable options for you and your firm, as well as,

- Your business can survive even if disaster strikes
- You can maintain job security for your employees
- Your family's wealth and control is protected.
- Your customers continue to be served.

You need to understand the options available to protect you, your partners and your business, so whether you are a contractor, self-employed, a partner or a shareholder we can help you understand the right cover for you.



## Who needs protection?

If your lifestyle, income, business, employees or family wealth is at risk because something happens to you or a key member of staff, you need protection.

BBi Financial Planning will only recommend financial protection if we can identify a clear need in your business.

Below are some examples of the situations you might encounter, as well as examples of the protection that could be essential to your ongoing success.

### **Contractors**

As an independent contractor you have the flexibility to run your business as you see fit.

Depending on your business structure you might also have the advantages of being a shareholding director. You also face the same business and personal risks.

As a sole employee how will you find work if you are injured or sick?

How can you continue to take advantage of your income flexibility, for example through PAYE earnings or dividends, if you have no income?

If you provide your services via a limited

company, solutions like relevant life insurance and income protection might be right for you.

If you are self-employed, then income protection may be essential.

### **Partnerships**

As a partnership you benefit from more flexible arrangements than a limited company, but you work as a team. The partners support each other to make the business grow.

You need to think not only about protecting yourself from accident or injury, but also your other partners.

If something happens to them what impact will that have on the partnership's income?

Any protection strategy must be equitable to ensure the original partnership agreement is not at risk.

If you are a partner, then solutions like partnership protection with a cross-option agreement and income protection

might be right for you.

### **Business owners/directors**

As a business owner you have a great deal of responsibility; to your clients, to your staff, to your family and of course to the business itself.

If something happened to a key staff member do the rest of your team have the skills or contacts to keep the business running?

If something happened to you would the firm, and all its responsibilities, survive long enough for you to recover.

If the worst happens could the business survive at all?

You must also think about shareholders. Perhaps the business could survive, but who would own it?

Without you at the helm would it still be a going concern?

If your family is forced to sell it, what would those shares be worth without you?

If you are a business owner then solutions like shareholder protection with a cross-option agreement, key person insurance (for the employees you need the most), relevant life insurance (for your family) and income protection (for



## Types of protection

Before we consider the types of protection available it can be helpful to understand the types of risk that you and your business can face.

We've broken down the key protection risks faced by business owners, directors and partners into four key areas.

We can match each of these risks to different protection products.

By understanding your unique situation and needs, we can recommend the exact solutions and products to protect you, your business and your family without spending more than you have to.





## Key Person Insurance



### What does it cover?

Key Person Insurance is a policy taken out by the business on a key member of staff.

In the event of a claim the benefit will be paid to the business. It's up to you to decide who is key to your business.

Perhaps they are involved in sales or some other essential business function.

If your business would suffer from their loss it makes sense to insure against that risk.

No one knows your business better than you. Who is key to your firm? Who could you not afford to lose?

### What options are available?

**Cover type:** Level cover means your sum assured will not change. Increasing cover protects you against inflation, which would otherwise erode the claim value. Decreasing cover is ideal for liabilities which reduce over time, such as a loan.

**Premium guarantee:** Reviewable premiums are often cheaper to begin with but can change over the term of your plan. Guaranteed premiums give you certainty of cost because they will never change.

**Critical Illness cover:** Claim on the diagnosis of a serious illness. (This may affect the maximum term of the plan.)

**Waiver of premium:** This is a small extra insurance used to cover the cost of your policy if you are unable to work.

### Who might benefit?

Any business which would suffer if they lost an essential employee to death or serious illness can benefit from Key Person insurance. The claim proceeds can be used to hire a replacement, pay for training, or simply maintain cashflow until the business is back on its feet.

- Will your staff need to retrain? Pay for the costs of upskilling, and the temporary loss of income this might cause.
- Hire a replacement. Use the claim proceeds to recruit, train and pay the salary of a new employee.
- Is your cashflow under threat? Use your claim to shore up your finances until the business has recovered.
- Does the business have debt? Use your claim to clear some or all of your outstanding loans and reduce the pressure on the company.

Speak to us if you have any questions and we can recommend the right type of cover and options for you.



## Critical Illness



### What does it cover?

This product will pay a claim if you are diagnosed with and survive a serious illness such as a heart attack, cancer or a stroke.

Some studies project that half of us or more will be diagnosed with a serious illness like this at some point in our lives.

Although we are now more likely to survive these illnesses than ever before, they will still have a big impact, and you will still need time to recover. How will you work or maintain your standard of living during this time?

It's often sensible to include life insurance with your critical illness plan to give you the best of both worlds.

You choose the amount you would like to insure (the 'sum assured') and how long you want the cover for (the 'term'). The cost ('premiums') is calculated based on these choices and your medical history.

### What options are available?

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**Premium guarantee:** Reviewable premiums are often cheaper to begin with but can change over the term of your plan. Guaranteed premiums give you certainty of cost because they will never change.

**Waiver of premium:** This is a small extra insurance used to cover the cost of your policy if you are unable to work.

**Children's cover:** Some plans grant you an element of free cover for children

**Additional cover:** Used when combined with a life assurance plan. Is this cover in addition to, or part of, your total cover? Careful use of this option can bring your costs down.

**Buyback option:** Usually making a claim ends your plan. A buy back option allows your plan to continue. The reason for your original claim will no longer be covered.

### Who might benefit?

The quality of medical diagnosis and care is now so good that you are more likely to survive a serious illness than ever before. Critical illness cover means you, and not just people who survive you, can benefit.

- If you are a contractor (self-employed or with a limited company) you might not be able to work until you recover. A claim can provide essential cash flow.
- You could use the claim to pay for treatment or specialist medical care.
- Has your condition affected your life or mobility? A claim can pay for modifications to your home or car.
- Even a smaller claim can be extremely valuable. How relieved would you be if you didn't have to pay your mortgage for two years? Peace of mind can be invaluable in your recovery.

Speak to us if you have any questions and we can recommend the right type of cover and options for you.



## Relevant Life Insurance



### What does it cover?

Relevant Life insurance is a form of individual protection similar to Key Person insurance.

It works in the same way as a simple life insurance policy, but because it is owned by the company there are significant tax advantages available.

Although the policy is owned by the company, the claim is still paid to the family of the life insured (for example you, or a fellow director or owner).

### Why choose Relevant Life over other life assurance options?

**Not a benefit in kind:** The business pays the premiums but they do not have to be declared as a benefit in kind for the life assured.

**Corporation tax:** Premiums are considered an allowable expense for the purposes of corporation tax.

**No effect on your pension:** Claims made under a group protection plan could count toward your lifetime allowance. Relevant Life claims will not jeopardise your pension savings.

**Compliments Executive Income Protection:** Use in conjunction with Executive Income Protection and have these premiums paid for you in the event of long-term absence through accident or illness.

**Inheritance Tax:** Subject to arranging a suitable trust, a claim can be paid outside of your estate, potentially saving your beneficiaries a 40% tax bill.

**Retain and attract talent:** Relevant Life insurance policies end when an employee leaves the business. The benefits of this cover can make it a valuable tool to retain talent.

### Key limitations

- Relevant Life cover cannot be taken out by self-employed or equity partners.
- Critical illness cover cannot be included in a Relevant Life plan by most providers.
- If the insured person leaves employment the cover will end.

### Who might benefit?

Business owners and company directors are ideally placed to benefit from Relevant Life insurance.

As long as you are a PAYE employee you can apply for this cover.

Speak to us if you have any questions and we can recommend the right type of cover and options for you.





## Executive Income Protection

### What does it cover?

If an accident or illness makes you are unable to work how will you earn money to pay your bills? State benefits exist, but will they be enough to maintain your lifestyle?

Your firm may continue to pay your salary, but if you can't work how will you earn money for your firm?

You choose the amount you would like to insure (the 'sum assured') and how long you want the cover for (the 'term'), and your 'deferred period'. The cost ('premiums') is calculated based on these choices and your medical history.

You can read more about state benefits at the Money Advice Service

<https://www.moneyhelper.org.uk/en/benefits/benefits-if-youre-sick-disabled-or-a-carer/what-disability-and-sickness-benefits-can-i-claim>

Income Protection cover replaces a portion of your income if you are unable to work through illness or accident. It can pay around 75% of your income, depending on the contract.

### What options are available?

**Flexible beneficiary:** The claim is paid to the employer who can retain this or pay to the individual under PAYE.

**Term of cover:** An income protection plan can replace your income for just a few years for to the rest of your working life.

**Amount of cover:** How much do you need? Subject to limits, you can choose the cover you want. Perhaps you only need to cover essentials, such as your mortgage? Can you budget for a fixed monthly income?

**Deferred Period:** This is how long you will need to be incapacitated before your claim is paid. The shorter it is the sooner your income will be replaced, but the more your plan will cost. Carefully balancing this with your income requirements, savings and other insurance is key.

**Pension, life insurance and National Insurance:** An executive plan gives you the option to cover pension and protection premiums as well as employer National Insurance contributions. This plan compliments Relevant Life insurance.

**Dividends and P11D:** These can be covered under an executive plan, but not under an individual arrangement.

### Who might benefit?

Your business may be willing to continue your salary if you are unable to work, but this is unlikely to last forever, and where will that money come from in the meantime?

If you're self-employed you may not be able to earn an income. Bills need to be paid regardless of your health. How will you make sure the essential bills are covered?

- You can calculate your essential spending and take out only the cover you need.
- You can manage the cost by arranging the right deferred period.

Speak to us if you have any questions and we can recommend the right type of cover and options for you.



## How you can protect business partners and directors

Personal protection such as Relevant Life insurance can protect you and your family, but if you are part of a team running a business, either as shareholders or partners, how do you protect each other?

### Here's why it's so important to get this right.

Let's look at the example of a small business owned by four people (A, B, C and D), each with an equal 25% shareholding.

The business is worth £1 million and each shareholder is essential to the running of the firm. They each have a family of their own.

**Each owner therefore has equity of £250,000.**

What happens if owner A dies? What happens to their shares? They will probably be inherited by their family. But will the family keep or sell them?

In this scenario, what is best for the **family** and what is best for the **business** can be very different.

- The family needs the **cash**, not **shares**, so they may be forced to sell.
- The surviving directors would be happy to **buy** the shares back, **but do they have the money?**

The situation could become extremely complicated unless two things put in place.

1. The first is **life insurance** to ensure funds are available to buy the shares back.

Collectively the surviving owners need to raise £250,000 to buy the outstanding shares. There are three survivors in this example so they need to take out a policy for one third of this amount, or £83,000.

2. The second is a **cross-option agreement**. This compels the sale of the inherited shares to the surviving owners.

This agreement ensures that if one of the owners die, their shares are made available for sale to the surviving owners or partners.

It prevents the shares being retained by the family, and therefore it stops the business being threatened by parties who may not have the skills or the inclination to ensure the business thrives.

It is often smaller companies that can benefit the most from this type of arrangement as they are likely to have fewer owners to share the burden.

Planning like this can provide **security** and **stability** for a business and a family who have each lost someone valuable, at the moment of their greatest need.

**If you would like to discuss the range of protection options available to you and your business, give us a call.**



## How does it work?

We have a multi-step process to get the right cover for you.

### **Understand your needs**

First we need to understand you, your financial obligations and the risks you face.

### **Understand your budget**

We can provide the most comprehensive cover in the world but if you can't afford it you won't see the benefit.

### **Prioritise your cover**

Some risks are greater than others. Some plans are more suitable. We can recommend the right cover to suit your needs and budget.

### **The application process**

A full application is required before an offer can be made. If you are fit and healthy this is a quick process and an offer of cover is likely to be made immediately.

**Medical underwriting:** It's imperative that you disclose all medical history which means your application will go to underwriters for a closer look. They will take your medical history into account before coming back with terms, and they may contact you or your GP for additional information or tests.

Failure to disclose medical history could mean a claim will not be paid.

**Financial underwriting:** If you have a very high sum insured (for example above £500,000) the insurance company may ask for financial evidence to back this up. Most people don't need to provide this. Business protection may sometimes involve your company accounts.

### **Offer**

Your acceptance terms will take into account all the information gathered above. If any medical conditions have been factored in, you may be charged a higher premium (a loading) or in some cases a claim may be denied (an exclusion).

Don't be put off by a medical loading. This means the insurance company believes you are more likely to make a claim, which of course means you are more likely to need the insurance.

### **Acceptance**

Once you are happy you can begin the plan and start paying the premiums. Congratulations, you're now protected.

### **Claim**

The best insurance is the plan you never need to claim on, but if you do, you will be able to take advantage of your valuable cover.



## How BBi Financial Planning can help you

Talk to one of our advisers today to discuss your protection needs of you and your firm.

We are happy to review your existing cover too. After all, time moves on and circumstances change, so what may have been right for you a few years ago may not be fit for purpose today.

Regular reviews are important to make sure you are properly covered, and you are not paying more than you need.

We can work with you and your business to discover what protection you might need and recommend changes to make sure you are getting value for money.

The right protection is more than helpful: **It's priceless.**

### About us

BBi Financial Planning is an **independent** and **chartered** financial advice firm.

**Independent** means we are not obligated to recommend any product or service, and we can advise you on the whole market.

**Chartered** means our advisers are among the most qualified, experienced and ethical in the UK. As a chartered firm we are in the top 5% of financial planning firms in the country.

Our advice to you is always bespoke and in writing.

We've been doing this for over fifty years because we treat our clients well. If we treat you well we can be here for another fifty.

### Disclaimer

This document is for information and education and is not advice. Contact us to discuss your needs or arrange a meeting with one of our highly qualified advisers. Any companies mentioned are for information only and are not a personal recommendation.