

DISABILITY SOLUTION SHEET

Disability Buy-Out Insurance

Business is full of risk – and business owners know it's important to reduce potential risk exposure. They likely have plans in place for a variety of scenarios, from disaster recovery to diversifying revenue streams.

But many have not considered what they (and other owners) would do if one of them was too sick or hurt to help run the business. Having a written plan in place at the time of the event is critical – even if the plan is not funded. If your client chooses to fund the plan, either partially or fully, we can help.

STARTING THE CONVERSATION

Disability Buy-Out (DBO) insurance funds a buy-sell agreement to buy out a totally disabled business owner. Make sure there is a written document in place addressing these three questions:

- What valuation will be used at time of the buy-out?
- What is the elimination period needed before the buy-out begins?
- What is the timeframe needed to execute and complete the buy-out?

CREATING A DISABILITY INSURANCE VALUATION

A disability valuation tends to be less – at times significantly less – than a life insurance valuation. Follow this initial formula to help create a tentative DI valuation:

1. Add up all incomes, including distributions, from all ACTIVE owners
2. Based on the type of business (there is some discretion here), use a multiplier of 1 to 5 on those incomes
3. Add in any book value of the business – what is owned versus what is owed
4. Divide the overall number by the percent of ownership for each owner

Unlike what you might see in a life valuation, there is not a goodwill multiplier or a gross sales multiplier. The initial disability valuation with tax documents is straightforward.

ELIMINATION AND BENEFIT PERIOD

The elimination period gives the disabled owner a chance to recover before the DBO begins. The elimination period must be at least a year, but can extend to 18 or 24 months. Once the DBO begins, the benefit period can be:

1. Lump sum
2. Monthly funding for 24, 36 or 60 months
3. A combination of the two

GET STARTED

When you protect a business, you're protecting more than an owner. You're protecting their family, partners, employees – even their vendors. Disability insurance keeps the doors open. It ensures everyone who relies on the company maintains the income they depend on. Contact the disability insurance team at (800) 589-3000 to help businesses create a foundation for paychecks, made possible.

DISABILITY INSURANCE



A DBO policy is a highly desired option to:

- Use business cash flow
- Obtain loans from banks or financial institutions
- Sell shares of a business to get more working capital