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5 Ways Your Business Can Benefit from Whole Life Insurance

"Cash value life insurance plays a massive role in financial institutions, corporations and banks…. Not only does it increase their financial stability and reduce their taxes, it is an ideal place to fund employee pensions, healthcare costs, and other benefits."

– Jake Thompson, *Money. Wealth. Life Insurance*

"While many financial instruments faltered during the recent "Great Recession," whole life insurance provided families and small business owners with a much-needed source of funds...."

- Thomas Smoot, "5 Common Whole Life Myths Debunked," LifeHealthPro.com (August 22nd, 2014

Whole life insurance can be a tremendous asset for your business, helping business owners find solutions to many of their concerns. While large banks and corporations are big buyers of whole life insurance (known respectively as "BOLI," Bank-Owned Life Insurance, and "COLI," Corporate-Owned Life Insurance), life insurance isn't just for big businesses. Businesses of all sizes can benefit greatly from Whole Life !

Let's explore 5 ways that whole life insurance helps business owners solve some of their biggest financial challenges.

Five Financial Concerns of Small Business Owners

Nearly 700 small business owners were interviewed by The Guardian Life Small Business Research Institute to determine the top ten challenges of small business owners. Five of those top financial concerns were extremely relevant to the solutions that Whole Life can provide:

1. Cash flow management
2. Planning for the future
3. Tax minimization[1]
4. Financing capital expenditures
5. Providing employee benefits (which also helps with what these small business owners identified as their TOP challenge of finding the right employees).

1. Cash Flow Management.

Cash Infusion. The ability to borrow against cash value in lean times or when emergencies arise is a key feature of whole life insurance policies.[2] Too often, small business owners, especially those operating out of the home with low overhead, assume they have little need for emergency savings in their business. But any company, regardless of size, could run into cash flow-sabotaging issues such as:

- a product recall
- late-paying clients
- loss of a key client or distributor
- necessary technological upgrades
- an economic downturn, or other unforeseen occurrences.

When the Great Depression threatened to wipe out businesses, James Cash Penney used his whole life insurance policy cash value to meet payroll and other expenses. The liquidity it provided him literally saved the department store, allowing it to survive when others failed.

In the Great Recession of 2009 and later, cash flow became an issue for many business owners, as lending standards tightened while the economy slowed. Those who had whole life insurance were able to easily borrow against their policies when needed.

Creditworthiness. Another way that Whole Life helps cash flow management is by improving the credit-worthiness of a business owner, or even the corporation itself. While the policyowner (an individual or a corporation) can always borrow against their whole life cash value directly from the life insurance company, sometimes a policy's cash value can also be used as collateral to obtain loans at preferred rates from a bank.

Lending institutions look for business loans to be repaid from the operating profits. Additionally, they want to know that borrowers have other assets to fall back on should the business cash flow falter or fail to commence to protect their interest. The cash value of a Whole Life policy is an asset that can factor favorably into a lending decision.

Whole Life is often also a *requirement* of business loans, such as many SBA (Small Business Administration) loans. Whole life works well in providing the Financial Institution the protection they require to insure against pre-mature death of the borrower during the term of the loan.

2. Planning for the Future.

There is perhaps no better financial product for long-term planning than whole life insurance. Life and business are both full of the unexpected, and wise business owners will be as well-prepared as they can be for any possibility. There are several ways whole life can help with such strategies.

Succession Planning. A whole life insurance policy is often the cornerstone of a business's succession plan. The business uses life insurance to fund a buy-sell agreement, allowing surviving partners to purchasing a deceased partner's share of the business from their estate. In this way, surviving spouses and heirs receive their share of the business, and the living partner(s) maintain control of the business. Buy-sell agreements can reduce conflict and allow the business to keep running smoothly.

The accumulated policy cash value can also be used or leveraged to help one partner purchase another partner's interest in the business, upon mutual agreement. A one-way buy-sell agreement can be constructed in cases when a chosen successor wishes to purchase the company upon a founder's or partner's retirement from the business.

Key Employee Policies. Businesses insure their buildings and equipment, and yet their greatest asset is often the people whose skills, knowledge and experience are essential to its operation! Key person or key employee policies can be taken by the business owner on a hard-to-replace employee. Examples could be:

- A company manager
- The head chef of a restaurant
- An organization’s top salesperson
- Any employee whose absence would cause a severe disruption of a business.

Such policies can provide a business with additional liquidity and savings that could be borrowed against in an emergency. Whole life policies can also be designed to benefit the employee and their spouse or heir by providing additional income for them should anything happen to the employee.

Estate Equalization. Often times, business owners will have several adult children who may have varying degrees of interest and involvement in the family business. When one is a lawyer who lives half-way across the country but the other is a manager in the family business and an obvious choice to take it over someday, how do you solve the estate planning dilemma? Whole life insurance provides the solution by creating an additional asset that can be used in a multi-generational balancing act.

Interestingly, the research institute survey revealed that many small business owners already owned life insurance policies and insurance-funded buy-sell agreements. Of those who did not have insurance in place, many replied they “planned to acquire” such policies the following year. Of course, it’s always best to acquire the policies before they are needed, which may be sooner rather than later.

3. Tax Minimization.

The tax-free growth of whole life insurance cash value is an attractive benefit to most companies, and one reason why banks and corporations fund whole life insurance policies. Cash value accounts grow tax-free within the policy.

In a white paper entitled, “Why is Life Insurance a Popular Funding Vehicle for Nonqualified Retirement Plans?” attorney and insurance professional Peter N. Katz explains,

> *"Like the individually owned annuity, cash value accumulations grow tax deferred. But life insurance has even greater tax benefits than an annuity in that accumulations can be accessed in a tax advantaged manner by withdrawing values to basis and then using loans. Using this approach, the cash values can be accessed free of income tax. For individual annuities, loans and withdrawals are treated as income distributions first, then basis. Going yet a step further, unlike the annuity where remaining values are taxed upon or shortly after death, life insurance death proceeds are generally received income tax free under IRC §101(a)(1)."*

This combination of tax factors can allow a whole life insurance policy to produce an internal rate of return that exceeds that of a taxable portfolio growing at a similar rate.

4. Financing Capital Expenditures.

It is not unusual for business owners to pay 10% to 20%, interest rates for equipment loans. The interest paid on such loans can be burdensome and add no value to the business. However, with whole life, it is possible for a business owner to insure their income and families while building cash value that they can leverage for loans at much lower rates.

As an added bonus, when business owners utilize loans from their Whole Life to finance equipment or other capital expenditures, they never have to worry about loan qualification, credit scores, or paying exorbitant rates. (Currently fixed rates from Whole life insurance companies can range from 4% to 6% or from Banks using a Cash Value Line of Credit at Prime (3.5%).)

From Equipment to Inventory, to new computer systems to cash flow crunches, whole life cash value provides greatly enhanced liquidity and financial flexibility for business owners.

5. Providing Employee Benefits.

The top problem identified by small business owners is that of finding (and keeping) the right employees. An attractive benefit package can help a business secure and keep top talent.

Whole Life can be used to fund employee benefits in various ways, thus helping business owners attract and retain high-quality employees.

Life insurance benefits. Executives often desire higher death benefit protection for their families, so life insurance can be a part of an appealing benefit package. Split dollar-life whole insurance policies allow companies to offer life insurance as a benefit to employees while recouping their premium outlay.

While an employer cannot discriminate who can or can't have a 401(k), except in broad strokes (such as full-time vs. part time, or employees that have been with the company a certain length of time), employers CAN selectively choose who is offered life insurance benefits.

Non-qualified deferred compensation and SERPs. Whole life can also be used to offer deferred compensation and other benefits to executives and other employees. NQDC (non-qualified deferred compensation) plans generally use the contributions of the employees. SERPs are supplemental Executive Retirement Plans typically funded by the company. Both can help employers attract, retain, motivate and reward key executives.

Additionally, non-qualified plans are not subject to the same vesting requirements as qualified plans. While bonuses, qualified retirement plans, and stock options are popular choices, deferred vesting options offer a compelling incentive for employees to stay on board for the long term. (They also do so without diluting company stock, an important consideration in some corporations.)

In an article entitled, "The Top 10 Uses of Life Insurance in a Family Business Succession Plan," estate planning author, expert and attorney Julius H. Giarmarco, Esq., Giarmarco discusses some of the benefits of nonqualified deferred compensation plans:

A nonqualified deferred compensation (NQDC) plan can be used by a small business to provide members of the senior generation with death, disability, and retirement benefits. A NQDC plan may be particularly useful in situations where the senior members have transitioned the business to the junior members and are no longer receiving compensation. A NQDC plan also ensures that key employees remain with the business during the transition period — a so-called "golden handcuff." Because life insurance offers tax-deferred cash value growth and tax-free death benefits, it is the most popular vehicle for informally funding NQDC plan liabilities.

Non-qualified retirement plans also have greater flexibility, in general, than qualified retirement plans. Plans can even be designed to meet the unique needs of a specific company or executive.

But perhaps the most compelling reason that employers choose non-qualified retirement plans is the reliability and affordability of using Whole Life to fund employee benefits. Not only do Mutual whole life insurance companies offer less volatility than stock-driven plans, but the internal rates of return often compete handily with other funding vehicles.

As Peter N. Katz states in his white paper, "Why Life Insurance is a Popular Funding Vehicle for Non-Qualified Retirement Plans, "Life insurance is widely used as an informal funding vehicle because it can lower the plan's cost. Many corporate decision-makers have concluded that, in addition to providing a life insurance benefit, the tax advantages of life insurance can produce higher after tax internal rates of return than other funding approaches."

Is It Time for Your Business to Start Benefitting from Whole Life Insurance?

[1]Guardian, its subsidiaries, agents, and employees do not provide tax, legal, or accounting advice. Consult your tax, legal, or accounting professional regarding your individual situation.

Policy benefits are reduced by any outstanding loans and loan interest. Dividends, if any, are affected by policy loans and loan interest. If the policy lapses, or is surrendered, any loans considered gain in the policy may be subject to ordinary income taxes. If the policy is a Modified Endowment Contract (MEC), loans are treated like withdrawals, but as gain first, subject to ordinary income taxes. If the policy owner is under 59 ½ any taxable distribution from the policy may also be subject to a 10% federal tax penalty.

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