



THE ROUGH GUIDE to Business Protection

EASY TO USE • EXPERT GUIDANCE • TOP TIPS



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A note from Emma

During my 20 years as a financial journalist I've worked with many people who've started their own businesses. Most are passionate about what they do, but they tend to focus on the day-to-day challenges of running a successful business; few take the time to consider all the potential risks ahead that could jeopardize their hard work.

The Rough Guide to Business Protection looks at one of the main risks small businesses face: what happens when you lose an owner, director or key member of your team through ill health or death. Most small businesses don't have any type of business protection insurance to help in such circumstances. This could be a very costly oversight. The guide takes you through the various types of insurance products available, helping you to weigh up all the options, so that you can make an informed decision about what might be best for your business.

NAVIGATING THIS EBOOK

We've highlighted handy Top Tips, text boxes, visual aids and tables so you can pick out useful information that's relevant to you, or delve deeper by reading through each chapter. Any word or phrase that is coloured and underlined has a hyperlink, which takes you to other parts of the guide or to external websites for further information (see colour key below).

COLOUR KEY:

[blue hyperlinks](#): Click to access useful resources for further guidance.

[purple hyperlinks](#): Click to navigate to the Jargon Buster (pp.50–51).

[orange text underlined](#): Click to move to other parts of the guide.

Note that words coloured orange but not underlined do not have hyperlinks.

**THE ROUGH GUIDE
TO
BUSINESS
PROTECTION**

Emma Simon

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Richard Kateley, Head of Intermediary Development, Legal & General

Foreword

Legal & General and Rough Guides have teamed up to help raise awareness of a subject that many small businesses have never considered.

Rough Guides is well known for its **comprehensive guides to off-the-beaten-track places** that help you find your way around foreign parts. In this guide we are trying to do the very same thing, slightly less exotic I would agree, but we want to let business owners know some of the facts which could make their business better prepared for its journey. We want to convert you from not knowing what you don't know into knowing what you need to know, and then it's up to you if you want to do anything about it.

Andrew Carnegie, the American industrialist and philanthropist, once said, "men and women, not machines, are **the real source of profits** in any business". Yet, in most businesses it's the machines and buildings that we insure: our buildings against the risk of flooding or burning down, our vehicles from being damaged, our computers from being stolen. But have you ever taken the time to think about the loss of a key person or a business owner in your firm? You can rebuild a building, buy a new van and take delivery of a new computer, but it is not so easy to replace a business owner or a key person in your business.

This guide has been put together to highlight the risks your business may be running should you be in the unfortunate position of waking up one morning to find that a key person in your business has suddenly died or become critically ill. How would your business cope in this situation, have you ever considered it, and is it part of any disaster recovery plan you may have?

None of us wants to consider our own mortality but by doing so we can be better prepared; thus, allowing our business to continue trading and **supporting our staff**, their families, our customers and anyone else who has a financial stake in the business.

You will have heard of life assurance to protect your family, your mortgage and your income. What you may not know is that a business can also insure its key people, owners and its debts. So if the worst were to happen to a key person within the business, the policy proceeds could help the business continue trading and protect its future.

At Legal & General we make a promise that every day we will help make financial security easier to achieve. This **Rough Guide** is an important new tool that enables us to fulfil that promise. It is designed to help you take control of your business finances and plan for the future, whatever stage of the business lifecycle you are at.



Richard Kateley

Head of Intermediary Development, Legal & General



CHAPTER ONE:
**UNDERSTANDING
THE RISKS**

Being prepared

Small businesses form the backbone of the UK economy, with **small and medium-sized enterprises (SMEs)** thriving in almost every sector of business, be it retail, construction, financial services, IT or health. They vary considerably in size, some having as many as 250 employees, others as few as one. Running an **SME** can be hugely rewarding, both personally and financially, but it's a big responsibility and it isn't without risk.

Whether you've been in charge of a successful business for several years, or have only recently started up your own enterprise, it's important to understand the challenges and potential pitfalls, and to think of ways of minimizing their impact. **The Rough Guide to Business Protection** aims to help you think about some of the risks involved in running a small business, in particular the risks to your key personnel.

Business structures

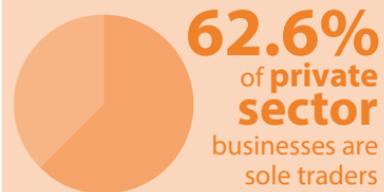
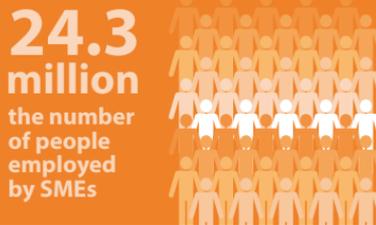
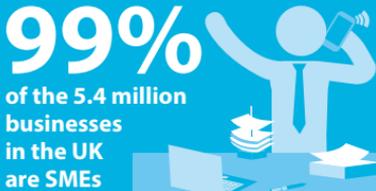
There are several different types of business structure in the UK, all governed by different rules which determine the legal status of the business and how it is run: for example, the amount of tax you pay, who is entitled to the profits and who is liable for any debts run up by the business.

The three main types of structure are:

- › **Sole trader:** This is the simplest form of business entity, as you are the sole owner and personally liable for any losses the business makes – but you also get to keep all the profits. Despite the name, you can actually employ staff.
- › **Partnerships:** You and your business partner(s) share responsibility for the business. This means sharing the profits, but also being responsible for the losses.
- › **Limited company:** Your business is owned by its shareholders who, in many cases – especially with **SMEs** – will also be the company directors. The business finances are completely separate from your own personal finances. Usually, the directors are paid a salary, but they can also take dividends.

For more information on the different types of business structure, see [GOV.UK](https://www.gov.uk). If you are looking to set up your own business see [The Rough Guide to Work and Money](#) and [The Rough Guide to Retirement](#).

THE SMALL BUSINESS MARKET



81.6% of the UK workforce are employed by SMEs



Source: [Federation of Small Businesses](#) and [Legal & General](#)

The business lifecycle

Whatever type of operation you run, if successful it will grow and evolve over the years. If you're just setting up your first business, the challenges you face may be very different to those you may encounter ten or twenty years down the line.

To help understand more about these risks, it is worth identifying where your business is in terms of its lifecycle or growth. **The Business Lifecycle** infographic (p.12) highlights some of the key challenges your business is likely to face as it develops and grows.

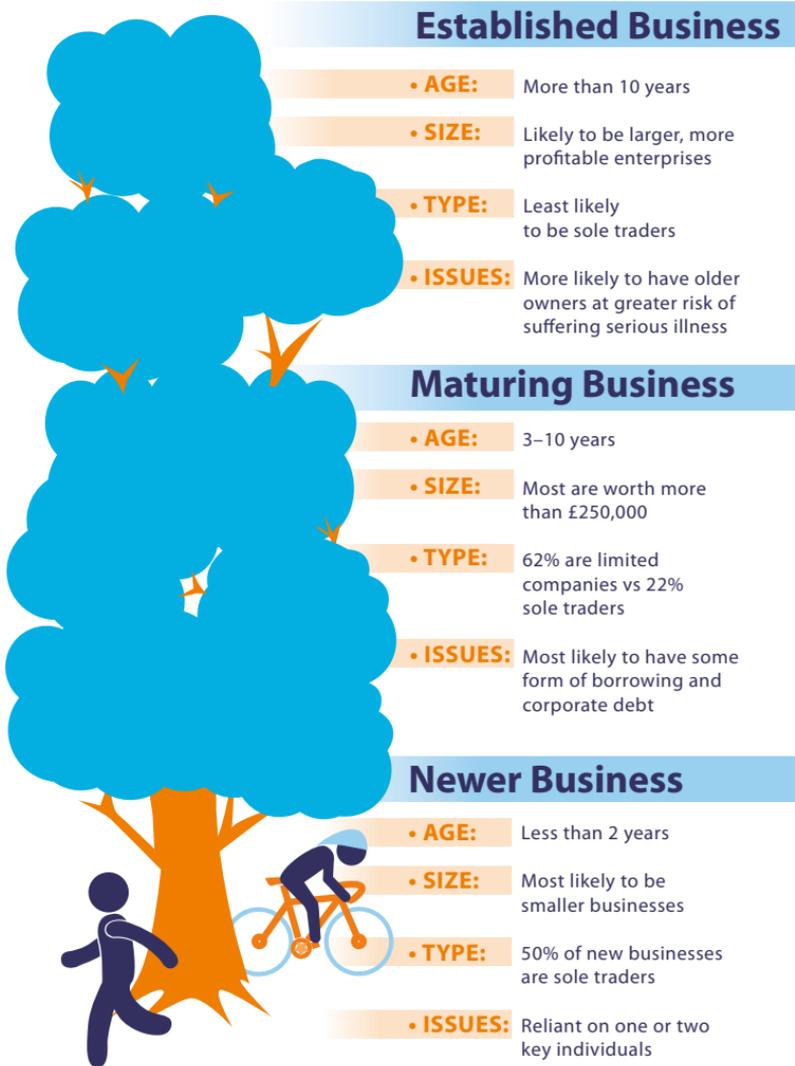
Challenges and pitfalls

On paper your idea may look like a sure-fire winner, but there can be any number of problems along the way that can destabilize your plans and, in the worse case scenario, be a real threat to your business.

Planning is the key to success and sustainability. Even if you've run a business for a number of years, it is still worth taking time to look ahead at the potential hurdles you may face and create some contingency plans, if you haven't done so already. Some of the most common risks that small businesses face are listed below. Many small traders – even those that have been operating for years – often fail to look at the impact such events could have.

- › **Inadequate Business Plan:** Having a good business plan is crucial. It should set out exactly how you want your business to run and how you expect it to grow. Key details on costs, expenses, potential sales and profits should help you see whether the business looks sound, now and in the future. It should help to identify risks and thus allow you to prevent them, or at least protect against them. A good business plan can also help you to secure funding – be it a bank loan or an overdraft – which, in turn, can aid expansion. If you need further information or guidance on putting together a business plan, go to the [Federation of Small Businesses](#) website.
- › **Financial difficulties:** There are a number of ways in which your business could run into financial trouble. Costs could rise – whether labour costs or the price of equipment and materials. Similarly, rents on your premises or interest rates on loans may increase – sometimes by a lot and with little notice. Many businesses also struggle if they experience a drop in sales or face new competition locally. Talk to a financial adviser, or the consultant at your bank, to help ensure your business finances are robust enough to weather these problems. You can find an independent financial adviser on [Unbiased.co.uk](#) or [Vouchedfor.co.uk](#).

THE BUSINESS LIFECYCLE



Source: [Legal & General](#)

UNDERSTANDING THE RISKS

- › **Business disruption:** The best-laid plans can often be undermined by events quite beyond your control. In recent years, flooding has affected businesses, both large and small, throughout the UK. Fire can also cause substantial damage to premises. As well as having adequate building and contents insurance (to pay for repairs to property and equipment), it's worth drawing up a business interruption plan to set out how you would continue to trade in difficult circumstances. If you need help drawing up such a plan, see this useful document on [GOV.UK](#).
- › **Legal action and compensation claims:** What if a customer or supplier were injured on your premises? Or your computer's security systems were breached, revealing customers' financial data? Businesses could face hefty bills for compensation. You can minimize these risks by ensuring that you follow appropriate health and safety guidelines, and by getting advice on data protection and how to update your computer systems. It's also possible to get public liability insurance, which could cover the cost of compensation in the event of a claim. [The Association of British Insurers](#) provides information on the different types of commercial insurance.
- › **Loss of key individuals:** Your business is more than its premises, equipment and bank balance. In many cases, it is the vision and commitment of the owner, partners and key employees that is the vital element in driving it forward. Because of this, it is important to think about how your business would cope, if you were to lose a crucial individual – particularly as a result of ill health or death – and the effect such a loss would have on the success, future and indeed the viability of your business. This is the main focus of *The Rough Guide to Business Protection*.

How insurance can help

If you are already running a small business, it's highly likely that you will have some form of commercial insurance in place. For example, if you have staff, it is obligatory for you to have **employers' liability insurance**; similarly, any commercial vehicles will need motor insurance.

It is possible to buy additional insurance to help manage some of the risks listed in the **Challenges and Pitfalls** section (pp.11–13). You can insure your premises, your IT equipment, your stock, any specialist machinery and so on. Most business owners are aware of this and **seek appropriate cover**. However, these same companies are far less likely to insure the health, or the lives, of the key individuals who keep the operation running. Even when a firm has a business **disruption plan** to

ensure trade continuing in the event of flood, fire or computer failure, it won't necessarily have a similar plan to assess the impact of losing key staff through death or illness.

For example, if your business partner suddenly died, would the business have to find the money to pay back loans he, or she, had underwritten? Or if *you* became critically ill, would there be the funds to pay a replacement to ensure the business is still performing when you recover? The sad truth is that such an event could prove catastrophic. Insurance can help lessen the financial impact of such events in a number of ways. These include:

- › The repayment of business debts
- › Provision of funds to help find and recruit specialist staff
- › Purchasing of shares from a deceased business partner or director's estate

You may not necessarily need the full range of policies, because much will depend on the size and type of business you run.

 **TOP TIP** No business is entirely safe from hackers, but there are certain basic steps you can take to protect your business from cybercrime, such as installing updates promptly, choosing strong passwords, using anti-virus software and training staff about the risks. For information on how to draw up a risk management plan, see [GOV.UK](https://www.gov.uk).

The smaller the business, the greater the risk

Research from **Legal & General** shows that if a key person died or became critically ill, four out of ten businesses would cease trading within a year. If you are a small business, such a loss is likely to have a much greater impact than it would on a larger organization. There will be fewer people to pick up the pieces and ensure everything **continues to run smoothly**: most smaller operations don't have specialist finance departments, HR teams or legal departments to help them through hard times. Despite the risks, it is smaller companies that are least likely to have business protection insurance in place, yet these are the very businesses who may be in most need of this protection.

Insurance: the basics

As stated above, there are various kinds of business or commercial insurance. This guide focuses on the different types of **business protection insurance**, a form of **life insurance** taken out by smaller and larger businesses to give them some protection against the death of key personnel. Standard insurance **terms** are explained in the **Jargon Buster** at the back of this book.

Life insurance is fairly straightforward: you pay a premium to the insurance company based on:

- › The length of time you need the insurance for
- › Your age
- › Your health
- › The amount of cover you want (the amount to be paid out at your death)
- › The type of cover

The price goes up as the chances of dying increases (for example, if you are over a certain age or a smoker). The person whose life is being covered is known as the life assured.

Business protection insurance

For business protection – as with personal protection – it is possible to have more than one life insured. In most cases, the cash sum paid out would go to the business or remaining owners. There are three different types of business protection insurance, these are:

- › **Business Loan Protection** (see Chapter 2)
- › **Key Person Protection** (Chapter 3)
- › **Share Protection** (Chapter 4)

THE ROUGH GUIDE TO BUSINESS PROTECTION

BUSINESS PROTECTION INSURANCE: TYPES OF COVER			
NAME OF INSURANCE	DEFINITION	WHO IS COVERED?	WHO BENEFITS?
Business Loan Protection	A type of life insurance, bought by businesses. It will help pay off business debts if the owner dies. Critical illness cover option also available.	Anyone who has guaranteed these debts – usually the owner, but can be a partner or director of the business.	The business. Debts are repaid at a difficult time.
Key Person Protection	A type of life insurance bought by businesses. Payout provides funds to help find replacement staff, and cover lost profit streams. Critical illness cover option also available.	Any key member of staff. It could be a chief executive, finance director, salesmen, director or owner.	The business. Funds available to help find suitable replacement or replace lost profits.
Share Protection	A type of life insurance bought by businesses, which ensures there are funds to help purchase shares if an owner/ shareholder dies. Critical illness cover option available.	Owners of the business.	The proceeds are paid to the remaining owners so that they can buy the shares for a fair value from the estate and thus retain control of the business.
Relevant Life Plans	An individual life insurance policy that company directors and owners can buy through their business, if they are classed as an employee.	Employees of a small business.	The family of the director or employee that it was taken out for.

Source: [Legal & General](#)

UNDERSTANDING THE RISKS

These are designed to ensure your business is able to continue trading in difficult circumstances and help protect its future. As with any insurance policy, you need to look at who is covered, how much would be paid out, and what events would trigger a payout. You also need to consider any limitations to the cover, as in what is not covered. For key information about these types of insurance, see [Business Protection insurance: types of cover](#) (p.16).

There is usually the option to add on [critical illness cover](#) (see [Critical illness cover](#) box, below), which could ensure a payout if an owner, partner, member, director or key employee became critically ill with a specified illness, although this will generally push up the cost of cover.

It is also possible to buy individual [life insurance](#) through the business for employees to protect their families, rather than the business itself. This type of policy is known as [Relevant Life Plan](#). More details are given in Chapter 5.

 **TOP TIP** Don't assume that your critical illness insurance policy covers you for any medical condition that needs hospital treatment. Always check the insurance policy document to find out exactly which conditions are covered.

Critical illness cover

[Critical illness cover](#) is an insurance policy that pays out a lump sum if you're diagnosed with [a specified critical illness](#) covered by your plan. It can be bought as a stand-alone policy, or as an add-on at the outset to standard life cover. The policy pays out if the policy-holder is diagnosed with one of the specified illnesses during the term of the policy. The accompanying policy documents will set out exactly what conditions are covered.

Most policies will cover many of the most serious illness we have probably all heard of, such as cancer, heart attack and stroke, but only more severe cases of these conditions. Early stage cancers, those that are picked up in routine diagnostic tests, may not be covered, while more advanced cancers almost certainly will be. Other conditions, such as multiple sclerosis, motor neurone disease, paralysis or loss of a limb, may also be covered. The exact definitions and number of conditions can vary between insurance companies, but most of the leading providers cover over forty different conditions.



CHAPTER TWO:
**PAYING OFF
DEBTS**

Insuring commercial debt

If you have a mortgage, the chances are you also have some form of [life insurance](#). This is a policy that can be used towards paying off a mortgage debt in the event of your death within the duration of the plan, thus keeping the roof over the heads of your nearest and dearest.

Most small businesses have some form of debt, be it overdrafts, loans or mortgages. These loans can help a business prosper and grow. But a significant proportion of small businesses do not have any form of insurance backing this debt. If the owner died, or was taken critically ill, these loans could quickly become a liability. Insurance can help keep the roof on your business, protecting partners, members, directors and employees – as well as their families.

How Business Loan Protection works

Business loan insurance can cover any type of commercial debt. This includes:

- › Overdrafts
- › Commercial loans
- › Commercial mortgages
- › Directors' Loans



THE ROUGH GUIDE TO BUSINESS PROTECTION

With **Business Loan Protection**, owners, partners or directors can insure the size of any outstanding debt, and in the event of their death this will be repaid. The larger the debt, the higher the premiums will be, but, for simple life cover, this is one of the cheapest forms of business protection insurance.

Most insurers offer the option to take out **critical illness cover** as well, which can help repay any debts that occur, if the business owner is diagnosed with one of the specified critical illnesses outlined in the policy. When a valid claim is made this sum is paid to the business.



Source: [Legal & General](#)

Whose life is covered?

Coverage depends on who has “guaranteed” the loan. Most commercial lenders will want a named individual (or individuals) as guarantors on the loan agreement – this is usually the business owner or one or more partners. The individual will be liable for this debt, if there aren’t sufficient assets in the business to repay the loan.

Directors' Loans

Some small businesses struggle to get finance. Banks and other commercial lenders may be unwilling to advance credit to start-up firms, or may charge prohibitively high interest rates. As a result, many people starting a new business can end up investing their own money in it, often by taking out a mortgage on their own home. A Directors' Loan effectively enables you to ring-fence this investment, so that when the business becomes profitable you can take it out again.

This can be particularly important if you run the business with other directors. Individual directors can safeguard their own investments in the business by setting up a Directors' Loan account. This is a loan to the business that has to be declared via the company's accounts. It can also be set up so that you don't have to take profits out of the business.

Almost one in three business owners (28%) are unaware that these loans have to be repaid in the event of the director's death. If neither the director nor the business have [life insurance](#), it may be difficult to repay these loans. This could leave companies with a black hole in their accounts, and put a severe financial strain on the business at an already difficult time.

 **TOP TIP** It is sometimes cheaper to extend your mortgage or take out a personal loan, than it is to raise a commercial loan. However, this does mean that your personal assets are at risk, if the business gets into difficulty.

TOP 5 REASONS PEOPLE CHOOSE A DIRECTORS' LOAN ACCOUNT

- 1: 47% AS START-UP CAPITAL
- 2: 44% TO FUND BUSINESS EXPANSION
- 3: 32% TO BUY SHARES
- 4: 13% DUE TO LACK OF CREDIT ELSEWHERE
- 5: 10% SO THAT PROFITS ARE NOT TAKEN FROM THE BUSINESS

Source: [Legal & General](#)

The risk of not getting cover

If your business fails, due to the death of the owner, or a partner, and there aren't sufficient assets to cover the debts, then a lender could seek repayment from the guarantor, or their estate. This could mean your personal assets, including your home might be at risk, and could leave a business owner's family struggling to repay any business debts.

Similarly, if a Directors' Loan account is not insured, and the director dies, the business may have to sell assets at short notice to repay the loan. If it is unable to do this, the business could be forced into administration, leaving the director's family out of pocket.

 **TOP TIP** Banks may offer insurance against a loan. However, it makes sense to get independent financial advice to ensure that you are not paying over the odds and the cover is what you need. To find a financial adviser specializing in small businesses, see unbiased.co.uk.

Which businesses are most at risk?

Smaller firms are far less likely than larger ones to insure business debts. Only 58% of small- or medium-sized companies insure their debts, while just 43% of recent start-ups have this cover. Unfortunately, it is these businesses that are often least able to be able to repay their debts in the event of the death of an owner or partner. This may leave them vulnerable to bankruptcy, and could leave the owners' personal wealth at risk.

The cost of Business Loan Protection

The cost of insurance will depend on a number of factors, the most important of which are your age and the size of the loan you are insuring. The bigger the loan and the older you are, the more expensive the premiums will be. Including [critical illness cover](#) on top of basic [life insurance](#) will increase the cost substantially, as [The cost of Business Loan Protection](#) table below shows, but this extra expense can provide you with added peace of mind. Having a policy could help ease the potential financial burden of being unable to work, making life a bit easier at a difficult time.

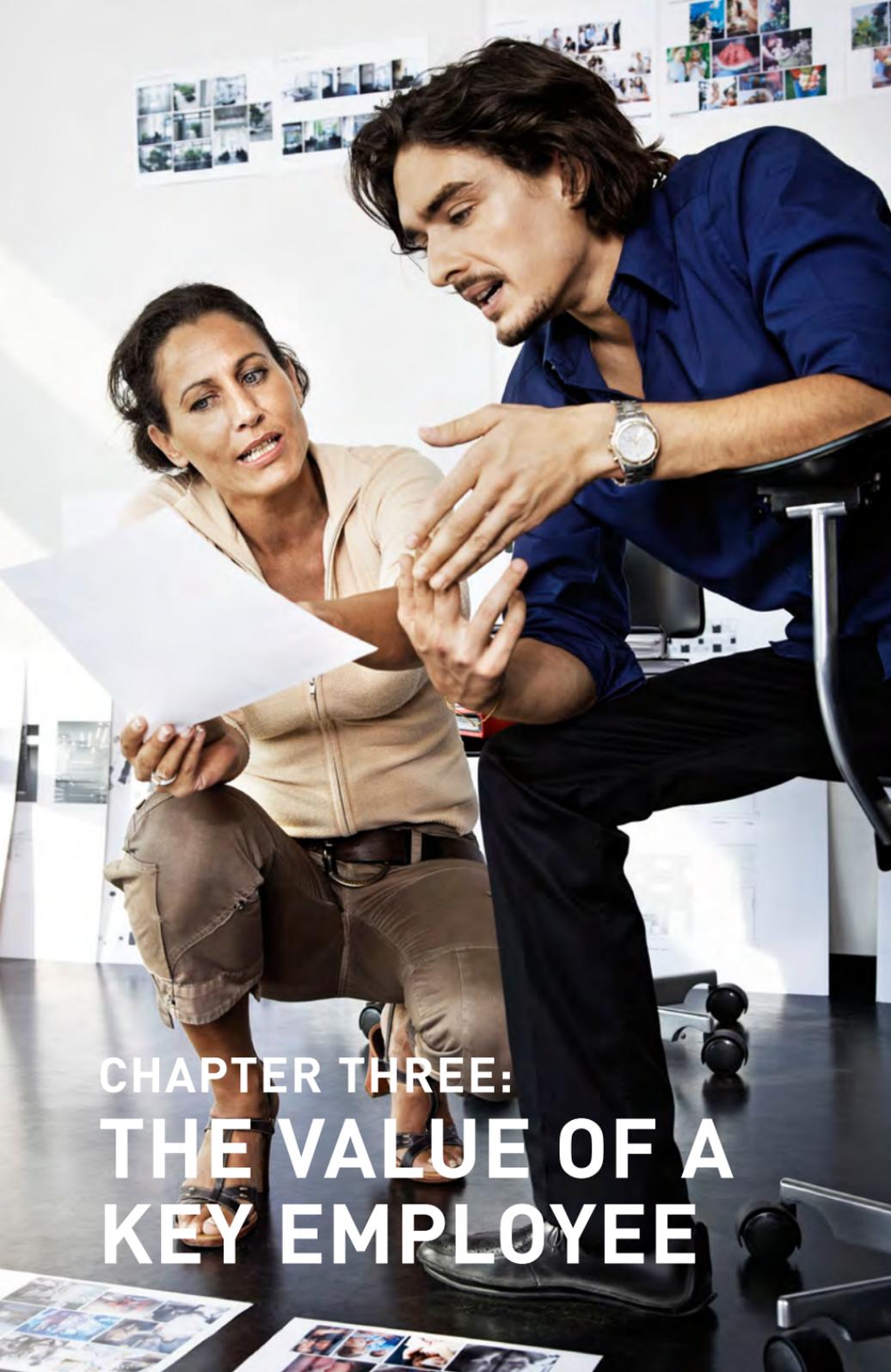
PAYING OFF DEBTS

The **term** of the loan will also affect its costs. The longer the term the higher the premium will be, as there is a greater chance that you will make a claim (particularly because you will be older during the latter years of the policy). Before taking out a policy, an insurer will ask basic health and lifestyle questions: smokers or those in poor health will pay larger premiums.

The cost of Business Loan Protection				
Business owner	Size of loan	Term of loan	Monthly cost of life insurance	Monthly cost of life & critical illness cover
Aged 35	£100,000	10 years	£6.31–£12.11	£23.32–£33.64
Aged 45	£150,000	10 years	£14.26–£29.60	£71.22–£106.89
Aged 50	£250,000	10 years	£31.74–£58.27	£174.51–£270.03

Source: [Legal & General](#)

Please note: The table assumes the policy holders are non-smokers and in good health. Quotes obtained from leading Business Protection insurance providers, correct as of July 2016. Your actual premium will depend on your individual circumstances. As with all insurance policies, there are exclusions and limitations.



CHAPTER THREE:
THE VALUE OF A
KEY EMPLOYEE

Insuring your key employees

Most small businesses insure their premises, their stock, and their fixtures and fittings. If a business is hit by fire, flood or theft, such insurance provides a financial lifeline to help ensure that it keeps going through difficult times. However, many smaller businesses don't insure key individuals who are arguably just as vital to future success. This can leave them vulnerable should a vital employee become critically ill, or die.

For example, if one of your main sales people became critically ill, and could not return to work full-time, would this jeopardize relationships with your key clients? If an owner or partner was similarly indisposed, would you be able to grow the business in the future?

If you are the owner or partner in a smaller business, it's worth identifying those individuals who are essential to the success of your firm. If you think their loss would have a significant financial impact, then it may be worth looking in more detail at the insurance options.



Key Person Protection

Many businesses don't consider the financial implications of losing a key member of staff. Negative effects can include:

- › Loss of profits or sales
- › The cost of finding and training a replacement
- › Potential loss of customers and suppliers, if the key staff member was their main contact

Key Person Protection is basically **life insurance**, with or without a **critical illness cover** option, which a business takes out on certain important members of staff. It can provide some financial stability in the event of a key member of staff being taken critically ill or dying.

The business pays the premiums, and if the insured person dies or becomes critically ill during the policy **term**, the policy will pay out the agreed sum to the business. This **financial payout** can help ensure the business remains viable, continues to trade, and has the opportunity to find a suitable replacement.

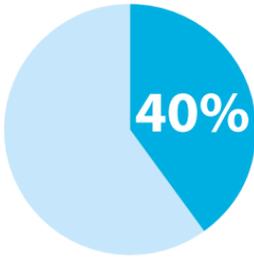
Key Person Protection insurance is there to protect your business; if there is a payout, the money is paid to the business to help it **continue to trade**. It shouldn't be seen as a replacement for personal life cover or death-in-service cover. Some businesses provide death-in-service payments as part of an employee's benefits package, with the amount paid usually around three or four times the employee's salary. This payout would provide some financial assistance to families who have lost their main breadwinner.

 **TOP TIP** Think about what kind of cover is best for your business. **Key Person Protection** insurance helps to protect the financial losses a business may incur by losing a key employee. **Business Loan Protection** repays any loans they may have given or guaranteed for the business.

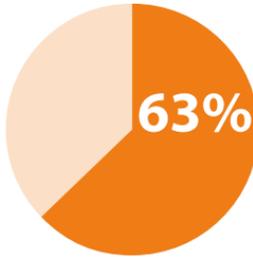
THE VALUE OF A KEY EMPLOYEE

IS YOUR BUSINESS AT RISK?

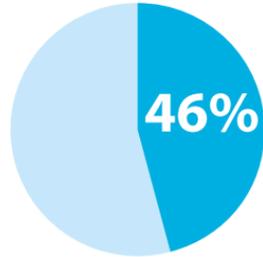
If a business loses a key member of staff:



of businesses cease trading within one year



of sole traders cease to trade immediately



of new businesses cease to trade immediately

Source: [Legal & General](#)

Who is a key person?

The simplest definition of a key person is whether their death or critical illness would cause significant financial loss for your business. If you think that is the case, then it is possible to purchase insurance to help cover these losses.

However, many small businesses have very tight budgets, so it's important to take care in identifying the individuals your business most relies on. The loss of a junior sales rep, for example, might cause a temporary dip in profits, but if they can be easily replaced your business should be able to cope without too much difficulty.

On the other hand, the indisposition of an owner, managing director or specialist are what is most likely to have serious consequences, particularly in smaller outfits where other staff may not have the right skills or experience to fill these roles. Almost anyone could be a key person, but the positions that are typically seen as key to a business are:

- › Managing Director
- › Marketing Manager
- › Computer specialist
- › Sales manager
- › Technical expert

Calculating cover

The cost of the policy will be largely dictated by how much cover you are looking for. This isn't always easy to calculate at the outset. Business owners need to think about how long it might take to replace an individual and what the potential loss, or financial impact, would be to the business during the period of recruiting and training a replacement. Below are two formulas that are commonly used to identify an appropriate amount:

› **Cost of replacing an individual based**

on their earnings: This is done by taking a multiple of the key person's annual earnings. Typically, this might be ten times their earnings for life cover, around five times for **critical illness cover**.

› **Replacing the profits the key person is**

responsible for: This method looks at an individual's contribution to business profits. Typically, firms may insure twice the gross annual profit they generate or five times the net profits directly attributable

to that person. It may help to look at average profits over a number of years.

 **TOP TIP** If you are thinking about buying **Key Person Protection** insurance, talk to a financial adviser who specializes in this area. They can help you decide the level of cover you may need. To find a financial adviser, see Unbiased.co.uk or Vouchedfor.co.uk.

The **Cost of Key Person Protection insurance** table (p.29) gives an example for each of these two scenarios. Costs will depend on your age, health, the type of business you run and how much cover you are looking for.

Duration of the policy

This will vary from business to business, but you may wish to look at your long-term business plans and work out how long a significant individual is likely to be a key member of the team. Considerations to bear in mind include:

- › How long you would expect this person to stay with the business
- › When their normal retirement date would be
- › How you see the business expanding
- › Whether the profits or sales the person generates are needed to help repay business debts or overdrafts.

The Cost of Key Person Protection Insurance

Example 1: Insuring a key person based on EARNINGS:

Simon Mason,
Finance Director
Jon Jones
Construction



SIMON MASON is key to the smooth running of Jon Jones Construction. Without him, the firm would need to hire an accountant at considerable cost while they look for a new finance director, which in itself may incur large fees to recruitment agencies.

As Simon isn't directly responsible for sales or profits, the business can insure a multiple of his salary.

Cost of cover: Simon earns £60,000 and is due to retire in 10 years, so prices for a life policy range between £55.93 to £98.73 a month.

Example 2: Insuring a key person based on PROFITS:

Lily Smith,
Main arranger
Chloe Fleurs
Floristry



LILY SMITH, a 40-year-old flower arranger, is responsible for around 50% of the business's profits, which have averaged £100,000 a year over the past two years. Her boss, Chloe Fleurs, thinks that Lily is likely to be a key employee for the next ten years.

Cost of cover: Chloe insures Lily for twice the profits she has made over the previous two years: £50,000 of cover (2 x £25,000). That's around £6 per month (or £18.46 per month with critical illness cover).

Please note: The table assumes the policy holders are non-smokers and in good health. Quotes obtained from leading Business Protection insurance providers, correct as of July 2016. Your actual premium will depend on your individual circumstances. As with all insurance policies, there are exclusions and limitations.

These case studies are fictitious and for illustrative purposes only.

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It's possible to insure these debts directly (with [Business Loan Protection](#) insurance, see [Chapter 2](#)); alternatively, you can get this key person policy to run for the same length of time as a business loan. This would ensure the business's finances are ticking over, while hopefully providing additional funds to help find a replacement.

Conversely, if you see the business expanding in the next few years, the key person's contribution may not be so critical in the future, so you may wish to consider a shorter-term policy.

If you are a small business in the early stages of development, you are least likely to have [Key Person Protection](#) insurance but, arguably, the most likely to need it, as the loss of a key member of staff could jeopardize your whole business.

Tax considerations

It may be possible to offset the cost of [Key Person Protection insurance](#) against your corporation tax bill, as it is often treated as an allowable business expense. If the premiums have been offset against profits to reduce corporate tax bills, then if you do ultimately have a claim paid out on the policy, this payout is likely to be treated as a trading receipt and so potentially subject to corporation tax. Any payout has to form part of the company revenue for that year, so may increase your overall corporate tax bill.

In order to offset the cost of this insurance against tax, certain criteria conditions have to be met:

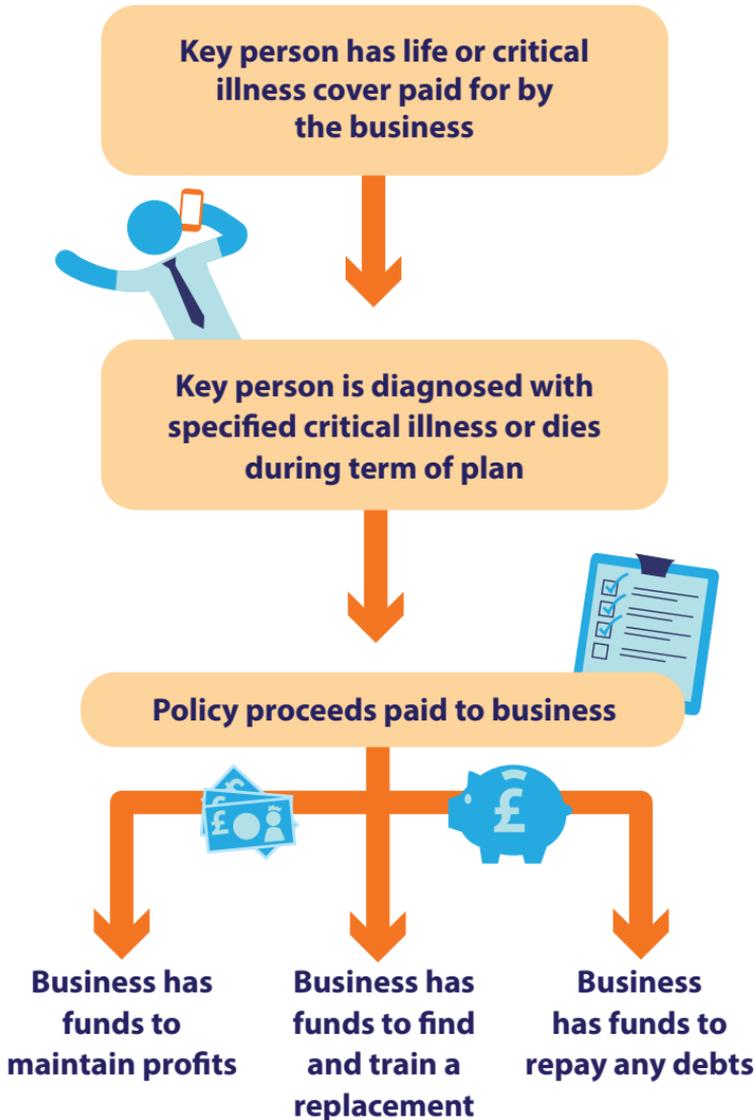
› **The policy must be “short term”:** The tax authorities don't clearly define a specified length of time, but will consider how long the employee will be of benefit to the business. The policy, therefore, cannot be indefinite, or extend beyond the contract an employee has with the business.

› **The policy must cover an expected loss of profits:** If you also have a [Business Loan Protection](#) policy that would also pay out if a key individual died, this cannot be offset against tax.

› **The policy must be for an employee:** It is possible to insure owners, or take out cover for individuals who also own a stake in the business, but this can complicate the tax situation.

 **TOP TIP** If you're unsure whether your business meets the key criteria for offsetting insurance costs against tax, seek advice from your accountant or financial adviser.

WHEN WILL KEY PERSON POLICIES PAY OUT?



Source: [Legal & General](#)



**CHAPTER FOUR:
PROTECTING THE
OWNERSHIP OF
YOUR BUSINESS**

Insuring your business

The loss of an owner or a partner can cause numerous problems, as has been outlined in previous chapters, but many people overlook the destabilizing effect such a loss can have on the business itself.

When an owner or partner dies, then their stake in the business is likely to pass directly to their family. If this was a majority shareholder, this could mean that the remaining owners lose control of some or all of the business, and have to work with the spouse or child of a former owner.

When do you need Share Protection?

It is always possible that whoever inherits a part of the business may choose to be a silent partner, but there is no guarantee of this. Some will want a more active role and may have very different ideas on what the firm should be doing. Another possibility is that the beneficiary may want to sell their stake. But if the remaining owners can't find the funds to buy this shareholding, it could be sold to a competitor.

Of course, the ideal solution is for the remaining owners to buy back the shares, giving the family a cash sum while ensuring they retain control of the business. The question is, will they be able to raise the funds to do this? This is where **Share Protection** insurance can help.

Share Protection: how it works

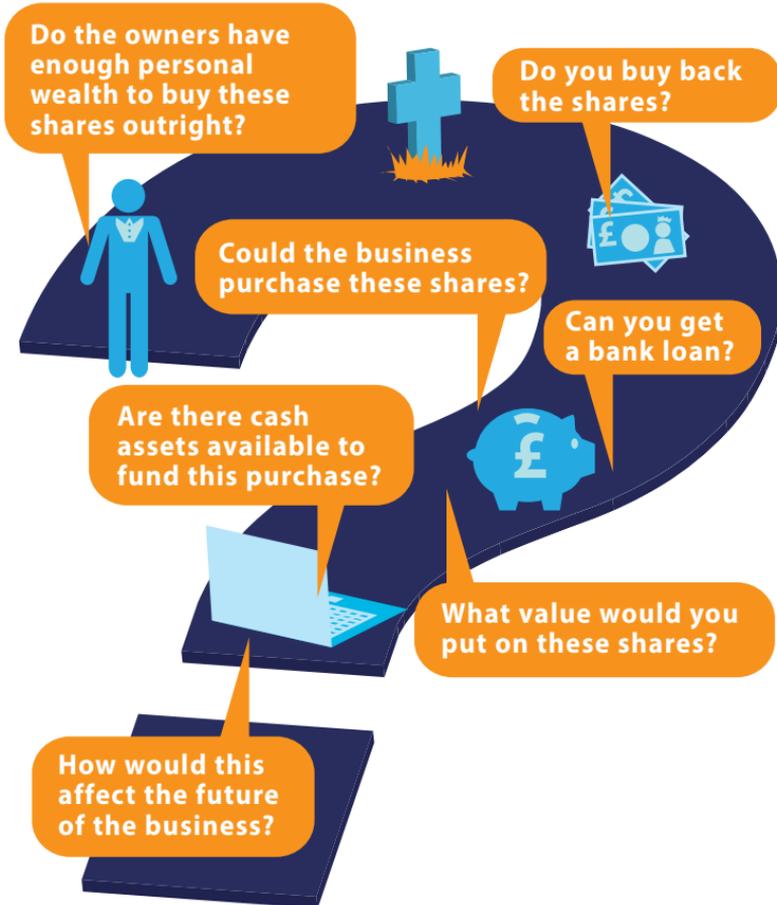
Share Protection insurance provides a payout to buy back shares, helping owners stabilize the business and ensure it is kept in their hands and not someone else's. There are two parts to this insurance:

- **A life insurance policy:** This will pay out on the death of one of the owners
- **A legal agreement:** This sets out when and how these shares will be bought back and at what price

To set up a **Share Protection arrangement**, each owner takes out a **life insurance** policy, equal to the value of their shares in the business and written in **trust** at outset, for the benefit of the other business owners (or partners, if it is a partnership). As before, there may be the option to take out **critical illness cover** as well. Each owner pays the premiums on his or her policy; the cost

SHARE PROTECTION: PLANNING AHEAD

Things to consider if
a business owner dies:



Source: [Legal & General](#)

PROTECTING THE OWNERSHIP OF YOUR BUSINESS

may vary between owners, depending on their age, health and other factors. Obviously, if one owner holds a greater stake in the business – say a 66% holding – they will pay a larger slice of the premiums.

The owners will also sign a **share purchase agreement**, which is a legal document detailing how the shares of the business can be bought and sold. This paperwork is retained by the business, along with the **trust** document and policies. If any of the owners die, then their insurance policy will pay out, providing sufficient funds for the other owners to buy the remaining shares of the business.

How the share purchase agreement works

The most common form of agreement is a **cross option agreement**, also known as a **double option agreement**, which gives the surviving owners the option of buying the remaining shareholding, and the relatives of a deceased owner the option to sell. This transfer doesn't happen automatically, if neither party wants it to.

If the remaining owners want to buy back these shares, the other party is legally bound to sell them. Similarly, if the family wants to sell, the remaining owners are also legally bound to **buy back their stake**. There are usually time limits within the agreement; owners have three months in which to decide whether they want to buy, and the family has six months to decide if they want to sell. In either case the insurance policy will provide the funds to pay for this transaction.

If owners have **critical illness cover**, they aren't forced to sell their shareholding, even if the remaining owners want to buy them out. However, if they decide that this is a good time to leave, this enables them to sell their shares without damaging the financial interests of the business.

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OTHER ARRANGEMENTS FOR BUYING SHARES			
OPTION	HOW THIS WORKS	WHAT IT PAYS OUT	PROS & CONS
Buy & Sell Agreement	An agreement between all the owners that if one of them dies, their stake in the business will be sold to the remaining owners who are obliged to buy these shares.	The payout for the insurance provides the funds for the remaining owners to purchase these shares. Under this agreement they are obliged to do this, ie: they can't use the funds for any other purposes.	<p>Pros: Simple to understand, but the use of cross option agreements are more common and more tax efficient.</p> <p>Cons: May be tax consequences, eg: deceased shares may be liable to inheritance tax, as they won't qualify for Business Property Relief.</p>
Company Buy Back	If an owner dies, the business buys back their stake and cancels these shares.	The insurance will pay out to the business. However, the process of purchasing the shares may involve using business profits or obtaining more debt to buy the shares in the first instance, with the policy being used to replace the money spent.	<p>Pros: Remaining owners have a bigger stake in the business.</p> <p>Cons: There are a number of legal requirements for businesses to buy shares, so it can be a more complex process. There are also several potential tax implications.</p>
Automatic Accrual Method	If an owner dies, their shares will automatically pass to the other owners. There is nothing passed to the estate.	The insurance would pay out directly to the deceased family to compensate for loss of the value of the shares of the business.	<p>Pros: Often seen within partnerships, especially those where each partner needs to be a professional (dentist, architect, solicitor).</p> <p>Cons: Need to ensure that a partnership or shareholders' agreement exists and has the correct wording for the automatic transfer of shares.</p>

Valuing the business

When putting a **Share Protection arrangement** in place, it's important to think about how you will value the business. When you take out the policy, make sure there is sufficient cover at the outset to enable the other owners to buy the shares. You will also need to review this regularly to ensure that the value of the policy keeps pace with the value of your business.

There are a number of options:

- **Open market value of the business:** If the business is worth £1 million and an owner has 50% of the shares, logic would seem to dictate that their family gets a payment worth £500,000.

The problem is that the value of these shareholdings can go up and down, so their insurance policy may not be able to cover the full value. If the agreement stipulates the open market value, this can lead to delays in the shares being purchased, while both parties get up-to-date valuations.

 **TOP TIP** If you're a business owner, it's advisable to review your insurance regularly – preferably annually – to make sure it continues to provide sufficient cover.

- **Fixed value for the share of the business:**

A business values the shares in its business at the outset. It is this amount that is then covered by the insurance policy. So, if the value of the total shareholding is £1m and an owner had a 50% stake, these shares would be bought for £500,000. If a death occurs after three years, then a “fair value” will be applied.

- **Fair value of the share of the business:** An independent auditor or valuer is appointed to determine the market value of the business at the time of the death of an owner. This will determine a “fair value” for what their shareholding should be, and it is this amount that will be paid for the shares.

Money in trust

Putting money in **trust** means that one party looks after it on behalf of another. The same can be done when setting up an insurance policy. The trustee (or trustees) manages the policy, which pays out to a beneficiary. With a **life insurance** policy, the payout can go directly to the beneficiary without waiting for probate to be completed. Many **life insurance** policies are written in **trust**.



The importance of a Will

A Will is a vital document that sets out how your assets will be distributed at your death. If you don't have a Will and end up dying intestate there are strict rules as to who will inherit what. These rules prioritize married partners and children, so if you are living with a partner, but are not married, they will not receive anything. As well as allowing you to decide how to split your estate, this legal document will also set out any care arrangements for children aged 18 or under.

TOP TIP Many people write their own Wills, using DIY kits downloaded from the internet, such as the one by [Which?](#) This may be fine if your financial affairs are straightforward, but if you own and run a business or have more complicated family arrangements you should seek legal advice (see [Chapter 5](#)).

What to include in your Will

If your Will is invalid, or contains ambiguities, it could be challenged after your death. This can lead to hefty legal costs and, of course, lots of acrimony among surviving family members. To avoid this, a Will must include the following:

- › **Executors:** These are the people responsible for ensuring that the wishes laid out in your Will are carried out. Most people appoint two **executors** – either family members or a professional, such as a solicitor.
- › **Witness signature:** Your Will must be witnessed by someone who is not a beneficiary.
- › **Your signature and the date:** Without these your Will could be deemed invalid.

 **TOP TIP** Make sure you review your Will regularly. It may need updating if your circumstances change. For example, if you get married or divorced, or if additional owners join your business.

Business owners need to stipulate in a Will the person, or persons, who will inherit their share of the business. However, if you have set up a **Share Protection policy**, it's important that this doesn't contradict your Will, as this could lead to problems later on and delay your assets being released.

AROUND HALF OF UK ADULTS DON'T HAVE A WILL

27 Million

adults in the
UK do not
have a Will



People in the
South of the
UK are most
likely to
have a Will



WALES has the
lowest proportion
of people with a Will

33%



44%



of those who are married
or in a civil partnership
have not written a Will

70%

of cohabiting couples don't have a
Will so the surviving partner would
have no automatic right to inherit

57% of parents
have no
Will at all



OVER
50%
of business
owners don't
have a Will



Source: [Will Aid](#), [Legal & General](#)

Articles of Association

When setting up a **limited company** you need to have two legal documents. The first, called a **Memorandum of Association**, is a legal statement, signed by all the initial shareholders, which effectively forms the business.

The second is the **Articles of Association**, which sets out the written rules about running the business. This covers the directors' responsibilities, the distribution of shares and business profits, as well as administrative arrangements. It may also cover what happens should a director or owner die, but this is not automatically included. Even if there is only one director running a **limited company**, they still need to have Articles of Association. In many cases, smaller businesses will use standard Articles of Association, as prescribed by the Companies Act 2006 or by earlier acts. Make sure you review these legal documents before entering into a **share purchase agreement**.

 **TOP TIP** If you cannot locate the business's Articles of Association, speak to your company accountant or solicitor, or request a copy from Companies House.

Partnership agreements

A **partnership agreement** is similar to the **Articles of Association** but covers a partnership. This legal document establishes the rights and responsibilities of each partner, as well as the distribution of any profits or debts.

It's important to set out an agreement, as this lessens the possibility of disputes at a later date. It can cover future eventualities, such as: the death or retirement of one partner; how new partners might come into the business; and what would happen if it ran into difficulties at a later stage.

For **traditional partnerships**, unlike **limited liability partnerships**, it is not a legal requirement to have a formal written **partnership agreement**. However it is good practice.



CHAPTER FIVE:
**HOW YOUR
BUSINESS
CAN PROTECT
YOUR FAMILY**

Insurance for your family

This guide has focused on how [life insurance](#) and [critical illness cover](#) can help protect your business from the financial consequences of losing an owner, shareholder or key employee. However, this can be a two-way process. Small businesses can also provide a [financial safety net](#) for directors and employees, providing individuals and their families with the same insurance benefits. Here, it is the family that is protected, not the business.

One way to do this is with a [Relevant Life Plan \(RLP\)](#), which is a type of life cover that an employer can provide for its staff. [Life insurance](#) is one of the cheapest forms of insurance you can buy.

Relevant Life Plan

A [Relevant Life Plan](#) is a [life insurance](#) policy that is paid for by the business to cover directors or employees. If the insured person dies, it is the family that receives the payout, not the business itself. This type of insurance is also sometimes known as a “[death-in-service](#)” benefit. Many larger employers have a policy that covers all their staff, but such “group schemes” are usually provided as part of the pension scheme. For smaller businesses, perhaps employing just a couple of people, it isn’t always possible or cost effective to set up one of these collective policies.

It’s important to remember that a [Relevant Life Plan](#) will *only* cover those who take a salary from the business. If you

are a [sole trader](#), or a partner, **you are not eligible** for this type of insurance policy. However, this does not stop you buying regular [life insurance](#) out of your own income in the normal way. A [Relevant Life Plan](#) policy can be used to cover company directors and those who own their own business, provided it is registered as a company in the UK and they take a PAYE salary from the enterprise.

 **TOP TIP** If you run a small business, an excellent way to recruit and retain staff is to offer good employee benefits. A [Relevant Life Plan](#) could help with this.

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PERSONAL LIFE INSURANCE vs RELEVANT LIFE PLAN		
	PERSONAL LIFE INSURANCE	RELEVANT LIFE PLAN
Annual Premium	£1000	£1000
Employee NI contribution @ 2%	£34.48	N/A
Employer NI contribution @ 13.8%	£237.93	N/A
Income tax @ 40%	£689.65	N/A
Less Corporation tax @ 20%	-£392.41	-£200
TOTAL COST	£1569.55	£800
SAVING WITH A RELEVANT LIFE PLAN		
TOTAL SAVING = £769.95 (a saving of almost 50%)		

Please note: These figures are for illustrative purposes only. Tax calculations are based on 2016/2017 tax rules and may change in the future. The information assumes that the same rate of Income Tax/National Insurance applies on the whole of the premium. It may be affected by individual circumstances.

Relevant Life Plan tax savings

For owners and directors of small businesses, a **Relevant Life Plan** can be a tax-efficient way to purchase **life insurance**, because this kind of cover is usually an allowable business expense that can be offset against corporate tax bills. So, a premium that costs £1000 would only in effect cost £800, once the 20% corporation tax is taken into account.

TOP TIP The term “**Relevant Life Plan**” may sound complex, but think of it as a tax-efficient way to purchase **life insurance**.

To buy this same £1000 insurance as a private individual, the owner of the business would need to pay themselves more than £1000 from the business. This is because any salary they take is subject to income tax and both employers’ and employees’ **National Insurance** – so to be left with £1000 after these charges, they would need to pay themselves a larger sum.

For higher-rate taxpayers in particular, it can be far cheaper to purchase the same level of **life insurance** through a corporate **Relevant Life Plan**. As the table shows, a higher-rate taxpayer would need to take almost £1600 out of the business to cover the same £1000 premium.

Other benefits of a Relevant Life Plan

A Relevant Life Plan offers a number of other benefits:

- › **It's separate from pension contributions:** Most group life schemes are governed under pension legislation, thus any payouts would be considered part of your total pension pot. This may not be appropriate if you've already accumulated substantial pensions and are worried they may exceed the lifetime limit (currently £1 million, based on 2016/2017 tax rules). If pensions breach the limit, savers can be hit with significant tax charges. A [Relevant Life Plan](#) allows people to ensure they have adequate life cover for their family without affecting pension contributions.
- › **Individual cover:** If a director or employee leaves a small business, they can keep the policy going by simply taking over the responsibility for paying the premiums, without needing a new application, medical or underwriting. With most "group schemes" if an individual leaves their employment, they have to arrange their own cover. This will mean completing medical questionnaires. If they are older or have had previous health problems, this can push up costs significantly.
- › **More extensive cover:** Most death-in-service cover will pay out three or four times an employee's salary. With a [Relevant Life Plan](#) you can insure up to thirty times your earnings, depending on your age and insurance provider of choice. Crucially, it is your total remuneration that is taken into account here. This may be important for many business owners who take a smaller salary but larger dividends, depending on how well their business is performing.

Group Benefits

Aside from [life insurance](#), many smaller businesses will provide other employee benefits for staff. This can include life cover, [critical illness cover](#) or income protection, which ensures staff get more than the statutory minimum if they are unable to work through ill health. For more information, talk to a specialist adviser (see [Getting Advice](#), pp.46–47).

Businesses are now obliged to provide a company pension. Under the [auto-enrolment](#) rules, even micro-businesses – employing just one person – have to provide a company pension and pay into it on employee’s behalf. All firms are required to offer staff a company pension by 2018, and are provided with a start date – known as a “[staging date](#)” – for implementing the scheme. Small businesses will be given at least six months notice to ensure they have the systems in place to collect employee and employer contributions. Employees are automatically enrolled, but are able to opt out if they wish to. Employers should not encourage opting out, perhaps via a pay rise, and can be fined for doing so. For more information on workplace pensions see chapter 3 of [The Rough Guide to Work & Money](#).

 **TOP TIP** You can find out when your “[staging date](#)” will be via [The Pensions Regulator](#).

How much you need to pay

Employers will have to contribute a minimum of 1% of an employee’s salary into the pension. The employee will have to add a minimum 1% on top. These contribution levels will be increased to 2% (employers) and 3% (employees) from April 2018, then to 3% (employers) and 5% (employees) from April 2019. An employee’s contribution includes [tax relief](#) from the Government.

Getting Advice

Like most business owners, you may be – quite rightly – focused on the day-to-day challenges of running your business. You won’t necessarily have the manpower or the legal and financial know-how to set up and run pension plans, put in place business protection, or calculate the most tax-efficient way to arrange [life insurance](#) for your directors and employees. For this kind of information you may need specialist help, which is available from a range of sources.

Here’s a guide to the types of advisers who can help you:

Financial Adviser

Many financial advisers specialize in dealing with small businesses. They will be able to give advice on a range of financial issues – from business protection to investments and pensions. They will also offer advice on various types of insurance, whether you're looking to insure your premises, company cars or arrange employers' and public liability insurance.

As well as explaining what type of insurance or pension scheme you may need, a financial adviser will also be able to recommend specific products. Many advisers can take on additional administration roles on behalf of small businesses, or recommend companies that provide outsourcing options. Some may also be able to help arrange finance or leasing of specialist equipment – usually through a credit broker.

To find a local financial adviser, see: unbiased.co.uk

Solicitor

A solicitor can help you set up a company, or **limited liability partnership**. Similarly, solicitors can provide advice on a range of legal issues, such as contracts, employment terms and insurance. For example, a solicitor can advise you what might happen if a customer or supplier injured themselves on your premises. They can also give guidance about transferring ownership of the business, either by bringing in new shareholders or partners, or leaving it to successive generations. If you need to locate or update an **Article of Association** or a **Partnership agreement**, contact your company solicitor.

To find a local solicitor, visit: lawsociety.org.uk/findasolicitor

Accountant

The primary task of a company's accountant is to prepare and check the annual financial records. These need to be filed correctly each year. Accountants can also audit the business to ensure it is running efficiently and offer advice on a range of tax issues. In some cases, this can overlap with the financial advice. For example, an accountant may be able to advise on ways to reduce capital gains, or **inheritance tax**, while a financial adviser may be able to recommend specific products. A large firm of accountants may well have specialist financial advisers working within the same firm.

To find a local accountant, see local-accountants-uk.co.uk

Next steps

More than half of all small businesses in the UK do not have any type of business protection insurance in place. For a small minority, this will be a conscious decision: they may have looked at the particular risks they faced, priced up the insurance products available and decided that – for now – this is not for them. However, most small business owners either haven't considered the potential risks of an owner or partner falling critically ill or dying, or have assumed there is little that they can do about it – and this could be a major oversight.

If this sounds like you, maybe now is the time to take a moment away from your day-to-day issues and consider some of the longer-term challenges that you may face. The first step is to speak to a [financial adviser](#) (p.47). They will be able to provide more tailored information that is appropriate to your individual circumstances. Once you have all the facts, you'll be able to decide whether some kind of insurance policy is required to safeguard the future of your business, your employees and your family.

Useful links

ADVICE

- › Advisory, Conciliation and Arbitration Service: [acas.org.uk](https://www.acas.org.uk)
- › The Association of British Insurers: [abi.org.uk](https://www.abi.org.uk)
- › British Chambers of Commerce: [britishchambers.org.uk](https://www.britishchambers.org.uk)
- › Federation of Small Businesses: [fsb.org.uk](https://www.fsb.org.uk)
- › Institute of Directors: [iod.com](https://www.iod.com)

BROKERS AND FINANCIAL ADVISERS

- › British Insurance Brokers' Association: [biba.org.uk](https://www.biba.org.uk)
- › Chartered Insurance Institute (CII): [cii.co.uk](https://www.cii.co.uk)
- › Unbiased.co.uk: [unbiased.co.uk](https://www.unbiased.co.uk)
- › Vouchedfor.co.uk: [vouchedfor.co.uk](https://www.vouchedfor.co.uk)

GOVERNMENT & PUBLIC BODIES

- › nibusinessinfo.co.uk: [nibusinessinfo.co.uk](https://www.nibusinessinfo.co.uk)
- › GOV.UK: [gov.uk](https://www.gov.uk)
- › HM Revenue & Customs: [hmrc.gov.uk](https://www.hmrc.gov.uk)
- › Prudential Regulation Authority: [bankofengland.co.uk/pru](https://www.bankofengland.co.uk/pru)

LEGAL & ACCOUNTANCY BODIES

- › Association of Chartered Accountants (ACCA): [accaglobal.com](https://www.accaglobal.com)
- › Local Accountants UK: [local-accountants-uk.co.uk](https://www.local-accountants-uk.co.uk)
- › Solicitors.com: [solicitors.com](https://www.solicitors.com)
- › Solicitors Regulation Authority: [sra.org.uk](https://www.sra.org.uk)
- › The Institute of Chartered Accountants in England & Wales (ICAEW): [icaew.com](https://www.icaew.com)
- › The Law Society: [lawsociety.org.uk](https://www.lawsociety.org.uk)

PENSIONS & AUTO-ENROLMENT

- › The Pensions Regulator: [thepensionsregulator.gov.uk](https://www.thepensionsregulator.gov.uk)

OTHER

- › Rough Guides: [roughguides.com](https://www.roughguides.com)
- › Which?: [which.co.uk](https://www.which.co.uk)

Jargon buster

Annual Allowance: The maximum amount individuals can save into tax-efficient savings plans each year.

Article of Association: Legal document that sets out how a business is to be run.

Auto-enrolment: A government scheme that compels all employers to provide company pensions by April 2018. Employees are automatically enrolled unless they specifically state they wish to opt out of the scheme.

Business Loan Protection: Life insurance (with or without a critical illness cover option), which helps the business pay any outstanding borrowings, such as a loan or commercial mortgage, should the person(s) covered die or become critically ill.

Critical illness cover: An insurance policy that pays out if you are diagnosed with one of the specified critical illnesses covered by the plan.

Executors: The people you nominate in your will to organize your affairs when you die.

Inheritance tax (IHT): A tax paid on the estate, money and property, of a deceased person.

Key Person Protection: **Life insurance** (with, or without a **critical illness cover** option) which a business takes out for key members of staff. This protects a business against the financial loss it may suffer as a result of a “key” person dying or becoming critically ill.

Life insurance: A policy that usually runs for a fixed **term**. It will pay out a fixed sum if the person insured dies within the term.

Lifetime Allowance: This is a limit on the value of payouts from your pension schemes (whether lump sums or retirement income) that can be made without triggering an extra tax charge.

Limited company: A type of business structure. The business has to be registered at Companies House and its finances are separate from the owner’s personal finances. Corporation tax is paid on company profits.

Limited liability partnership: A type of business structure, owned by members, rather than partners or shareholders. They are responsible for the debt and profits, but can’t owe more than they have put into the partnership. Many service companies, such as solicitors and accountants, are limited liability partnerships.

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National Insurance: A system in which employees and employers make compulsory payments to pay for the state pension, the NHS and certain benefits. You need to make NI contributions for a set number of years to get the full state pension.

Partnership agreement: Legal document setting out how a partnership is to be run.

Personal pension: A retirement savings scheme that you set up for yourself and pay money into to create a fund of money to be used in later life.

Premium: The cost of an insurance policy. These can be paid monthly or annually depending on the contract.

Relevant Life Plan: A type of life insurance that is paid for by the employer.

Share Protection: Life insurance (with or without a critical illness cover option), which provides a business with money if an owner dies or suffers a critical illness. This money enables the remaining owners to purchase the deceased's share of the business – allowing them to keep control of their business.

Sole trader: A business that is run by one person. In the eyes of the law the owner and the business are inseparable from each other. Sole traders pay income tax on the profits they make.

SME: Acronym for small- and medium-sized enterprises. This covers all businesses from sole traders to those employing up to 250 employees.

Staging date: The date on which the automatic enrolment duties for your business come into force. At the point of your staging date, you must automatically enrol all staff that are eligible into a pension.

Tax relief: A deduction in the amount of tax a person or business has to pay.

Term: The length of time that an insurance policy runs for. For a life insurance policy this will be for a fixed period (eg: twenty years). Some insurance policies (eg: building insurance) are renewed annually.

Trust: A legal contract in which assets, such as money or insurance policies, are looked after by trustees for the benefit of someone else.

Emma Simon



With twenty years' experience as a financial journalist, **Emma Simon** understands the many financial challenges faced by those who run small businesses, and is well equipped to steer them through the array of business protection products available, so that they can make an informed choice about what they really need. She is an award-winning journalist who was the Personal Finance Editor for *The Sunday Telegraph* and the Deputy Money Editor for *The Daily Telegraph*. She is now a freelance journalist and author who writes on a range of money and consumer issues. Her articles have appeared in *The Sunday Times*, *The Mail on Sunday*, *The Daily Telegraph* and *The Guardian* online.

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