

## **BUSINESS OVERHEAD EXPENSE INSURANCE**

If you're sick or injured and are unable to work, your monthly business income could drop dramatically-but your business expenses will continue. Considering that a disabling injury is reported to occur every 1.5 seconds in the United States, it pays to be prepared.

How long would your business survive if you were temporarily disabled? How would you pay the salaries of your employees and meet your monthly expense obligations? Some statistics would have you believe at least 50% of persons aged 35 will suffer a disability lasting at least 90 days before they attain the age of 65.

When a disability occurs, generally three things are sure to happen to a business owner;

- \*their regular living expenses will continue to occur;
- \*business expense will continue to occur; and,
- \*at this most inopportune time, the income earned from the business will be severely interrupted

Insuring your ability to keep your business in operation is every bit as important as insuring your life, house or car. You have assets-but the solvency of your business enables you retain them. No matter how comprehensive your medical coverage may be, no matter how much individual disability insurance you have, it's important to make sure you'll have money available to cover monthly expenses for your business if you become disabled.

Business Overhead Expense (BOE) insurance is designed to reimburse a business for overhead expenses in the event a business owner becomes disabled. This is not the same as personal disability insurance which usually pays benefits to age 65. A business overhead expense policy pays a shorter benefit of one to two years after a waiting (elimination) period. It is generally considered that no business can stay open more than two years if the owner is disabled and the business will either be shut down or sold.

These policies also work where there is more than one owner. If there is a business partner each partner can take out a policy to accommodate their share of the expenses.

## **Typically, eligible business overhead expenses are:**

- \*Employee salaries
- \*Employment taxes
- \*Employee benefit costs
- \*General office supplies
- \*Building rent or mortgage
- \* Laundry cost
- \* Rental payments for property and equipment
- \* Utilities (heat, electricity, etc.)
- \* Maintenance
- \*Accounting and Legal fees
- \* Property Taxes
- \* Interest (not principal) on business loans & debts
- \* Equipment Maintenance
- \* Insurance Premiums for Worker's Compensation, employee medical and liability

## **Characteristics:**

- \* **Benefit Periods:** BOE insurance policies have short benefit periods that do not usually exceed two years.
- \* **Taxation:** BOE insurance benefits are subject to income tax, but the premiums are tax deductible as a business expense.
- \* **Rates:** BOE insurance rates are based on the insured's age (at time of purchase), occupation, and health status. Once a BOE policy is owned, coverage can be increased without providing evidence of medical insurability.

## **Tax Considerations:**

Professional Overhead Expense Insurance offers several tax advantages to your practice:

- \* Premium payments are tax-deductible as a reasonable business expense.
- \* Overhead expense benefits received during disability, while taxable upon receipt, are used to pay practice-related expenses which are tax-deductible. The net tax result is a "wash."

Any agreements and insurance policies within a business must be integrated with the overall plan and objectives of the business. Careful consideration must be given to the selection of the plan which is right for your business and to the method of funding your plan