

## BUSINESS EXPENSES COVER

### DON'T LEAVE YOUR BUSINESS EXPOSED

It's not just your family and loved ones who rely on your ability to keep the business running to provide an income to secure their lifestyle, others too depend on your ability to keep working, keep earning and keep the doors of your business open.

Who is depending on you right now?

- Family and loved ones
- Employees and business partners
- Clients
- Suppliers

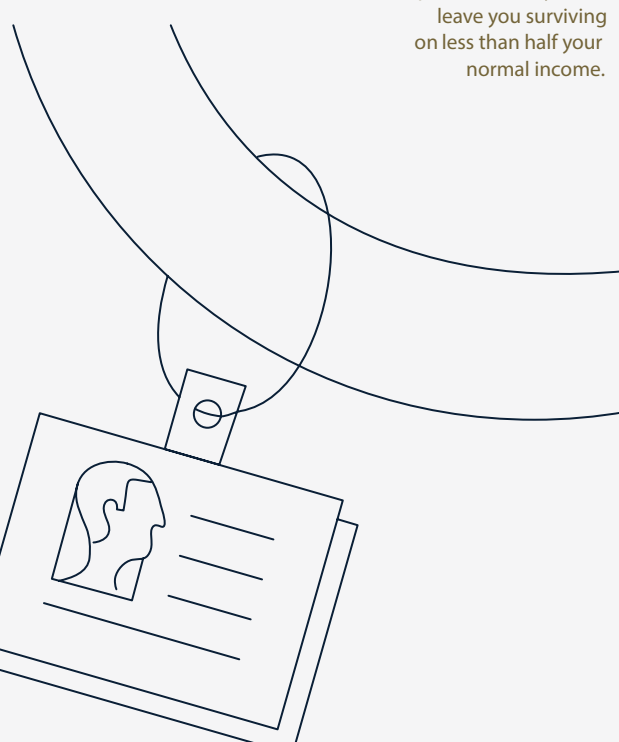
Research<sup>1</sup> suggests up to half of us will experience some sort of income loss due to being unable to work because of accident or illness at some point in our working lives. And we aren't necessarily talking about serious, life-threatening conditions. Glandular fever, broken bones, torn ligaments - there is an endless list of conditions from which people fully recover but which, temporarily at least, could leave you unable to work.

### HOW LONG COULD YOUR DOORS STAY OPEN?

Ask yourself these questions:

- Could you afford to keep paying your valued employees?
- Could you afford to keep paying the rent on your premises, your equipment leasing costs, your phone and internet bills?
- Would your clients be forced elsewhere?
- Could you afford some sort of locum or backfill support to help ensure your clients weren't forced to go elsewhere, perhaps permanently?

Contrary to popular misconception, business interruption policies do not provide cover against health-related events, meaning many small business owners could be in for a big surprise.



Relying on income protection only could leave you surviving on less than half your normal income.

### FIXED BUSINESS COSTS CAN ERODE INCOME PROTECTION BENEFITS

As a business owner, you may already have, or are considering, income protection cover as a crucial step in securing your business and your lifestyle.

But as vital as income protection cover is in securing up to 70% of your client's pre-disability income, it's value can be severely eroded if your client has fixed business expenses - expenses which continue even when their income has stopped because they have suffered illness or injury.

And unless you have Business Expenses (BEX) cover - as the case study below shows, relying on income protection only could leave you surviving on less than half your normal income.

How would you cope? Would you and your family be at risk?

#### Case Study\*: Business Expenses Cover Prevents Benefit Erosion

Sarah runs her own practice. She generates an income of \$25,000 per month, from which she needs to pay \$7,000 to cover the fixed operating expenses of the practice, including the wages of her office assistant, rent, phone, internet, and equipment leasing. She draws the remaining \$18,000 as a monthly salary.

A keen cyclist, Sarah unfortunately fell awkwardly from her bike when she encountered some loose gravel, breaking her right radius and ulna.

Whilst not life threatening, Sarah was still left unable to work, and earn an income, for nearly three months. Fortunately, her adviser had put in place both income protection and business expenses cover, which as the table below shows, meant that the full benefit of her income protection could go towards supporting her own recovery and living expenses, whilst ensuring her employee and business were also protected.

	With BEX cover	Without BEX cover
Monthly income	\$18,000	\$18,000
IP monthly benefit	70% = \$12,600	70% = \$12,600
Fixed business expenses	\$7,000	\$7,000
BEX monthly benefit	100% = \$7,000	0
IP benefit Sarah may have to put towards paying her fixed business expenses	0	\$7,000
Remaining IP benefit (after paying fixed business expenses) for Sarah to live on	\$12,600	\$5,600
The remaining IP benefit (after paying fixed business expenses) as % of pre-disability income	70%	31%

\* Fictional case study for illustration – scenario representing how an individual with income protection cover but no business expenses cover, may decide to allocate income protection insurance proceeds to meeting fixed business expenses, meaning less proceeds are available for other living, treatment, etc expenses.

## BUSINESS EXPENSES INSURANCE - THE ESSENTIAL, TAX DEDUCTIBLE, IP COMPANION

<ul style="list-style-type: none"> <li>• Simple add-on to income protection</li> </ul>	<ul style="list-style-type: none"> <li>• Less stress means a faster recovery and return to your business</li> </ul>
<ul style="list-style-type: none"> <li>• Covers 100% of their share of allowable business expenses in the event of temporary disablement</li> </ul>	<ul style="list-style-type: none"> <li>• 100% tax deductible</li> </ul> <p>Premium is generally 100% tax deductible. However, tax situations tend to differ so it is recommended that you seek specific tax advice relating to your circumstances.</p>
<ul style="list-style-type: none"> <li>• Your total income protection benefit can you used to support you and your family</li> </ul>	

### Expenses typically covered under Business Expenses insurance

<ul style="list-style-type: none"> <li>• Wages of non-income generating employees</li> </ul>	<ul style="list-style-type: none"> <li>• Equipment and vehicle leasing</li> </ul>
<ul style="list-style-type: none"> <li>• Rent on premises</li> </ul>	<ul style="list-style-type: none"> <li>• Interest and Capital on loans</li> </ul>
<ul style="list-style-type: none"> <li>• Telephone, internet, and other utilities</li> </ul>	<ul style="list-style-type: none"> <li>• Net cost of hiring a locum</li> </ul>

### WHAT NEXT?

If you are a business owner with fixed business expenses, then don't rely on income protection alone to protect your business if you are sick or injured and unable to work.

#### Finding the best business expenses cover for your needs

There are many different business expenses options to choose from. As a busy professional, researching and organising life insurance cover can seem like a time-consuming headache. But this is where a financial adviser comes in.

As an experienced, licensed financial adviser I have an intimate knowledge of both the unique cover needs of small business owners, and the many different protection options available in the market. I can:

- Research the market to find the most suitable and best value business expenses cover
- Recommend the right amount of cover
- Help you choose an appropriate waiting period
- Save you time by organising all the paperwork
- Cut through the jargon and explain everything clearly
- Advise of any insurance features specific to your profession – for example, some insurers offer cover tailored to medical practitioners or white-collar professionals
- Liaise with the insurer and act on your behalf if you ever have to make a claim.

#### LIKE TO KNOW MORE?

If you'd like to take the first steps towards putting the right protection in place for your business, please drop me a line or give me a call for an initial, no-obligation chat about how I can help.

Email

Phone

Licensee

AFSL



1. Income Protection Gaps, challenges and opportunities, Smith School of Enterprise and the Environment, University of Oxford, June 2016.