



# Protecting your family and your business when tragedy strikes

NO ONE LIKES THINKING ABOUT HOW THEY OR THEIR FAMILY WILL BE AFFECTED IF THEY EXPERIENCE A SERIOUS ILLNESS OR ACCIDENT OR, EVEN WORSE, IF THE ILLNESS OR ACCIDENT IS FATAL.

**B**ut there are a range of different insurances such as income protection and life, total permanent disablement (TPD), and trauma insurance that can make all the difference to the quality of life of the policyholder and their family in the event of accident, illness or death. The insurance may be used for personal reasons or for business purposes.

Let's look at the difference between these insurance types and what you need to consider when arranging personal risk insurance for a business.

Marsh life insurance advise that there are two key issues a business owner should consider when putting in place a personal risk plan. The first one is how the business owner's family will survive financially in the event of a tragedy where the owner dies, becomes terminally ill or permanently disabled. Secondly, if the business is co-owned, the owners should think about how the business will generate income if one partner can no longer work, how cash flow will be affected and whether the person can be replaced.

Whilst thinking about how one's family will cope financially in the event of death, serious injury or illness is unpleasant, it is also sensible. It is suggested that a business owner thinks about whether their family could cover the costs of the business including any outstanding business loans. Then there are the costs of everyday life from the home mortgage to the car and the utility bills to consider.

Life insurance, TPD, and trauma insurances are the most commonly sought after personal risk policies and they each respond in different ways. Life insurance provides a lump sum to the beneficiary upon death or when terminal illness strikes an insured person. These policies are usually used to pay off debt or provide an estate for the family or dependants. TPD insurance provides a lump sum if the insured person is not likely to work again and is also useful to discharge debt and to provide funds for medical expenses and associated rehabilitation costs. Trauma insurance also pays out a lump sum but when the insured person experiences a trauma such as a heart attack, a stroke, cancer, or a range of other conditions which impacts their ability to work for a certain period of time. This helps to alleviate the financial pressures associated with significant traumatic conditions such as treatments and out of pocket medical expenses. Finally, income protection insurance provides a regular income in the event that illness or injury prevents a person from working.

There are two common approaches to insurance to address personal risk in businesses: partnership insurance and key person insurance.

## Partnership insurance:

Will fund a buyout of the deceased or disabled partner's share of the business, delivering a lump sum payment to the affected family and enabling the remaining partner to

acquire the other partner's share of the business.

## Key person insurance

Is commonly used in larger businesses to protect the enterprise in the event a person who is essential to the business - usually in terms of revenue generation or intellectual capital, but who may not necessarily have equity in the business - passes away or is permanently disabled.

Generally, key person insurance will cover costs such as recruitment costs to replace the deceased or disabled person and the cost to replace the income that would have been generated by the person covered by the policy, for a defined period. This type of insurance is all about buying time for the business. But it doesn't protect the affected family's financial situation.

The right insurance for business owners depends on their business and personal circumstances. The amount of cover needed will also depend on the amount of debt the insured person has, as well as any assets and existing insurance policies the business and its principals already have. ●

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