

Business Overhead Expenses: What Happens to My Business If I Become Disabled?

You've done a great job protecting the most valuable asset that you own -- your ability to earn an income. The personal disability income policy you own will replace a portion of your salary should you become disabled. However, what about the ongoing expenses associated with your business? Your employees may be able to operate your business until you return, but will their salary and other business expenses be paid? As a business owner, an Overhead Expense policy, a special type of disability insurance, will help to pay your normal and customary fixed monthly expenses if you become disabled.

Business *Overhead Expense* insurance is intended to provide financial protection when your absence from the business due to a disability would result in a significant financial disruption to the business. The purpose of it is to reimburse the business for reasonable amounts incurred in operating the business.

Let's review some of the more common business expenses that are typically reimbursed by most business overhead expense policies:

- Real estate and property taxes;
- Heat;
- Water;
- Electricity;
- Telephone;
- Laundry, janitorial and maintenance services;
- Salaries and employer-paid benefits to employees who do not have an ownership interest in the business and who are not members of your profession;
- Property, liability, malpractice and other business insurance premiums;
- Professional, trade and association dues;
- Licensing fees, including continuing education costs required to maintain a professional license;
- Legal and accounting fees paid except those that are directly related to the termination or sale of your business;
- Billing and collection fees;
- Rent or lease payments for space which you occupy and use in the continued operation of your business;
- Rent or lease payments for motor vehicles, equipment, fixtures, furniture or other assets used in the continuing operation of your business if you have no direct or indirect ownership in the assets;
- Scheduled installment payments of interest on debt; and,
- Depreciation or scheduled installment payments of principal on debt for which you were liable before you become disabled.



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The Guardian Life Insurance Company of America, 7 Hanover Square, New York, NY 10004

There are some expenses that are not reimbursed by an overhead expense policy. General examples of these include:

- That portion of normal and customary business expenses which would be the obligation of an individual other than yourself;
- Any expense for which you were not normally and customarily liable on a periodic basis prior to your becoming disabled;
- Any other expenses that have been waived, reimbursed or are reimbursable from any other source;
- Any prepayment or advance payment of a covered overhead expense;
- Any salary, fee, draw, advance, benefit or other remuneration for a member of your family;
- Income taxes or self-employment taxes;
- Any expense for equipment, motor vehicles, fixtures, furniture or other assets purchased or leased after the date you became disabled;
- The cost of inventory, merchandise, products, goods and services directly attributable to generating revenue;
- The cost of implements of your profession;
- The cost of supplies, fees and expenses passed onto your clients; and,
- The costs of gifts, charitable donations, meals and entertainment.

Now that you have a general idea of the types of expenses that are covered (and not covered) under an overhead expense policy, another important feature of these policies to note is how “total disability” is defined. Most high quality policies define total disability as the inability to perform the duties of the insured’s occupation in the business. Specifically, “Total Disability” under the overhead expense policy available through Guardian means that, “solely due to injury or sickness, you are not able to perform the material and substantial duties of your occupation.”

In addition, pay attention to the period of time before policy benefits are paid. This is commonly referred to as the Elimination Period, and is typically 30, 60 or 90 days. After this time period has elapsed, benefits will be paid based upon the benefit period you have chosen. For example, standard benefit periods are 12, 18 or 24 months. After 24 months, it is unlikely that you will return to work, so benefit periods exceeding two years are generally not available.

Finally, all overhead expense policies will have a maximum benefit amount that will be reimbursed, related to the benefit period chosen. For example, for a 12 month benefit period, the maximum issue limit may be \$50,000 per month. For an 18 month benefit period, the maximum issue limit may be \$40,000 per month, and for a 24 month benefit period, the maximum issue limit may be \$30,000 per month. Thus, overhead expense policies have a maximum benefit period and maximum monthly benefit.

Although only your tax and legal advisors can comment on the specific tax consequences for your specific situation, some general information regarding taxation includes:

- Premiums for business overhead insurance policies are generally a tax deductible expense for the business.
- Benefits paid are taxable to the business; however, the expenses for which the benefits are used for reimbursement are deductible to the business.

If you've taken the steps to protect your income in the event you become disabled, doesn't it make sense to protect the very business that served as the source of that income prior to your becoming disabled? A Business Overhead Expense policy can serve that important function. By reimbursing the expenses associated with maintaining business operations, your business can continue to thrive at a time when you, and your valued employees, need it most.

Please consult with your Guardian Financial Representative if you have any questions concerning this document.

Policy Form 4100 or 4200 underwritten and issued by Berkshire Life Insurance Company of America, Pittsfield, MA, a wholly owned stock subsidiary of The Guardian Life Insurance Company of America (Guardian), New York, or NY. Product availability, provisions and features may vary from state to state.

This policy provides disability insurance only. It does not provide basic hospital, basic medical or major medical insurance as defined by the New York State Insurance Department. The expected benefit ratio for this policy is 50%. This ratio is the portion of future premiums that the company expects to return as benefits, when averaged over all people with this policy.

The foregoing information regarding executive benefit, estate, charitable and/or business planning techniques is not intended to be tax, legal or investment advice and is provided for general educational purposes only. Neither Guardian, nor its subsidiaries, agents or employees provide tax or legal advice. You should consult with your tax and legal advisor regarding your individual situation.

GEAR # 2012-0140

PUB #5395

Expiration: 06/30/2013