

An **Educational** Guide  
for Financial Professionals

# Disability Income Insurance for Business Owners



Producer Guide

Insurance Strategies

**FOR PRODUCER USE ONLY. NOT FOR USE WITH THE PUBLIC.**



We'll help you get there.®



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# Why are business owner clients important to you?

Although the small business market has had its share of challenges in the last few years, overall it continues to be a viable, vibrant and valuable part of our economy.

The small business owner market provides an excellent opportunity for the insurance professional. Not only can you help a business owner with personal insurance needs, you can also help the business owner protect his or her business, including employees if they became too sick or hurt to work.

Entrepreneurial spirit and the drive to succeed help make the small business owner successful. You, too, can be successful in your practice by serving the needs of this important market.

## Target companies

While overall the small business market provides a terrific opportunity, not all businesses in the small business market are ideal for disability income (DI) insurance. By keeping this in mind, qualifying your prospects by focusing on favorable industries (professional service providers, for example) will greatly increase your chance of success with underwriting.

The following outlines demographic information for the type of company/business owner with whom you may have the most success.

- Businesses with employees (2-50 employees)
- \$100k-\$5M in revenue
- In business for 5+ years

Some additional considerations may be businesses that are:

- Family owned
- Sensitized to health care costs
- Have a history of providing excellent/expanded employee benefits programs
- Have the potential for a key executive carve-out program
- Concerned about employee retention

Virtually all firms and practices you come in contact with will fall into two general categories: **Business-to-Business** and **Direct-to-Consumer**.

**Business-to-Business (B2B)** describes companies that sell products or services to other businesses, as opposed to individuals. For example, commerce conducted between a manufacturer and a wholesaler.

**Direct-to-Consumer (DTC)** describes businesses serving end consumers with products and/or services. In this business model, the business's main customers are the general public/consumers.

# Target companies *(continued)*

## Business-to-Business (B2B)

B2B firms and their owners often employ more people, and at a higher salary. This is primarily due to the higher level of experience and education required in a B2B firm. Personal and professional planning with DI insurance for the owners/partners may, in many instances, lead to an employee offering as well. This type of business owner values the productivity (and revenue) their employees provide, and may be interested in considering both employer pay and voluntary DI offerings to their employees.

## Direct-to-Consumer (DTC)

Oftentimes DTC operations employ fewer people at lower salaries. For many of these firms, a voluntary employee benefit offering may not be the owner's primary concern. DTC firms, which include sole proprietors, self-employed attorneys and CPAs, personal service firms and independently owned "boutique" retail establishments, present the financial professional with an opportunity to focus primarily on the owners' and/or partners' personal and professional insurance needs.

### Examples of some B2B opportunities<sup>1</sup>

B2B Business Type	# of US Firms	Avg # of Employees	Avg Employee Salary	Typical Occupation Class
Law Firms	175,800	6	\$74,000	5A, 3A
CPA Firms	57,600	7	\$60,100	5A, 4A, 3A
Architectural & Engineering Firms	116,100	12	\$68,100	5A, 4A, 3A
Design Firms	33,300	4	\$51,900	4A, 3A
Computer Design Firms	118,100	11	\$75,800	5A, 4A, 3A
Management Consulting Firms	104,300	6	\$73,300	5A, 4A, 3A
Advertising & Public Relations Firms	40,654	11	\$58,400	5A, 4A, 3A

### Examples of some DTC opportunities<sup>1</sup>

DTC Business Type	# of US Firms	Avg # of Employees	Avg Employee Salary	Typical Occupation Class
Self Employed Attorney	255,900	1	\$73,700	5A
Self Employed CPA	36,000	1	\$62,130	5A
Doctor's Offices (non invasive)	220,000	10	\$69,500	4A, 3P
Home Furnishing Retail Proprietor	65,200	9	\$26,700	4A, 3A
Health & Personal Care Retail Proprietor	88,500	12	\$26,600	4A, 3A
Apparel Retail Proprietor	99,500	13	\$15,133	4A, 3A
Jewelry Retail Proprietor	27,750	6	\$26,800	3A

<sup>1</sup> U.S. Census Bureau, 2007 Economic Census.

## Prospecting

No matter how many years you’ve been in the business, one of the greatest challenges all producers face is how to build a solid book of business. It’s a never-ending process, but by using the following eight prospecting strategies, integrating business prospecting into your day-to-day operations can be made much easier.

- 1 | Join your local Chamber of Commerce
- 2 | Join key associations and support their events
- 3 | Read and utilize your local business journals and publications
- 4 | Walk the beat
- 5 | Create a referral network
- 6 | Do research on companies you’d like to contact
- 7 | Make a difference in your community
- 8 | Cold call

More information on these eight prospecting strategies can be found in the “Eight Proven Prospecting Strategies” brochure (Form # SB1018).



**SB10108**

## Elevator speeches

An important part of prospecting is developing your “elevator” speech. An elevator speech can pique the interest of a prospect, so they want to learn more about you. When creating your elevator speech, keep in mind these three tips:

- Make it relevant.
- Don’t give it all away; create intrigue.
- Tell a story of how you have helped someone in a similar situation.

For example, an elevator speech for use with business owners could be: “I help business owners who are concerned that their ability to earn an income may be lost or left to chance.”

Additional sample elevator speeches – used successfully by your peers – can be found in the “Tips and scripts for talking with business owners” brochure (Form # SB10107).



**SB10107**

# Your first client meeting



You and your potential business owner client have agreed to meet for the first time. Even though our DI product portfolio provides an array of products that can help meet the owner's personal and professional needs, oftentimes for a producer the question becomes, "Where do I focus?"

This creates a dilemma: You need detailed information to identify an area of focus, but it is difficult to get that information unless you know where to focus.

For those producers using the Sandler Training® selling system, we've developed the following process to help you gather enough information about the client and their business so you can begin to uncover their needs.

## Sandler® NOT

In Sandler, the acronym NOT stands for "*Naturally*," "*Obviously*," and "*Typically*." These words are used at the beginning of the meeting to help set the meeting agenda. For a business owner client, your NOT may go something like this:

- "**Naturally**, Mr./Ms. Client, you will want to know about me, my experience and how I've helped other business owners such as yourself."
- "**Obviously**, I'm going to need to understand your business a little better, such as the company's **Leadership**, its **Operations**, and how the company **Executes** day-to-day."
- "**Typically**, as we discuss your business for the next [agreed time frame], I'll be taking notes in a simple chart. At the end of our time, we can review the chart together for accuracy and identify any areas of concern you might have. By then we should also have a good idea if you and I are a good fit, and what next steps, if any, we should agree to."

Once the client agrees and you have established a minimum level of rapport, you can begin gathering the information you need to know about the company to help you identify a potential area of focus.



## Business Structure Information chart

The following chart can be used to guide the conversation.

Simply gather important client and business information in three specific areas: **Leadership**, **Operations**, and **Execution**.

Consider this a “mini-fact finder”; simple and not too intrusive. Many clients wouldn’t object to providing most of this information during your first meeting.

Don’t spend too much time getting exact numbers when data gathering. By focusing on the larger picture, rather than the

nitty-gritty, you will show your client that you are not overly concerned with the exact numbers, but are more focused on helping them achieve their overall goals.

The chart below details some of the information you’ll look to gather during your first client meeting.

At the bottom of this chart are two additional rows to help you identify the relative percentage of both revenue and expenses for each area. This is important information for you as it will help put the data within each column into context.

Business Structure Information chart		
Leadership	Operations	Execution
<p>Gather information about company leadership:</p> <ul style="list-style-type: none"><li>• The owner</li><li>• Partners</li><li>• Key employees</li></ul> <p>Discover company’s:</p> <ul style="list-style-type: none"><li>• Tax reporting structure</li><li>• Outside attorneys</li><li>• CPAs</li><li>• Other centers of influence</li></ul> <p>Also note company’s <i>BusinessStage</i>:</p> <ul style="list-style-type: none"><li>• Start-up</li><li>• Growth</li><li>• Maturity</li><li>• Transfer</li></ul>	<p>Gather information on expenses for company operations, with an emphasis on cost of doing business and “keeping the lights on” (excluding payroll):</p> <ul style="list-style-type: none"><li>• Rent</li><li>• Leases</li><li>• Maintenance</li><li>• Utilities</li><li>• Inventory</li><li>• Equipment</li><li>• Taxes</li><li>• Vendor dependencies (if applicable)</li></ul>	<p>Gather information that will tell you “how” all of this happens. Specifically, the company’s employees:</p> <ul style="list-style-type: none"><li>• Functions</li><li>• Payroll</li><li>• Employee benefits including GLTD</li><li>• Variable compensation/bonus programs</li><li>• 401(k)s</li><li>• Other initiatives directed toward employees</li></ul>
_____ % Revenue	_____ % Revenue	_____ % Revenue
_____ % Expenses	_____ % Expenses	_____ % Expenses

# Your first client meeting *(continued)*

As you jot down important information about the client and their company in the Business Structure Information chart, you can begin to identify areas of focus by asking a series of discovery and problem awareness questions to generate more in-depth discussions.

Following are three examples of how you may direct the focus of the conversation by using various awareness questions based on the information gathered:

## Conversation Focus #1: “Test the Waters”

Based on information included in each column, important issues to the company owner may become apparent as you ask problem awareness questions to test the waters for potential issues.

“Test the Waters” problem awareness		
Leadership	Operations	Execution
<p><b>“Business owners often tell me a major concern for them is...”</b></p> <p>“...that their business will not transition the way they want it to.”</p> <p>“...that a lot of people rely on their income.”</p> <p>“...if they are doing enough to keep their key employees in place.”</p> <p>“...that their business is the sole source of their retirement income.”</p>	<p><b>“Business owners often tell me a major concern for them is...”</b></p> <p>“...the inability to meet company expenses should something happen to them.”</p> <p>“...if something did happen to them, could they afford a replacement to fill in until they were back on their feet.”</p>	<p><b>“Business owners often tell me a major concern for them is...”</b></p> <p>“...if they are doing enough to keep their employees in place.”</p> <p>“...finding another way to compensate employees for their hard work.”</p> <p>“...the cost of benefits keep going up and they want to find a valuable employee benefit that wouldn’t break the bank.”</p>

## Conversation Focus #2: “Dig a Little Deeper”

While every company is different, identification of revenue streams and expenses can help you determine if the owner’s company falls in line with what is usually considered a traditional setup. Generally speaking, certain types of companies will have similar revenue and expense streams:

- Smaller sized law firms and medical practices, for example, where the owner(s) provide most of the services, may have a higher percentage of revenue and expenses under the **Leadership** column.
- Manufacturing firms may have most revenue and expenses coming from the **Operations** column.
- Service focused companies, such as advertising agencies or executive recruiting firms, could show a high revenue stream and expense coming from the **Execution** column.



Deviations from traditional setups can provide you with an opportunity to ask additional discovery questions such as:

*“Based on my experience working with companies similar to yours, I expected your revenues [or expenses] to be much higher [or lower] in this column. Could you tell me a little bit more about what makes your company unique?”*

This discovery question, or similar, can help you find out additional business issues that you would not necessarily discover in your first client meeting, such as:

- **Professional firms with higher operation revenue** – May indicate the owner(s) are involved in other ventures beyond what their business card says.
- **Manufacturing firms with high revenue from employees** – May indicate that post-sale service and support is a company driver, not the actual “widget” sale.
- **Service firms’ employee expenses are low** – Could mean that staff is easily replaced and trained, and not considered critical to the business functions.

Additional discovery questions can help you dig a little deeper and uncover issues that the owner may be facing, or may not even be aware of. These questions can take many forms but simple, open-ended questions allow the business owner to talk freely about one of the most important things in their life: *their business*.

### General questions:

- “Who are your best customers? Why?”
- “Where do you see your business in the next 5 or 10 years?”
- “What are the greatest opportunities you see over this time period?”

### Leadership questions:

- “How long do you plan to ‘run the business’?”
- “Do you have key employees who could step in to run the business? Will they be motivated to stay?”
- “What areas of your business are most vital to its success?”
- “What is your ideal transition scenario?”

### Operations questions:

- “What are the key factors that contribute to the success of your business?”
- “What are the biggest challenges your business faces today?”
- “What separates your business from the competition?”
- “Who are your biggest competitors? What do they do right/better?”

### Execution questions:

- “What is involved in replacing an employee today? What is the cost involved?”
- “How would you pay for the replacement of a key employee or manager?”
- “When you are on vacation, who do you leave in charge?”
- “What are the greatest strengths your employees provide?”

**Let the client talk freely about their business.**

# Your first client meeting *(continued)*

## Conversation Focus #3: “Solution Alignment”

You may begin determining an area of focus by simply aligning our DI product portfolio under each column.

Sandler Discovery questions can then be asked based on the product/solution that you may already have in mind (each question can be prefaced by a personal client “story” for more impact):

- “Where do you see the company leadership in the future? Would future growth, for example, require you taking on partners?”
- “Would your ability to meet expenses be hampered by your [or a partners’] inability to be at work every day?”
- “Do you expect to see your expenses substantially change in the near [or long] term? And what would be the primary area of increase [or decrease]?”
- “Is the staff tenure stable, or is there consistent turn-over? Why is that?”
- “What is your company policy regarding an employee’s long term absence due to a sickness or injury? Do your employees know, and understand, the company’s policy?”

### Conversation Focus #3: “Solution Alignment”

Leadership	Operations	Execution
<ul style="list-style-type: none"><li>• Individual DI</li><li>• Disability Buy/Sell</li><li>• Executive Carve Out</li></ul>	<ul style="list-style-type: none"><li>• Business Overhead Expense</li></ul>	<ul style="list-style-type: none"><li>• Multi Life DI</li></ul>

Each one of these areas of Conversation Focus, or similar, can help you identify a concern for the client (i.e., pain point). Once an issue is affirmed, walking the client through the Sandler Pain Funnel, a series of questions that help them better understand the effects of a particular issue ( “*How long has this been a concern?*”; “*What have you attempted to do about it?*”; “*How much has this issue cost you?*”) can lead you to the identification of a potential product solution.

For more information on the Sandler Selling System, including information on selling strategies and tactics, personal and professional development, and best practices, visit Sandler’s website for MassMutual producers at [www.sandleronline.com/mm](http://www.sandleronline.com/mm). Producers must be licensed to use the Sandler Selling System.

# Product solutions & selling approaches

## Helping to protect the business with Disability Income Insurance Solutions

Disability income insurance can help the business owner on both a personal level as well as a business level. In the event of disability, our insurance products can help:

- Cover the operating costs of the business
- Provide the funds for small business partnership buyouts
- Replace a portion of lost earnings – either the owner's or his or her employees', while maintaining tax advantages for the company
- Provide the owner or his or her employees with return-to-work benefits
- Help protect the owner's or his or her employees' ability to continue to save for retirement

**MassMutual understands the unique needs of small business owners. That's why we have a portfolio of disability insurance products designed with the small business owner in mind. These products enable you, as a financial professional, to provide the right solutions to today's small business owners.**



# Individual Disability Income Insurance

## Solution overview

The backbone of small business protection is disability income insurance for the business owner's personal income.

Individual disability income (IDI) insurance is a personal protection solution to help replace a portion of a business owner's lost income should they become too sick or hurt to work.

IDI helps protect **both** the business and the owner should he or she become totally disabled – policy benefits would provide an income to the owner, helping to avoid the need to withdraw funds from the business.

Helping to protect the owner's personal income helps to protect the company's bottom line by providing a solid foundation of coverage should he or she become totally disabled.

Radius® is MassMutual's premier disability income insurance policy with a wide variety of optional features (available at an additional cost) makes it ideal for business owners and their employees.

## Benefits of a Radius policy:

- Benefits payable are usually received tax-free
- Is fully portable
- Can provide recovery benefits when the client returns to work
- Is guaranteed continuable and non-cancelable to age 65. The premiums are guaranteed for the life of the contract (provided coverage is not increased), and the contract cannot be canceled by us except for lack of timely premium payments
- Available benefit riders make it flexible enough to be designed to meet your clients' unique and changing needs, both for now and in the future

If the business owner receives Group Long Term Disability (GLTD) insurance through a company benefit offering, Radius can supplement the GLTD, to protect a larger portion of their income<sup>1</sup> – including bonuses or commissions.

In addition, a Radius policy offers additional cost riders to help the business owner customize coverage so it provides meaningful benefits at a manageable cost.

## Solution overview

Business owners need basic protection for their business. Business Overhead Expense (BOE) disability insurance is coverage designed to help keep a business up and running should the owner become totally disabled.

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<sup>1</sup> Radius does not coordinate with GLTD coverage. Claim decisions are rendered independent of each other.

## Radius®—product profile

Policy Design	Non-cancelable, guaranteed continuable to age 65, conditionally renewable to age 75. Participating contract. Dividends are not guaranteed. Radius 06 available in CA. See DI1900CA for more information.	
Occupational Classes	5A, 5P <sup>1</sup> , 4A, 4P, 3A, 3P, 2A and A	
Waiting Periods	60, 90, 180, 365 and 730* days *Not available in AR, CT, ID, IA, KS, NJ, OK, PA, SC, VT, VA, WA and WV	
Benefit Periods	2 years*, 5 years, 10 years, To age 65, To age 67 *2 year benefit period not available with 365 day waiting period in NJ and VA	
Issue Ages	18-64 (NJ will be issued through age 60-over age 60 would need to purchase currently approved over age product)	
Total Disability <sup>2</sup>	Due to sickness or injury, cannot perform main duties of his/her occupation and not working in any other occupation. Must be under a doctor's care.	
Partial & Recovery Benefits	Available through our Extended Partial Disability Benefits Rider, provides partial disability benefits if the insured, while still disabled, is able to return to work at his/her regular occupation or a new occupation but in a reduced capacity. Recovery benefit may be payable to age 65.	
Discounts <sup>3</sup>	5% 1st year Life/DI cross-sell (discounts not available in NJ) 10% Spousal discount (not available in CA and MD) 10% Association discount, 3+ lives (Not available in MT) 15% Multi-life discount; 3-20 lives (except CA, FL and NY) 25% Multi-life discount, 3-30 lives in CA, FL and NY	
Premiums	Sex-distinct (individual & association sales) and unisex (Multi-life 3+ lives). Level & Graded <sup>1</sup> (maximum issue age 35). Tobacco use surcharge 35%. Note: Unisex rates used in Montana.	
Riders <sup>4</sup>	Automatic Benefit Increase Rider (ABI) <sup>5</sup> Catastrophic Disability Benefit Rider (CAT) <sup>6</sup> Cost of Living Rider (COLA) Extended Partial Disability Benefits Rider (EPR) <sup>7</sup> Future Insurability Option Rider (FIO) Group Supplement Rider (GSR) HIV Rider (HIV) <sup>10</sup>	Own Occupation Rider (OWN OCC) <sup>8</sup> Partial Disability Benefits Rider (Partial) <sup>8</sup> RetireGuard Rider (RGR) <sup>9</sup> Short Term Disability Benefits Riders (STR) Social Insurance Rider (SIR) <sup>9</sup>
Key Features	<ul style="list-style-type: none"> <li>• Group Supplement Rider (GSR)—a partial disability return-to-work benefit that supplements Group LTD.</li> <li>• Can be used to fund a Qualified Sick Pay Plan.</li> <li>• Credit towards first year premium on a MassMutual Long Term Care insurance policy is available on every policy.<sup>11</sup></li> <li>• Retirement savings protection through RetireGuard Rider.</li> <li>• Radius® Executive Select Program.<sup>12</sup></li> <li>• 2 types of premium payment structures: Graded<sup>1</sup> &amp; Level.</li> <li>• Guaranteed Insurability Option (GIO)—purchase life insurance without evidence of insurability on election option dates.<sup>1</sup></li> </ul>	

<sup>1</sup> Subject to state availability. Please refer to the Disability Product Approval Grid (DI7137) on FieldNet for state-specific availability.

<sup>2</sup> State variations apply; see DI Reference Manual (DI1075, DI1075CA in California) for more information. Doctor's care not required in CA.

<sup>3</sup> Discounts (except for spousal discount) are subject to home office approval.

<sup>4</sup> Riders available at an additional cost.

<sup>5</sup> ABI Rider not available in FL or PR.

<sup>6</sup> CAT Rider not available in CA or CT.

<sup>7</sup> Extended Partial Disability Benefits rider required in CA.

<sup>8</sup> Not available in CA.

<sup>9</sup> RetireGuard Rider not available in CA or NJ.

<sup>10</sup> Not available in GA, IN, ME, MI, MN, NC, ND, NH, NJ, NY, OR, PA, VA, WA or WI.

<sup>11</sup> Not available in CT, FL, ND or TX.

<sup>12</sup> Medical and Dental Occupations not eligible. Not available in CA, FL or PR.

# Business Overhead Expense

BOE provides reimbursement for certain business-related monthly expenses – such as meeting the payroll, rent and utility expenses – while the business owner is unable to work.

BOE is specifically designed for professionals and small business owners who are actively engaged in their business on a full-time basis. These are business owners whose presence is vital on a day-to-day basis; being away from the business will result in a definite loss of business revenue.

## Covered Business Overhead Expenses

*(include but are not limited to)*

- Rent
- Utilities
- Cost to lease equipment
- Employees' salaries and benefits
- Certain interest payments

## Business overhead expenses not covered

- Cost of goods sold.
- Additions to inventory.
- Purchase costs of tools, instruments or wares used in the insured's profession or occupation.
- Fees or drawing accounts received by the insured's spouse or member of the insured's family, if employed by the business for less than 12 months.
- Any expense which the insured did not have in running the business prior to the disability.
- Salaries, fees or other compensation for any revenue producing employee with the same or similar occupation as the insured.

## BOE as a door opener

If you ask a business owner what keeps them up at night, there is a good chance they'll tell you that continuing to meet expenses – salaries, rent, leases, utilities – is front of mind every day.

These are expenses every business owner can understand. That's why many producers have found this product the perfect key for opening the door to small business owners.

A BOE policy is easy for the owner to understand and helps protect one of their most important investments – ***their business.***

## Tax Treatment of BOE

A BOE policy may also provide tax advantages to the business owner:

- Premiums paid for BOE are considered a business expense and are deductible regardless of how the business is organized.
- We recommend the business always own the BOE policy so that the benefit flows through the business.
- While the BOE benefit is considered taxable income to the business (assuming the business is the owner of the policy), overhead expenses will generally offset the benefits paid to eliminate a taxable gain.

**The concept of a BOE policy is easy for the business owner to understand.**



## Business Overhead Expense (BOE-01 Series)<sup>1</sup> – product profile

<b>Policy Design</b>	Non-cancelable, guaranteed level rates to age 65. Conditionally renewable from 65-75. Participating contract. Dividends are not guaranteed.
<b>Occupational Classes</b>	5A, 5P <sup>2</sup> , 4A, 4P, 3A, 3P, 2A and A
<b>Waiting Periods</b>	30, 60 and 90 days
<b>Benefit Periods</b>	12, 18 and 24 months
<b>Issue Ages</b>	18-60
<b>Total Disability<sup>3</sup></b>	Due to sickness or injury, cannot perform the main duties of his/her occupation. Must be under a doctor's care.
<b>Partial &amp; Recovery Benefits</b>	Available by rider. Provides a disability benefit if the insured, while still disabled, is able to return to work at his/her regular occupation but in a reduced capacity.
<b>Discounts<sup>4</sup></b>	5% 1st year cross-sell (Not available in NJ) 15% Multi-life discount (3+ lives) 10% Association discount (Not available in MT)
<b>Premiums</b>	Sex-distinct (individual, association and multi-life), level premiums only. Tobacco use surcharge 25%. Note: Unisex rates used in Montana. PR subject to 35% surcharge.
<b>Riders<sup>5</sup></b>	Automatic Benefit Increase (ABI) <sup>6</sup> Additional Monthly Benefit Rider (AMBR) Future Insurability Option Rider (FIO) Income Protection Rider (IPR) Partial Disability Rider (PDR) Professional Replacement Expense Rider (PRER)
<b>Key Features</b>	<ul style="list-style-type: none"> <li>• No financial requirements under \$20,000 of monthly benefits (for total in-force and applied for).</li> <li>• Maximum issue and participation limits based on benefit period.</li> <li>• Individual Protection Rider (IPR) protects 60% of business owner's individual income to a max of \$5,000/month in the event of total disability. Not available when LTD or other IDI coverage is in-force.</li> <li>• Partial Disability and Professional Replacement Expense Riders offer coverage for full benefit period of the base policy.</li> <li>• Death benefit of two times the monthly benefit regardless if the insured is disabled at the time of death. If death occurs before age 65 and the insured still holds a business interest, the benefit is paid to the business.</li> </ul>

<sup>1</sup> Not available in CA, FL or NY. See DI1900CA for more information on CA availability.

<sup>2</sup> Subject to state availability. Please refer to the Disability Product Approval Grid (DI1737) on FieldNet for state-specific availability.

<sup>3</sup> State variations apply; see DI Reference Manual (DI1075) for more information.

<sup>4</sup> Discounts are subject to home office approval.

<sup>5</sup> Riders available at an additional cost.

<sup>6</sup> ABI Rider not available in FL or PR.

# Disability Buy-Sell

## Product solution

In the life of a small business, it's almost certain that a transfer of ownership will happen. There are three types of transfers:

- 1 | Transfer due to the death of one of the partners or owners
- 2 | Transfer due to the disability of one of the partners or owners
- 3 | A living transfer

Without proper planning, the first two situations can ruin much of the hard work put into building and maintaining the cash flow or future of the business. Most producers know about funding a life buy-sell agreement with a life insurance policy to provide necessary funds needed to transfer ownership should one of the owners die. However, many of these same life buy-sell agreements may include a disability clause that relies completely on company funding of the buyout. This can leave the business unprepared.

The same rationale for using a life insurance policy to fund a buy-sell agreement upon death applies to using a disability policy to fund a buy-sell agreement upon total disability. Even when the business has sufficient capital, insurance may still be the best way to fund the disability buy-sell agreement.

There are distinct advantages to business owners in transferring the funding to a MassMutual insurance policy. The primary advantage is once the agreement is executed, the transfer of business ownership can be funded with the help of policy benefits – *and not business profits*.

## Advantages to active business owner(s) or partner(s):

- Provides the funds necessary to purchase the disabled partner's share of the business.
- Maintains 100% ownership and control of business.
- Retains business profits – no need to support disabled partner.
- Benefits payable from the Buy-Sell policy are generally tax free.
- Provides for a third party (MassMutual) to determine when the definition of total disability is met.

## Advantages to disabled business owner or partner:

- Receives proceeds from the sale of their share of the business – in addition to any personal DI benefits – that can be used for any purpose (e.g., medical expenses, living expenses or future investments).
- Generally taxed only on the capital gain from the sale of the business.

## Coordination of DI policies

Consideration should also be given to business overhead expense (BOE) insurance. Since many business expenses may have been covered by the revenue previously generated by a disabled owner or partner, a BOE insurance policy could be used to help pay these expenses until the owner/partner can return to work or sell the business interest.

By coordinating the benefit period of a BOE policy with the waiting period of the disability buy-sell policy, the company can receive benefits to cover expenses until the buy-sell policy is triggered. Discussing this strategic design option with your clients can help build your credibility in their eyes by demonstrating you understand the value of business planning.

## Disability Buy-Sell<sup>1</sup> — product profile

<b>Policy Design</b>	Conditionally renewable with guaranteed level rates to age 65. Participating contract. Dividends are not guaranteed.
<b>Occupational Classes</b>	5A, 5P <sup>2</sup> , 4A, 4P, 3A, 3P and 2A
<b>Waiting Periods</b>	12, 18 and 24 months
<b>Benefit Periods</b>	2, 3, 5 years (Monthly) Lump Sum Combination of Lump Sum and Monthly
<b>Issue Ages</b>	18-60
<b>Total Disability<sup>3</sup></b>	Due to injury or sickness, cannot perform the substantial duties of his/her occupation and does not perform any work for the business entity. Must be under a doctor's care.
<b>Policy Size</b>	Minimum — \$100,000 Maximum — Up to \$3,000,000 based on occupation class, funding method and waiting period
<b>Discounts<sup>4</sup></b>	5% 1st year cross-sell (Not available in NJ) 15% * Multi-life discount for 2+ lives** <hr/> *25% in FL **Not available in NY
<b>Premiums</b>	Sex-distinct. Level premiums only. Tobacco use surcharge 25% Note: Unisex rates used in Montana
<b>Riders<sup>5</sup></b>	Future Insurability Option Rider (FIO)
<b>Key Features</b>	<ul style="list-style-type: none"> <li>• Coordinates with existing Buy-Sell coverage (excluding NH, NY and KS).</li> <li>• Very competitive lump-sum and 2-year benefit rates.</li> </ul>

<sup>1</sup> Not available in CA.

<sup>2</sup> Subject to state availability. Please refer to the Disability Product Approval Grid (DI1737) on FieldNet for state-specific availability.

<sup>3</sup> State variations apply; see DI Reference Manual (DI1075) for more information.

<sup>4</sup> Discounts are subject to home office approval.

<sup>5</sup> Riders available at an additional cost.

# Qualified Sick Pay Plan

## Selling approach

Many business owners with key employees, or business owners that employ non-owner family members, may want to continue to pay that employee's salary in the event they became disabled for an extended period of time. However, without a formal Qualified Sick Pay Plan in place, several problems may arise for the business owner:

- “Wages” paid to a disabled employee are not considered a salary expense by the Internal Revenue Service (IRS) and are not a deductible business expense.
- The business owner may set a legal/moral precedent by paying the salary of one employee while disabled.
- The owner has to reserve funding to pay the disabled employee as a business liability from the company's balance sheet.



One solution to these problems is the establishment of a formal Qualified Sick Pay Plan (QSPP). A QSPP is a simple agreement – recognized by the IRS – that sets company policy before a disability occurs. It establishes who to pay, how much to pay, when to start payments and how long to pay.

By establishing a QSPP, and *funding the plan with disability income insurance*, the business owner can prepare for a disability of an employee, ahead of time, and avoid putting business profits at risk.

And a QSPP funded with disability income insurance can:

- Give the business owner control over who receives benefits, the level of benefits and cost to the business. The firm can deduct the premium costs as a valid business expense.
- The company can remove the employee from the corporate payroll, in whole or in part, during a period of disability.
- The employer can satisfy a perceived moral obligation to key employees or family members, while improving employee morale.
- A disability claim is determined and funded by MassMutual – no need to establish a reserve fund from the business.
- The firm can use the disabled person's salary to search for a replacement – no need to pay two salaries at once.
- The owner doesn't have to face the difficult and emotional decision of when to terminate an employee's income.

A QSPP may cover one or more employees and, within certain limits, the owner/employer may establish different plans for different classes of employees.

# DI Multi-Life: Employer pay or voluntary employee benefit

## Selling approach

Small businesses function as a team effort.

Employees perform several different functions. The dynamics of the business also mean a high dependency on each team member. Attracting and retaining highly motivated, self-reliant individuals is an important consideration for a business owner.

This consideration is more pronounced today as current economic conditions put additional pressures on the business owner. Employers have basically two options to retain and reward employees: raise salaries and/or offer benefits. The latter is the preferred choice of many small firms today.

MassMutual's disability income insurance policies can be sold as a single, individual purchase – such as just for the business owner – or it can expand this individual purchase into a multi-life sale to some, or all, employees in the company.

A multi-life DI offering (minimum 3+ lives) provides a number of advantages to both the business and the employee:

### Owner

- Premium can be employee-paid, employer-paid, or a combination.
- Guaranteed, discounted, unisex rates.
- One bill that lists all employees can be sent to the employer in either a paper or electronic format – and paid electronically.
- Employer-paid premiums are a tax-deductible expense for the business.
- Benefits are provided by MassMutual, not company funds.



### Employee

- Individual policy that is completely portable.
- Guaranteed, discounted, unisex rates.
- Employee-paid premiums can be deducted from an employee paycheck.
- Benefits are paid by MassMutual directly to the employee every month.

Individually owned disability income insurance policies can greatly reduce the financial risks that a disability poses to employees. Discounted premiums and your expert advice can provide additional cross sell opportunities as well.

# Young Professionals

## Selling approach

Many business owners today are young professionals who, having recently finished their professional training, are hanging their “shingle” and starting out on their own. Since they are just starting out, these young professionals may not yet have begun generating their expected income.

As such, we make it easy to help protect a portion of your young professional clients’ income should they become disabled. Certain applicants in their final stages of training, or in the first year of professional practice, may be eligible for special issue limits based on anticipated income.



## The young professionals eligible for the Starting Professional Program include those who are:

- Doctors
- Dentists
- Attorneys
- CPAs
- Optometrists
- Veterinarians
- Engineers
- Architects
- Nurse Practitioners
- Physician Assistants
- MBA candidates

The base monthly amounts available to these professionals can be applied for as all-basic coverage, or in combination with the appropriate Social Insurance Rider amount. The Catastrophic Disability Benefit Rider (CAT) and RetireGuard® Rider are also available.

## Disability Buy-Sell for Young Professionals

Medical, dental and attorney professionals may also apply for special young professional Disability Buy-Sell coverage. Young professionals, with an ownership interest in the business of at least 10% and a base salary amount that covers the professional amount suggested, will receive consideration on a case-by-case basis. Additionally, the young professional must be joining an existing firm with disability Buy-Sell in-force with original owners.

## Business Overhead Expense for Young Professionals

Certain young professionals may be eligible for special issue BOE limits based on anticipated expenses. Contact your underwriter for additional information and details.



## DI – Starting Professional Program

Specialty	Base Amount	CAT Rider <sup>1</sup>	RetireGuard® Rider <sup>2</sup>
<b>Doctor M.D., D.O.</b>			
First 2 years in practice	\$7,000	\$6,000	\$1,000
2nd through last year resident	\$5,000	\$3,400	\$1,000
First year resident	\$4,000	\$2,500	\$750
Interns	\$3,000	\$1,800	\$500
3rd & 4th year medical student	\$2,500	\$1,500	\$250
<b>Dentist</b>			
DDS, first 2 years in specialty	\$6,000	\$4,800	\$1,000
DDS, first 2 years in general	\$4,000	\$2,500	\$750
Dental resident/intern	\$3,500	\$2,300	\$500
Dental student (final year)	\$2,500	\$1,500	\$250
<b>Psychologist (PHD)</b>	\$3,000	\$1,800	\$500
<b>Attorney</b>			
First 2 years in private practice	\$4,000	\$2,500	\$750
Senior year law students	\$2,500	\$1,500	\$250
<b>CPA</b>			
First 2 years in private practice	\$3,500	\$2,300	\$500
<b>Pharmacist</b>			
First 2 years in private practice	\$3,000	\$1,800	\$500
Senior Pharmacy student	\$2,000	\$1,250	\$250
<b>Optometrist</b>			
First 2 years in private practice	\$4,000	\$2,500	\$750
<b>Veterinarian</b>			
First 2 years in private practice	\$4,000	\$2,500	\$750
Senior veterinary students	\$3,000	\$1,800	\$500
<b>Engineer</b>			
Starting in private practice	\$4,000	\$2,500	\$750
<b>Architect</b>			
Starting in private practice	\$4,000	\$2,500	\$750
<b>Nurse Practitioner</b>	\$4,000	\$2,500	\$750
<b>Physician Assistant</b>	\$4,000	\$2,500	\$750
<b>CRNA</b>	\$3,000	\$1,800	\$500
<b>Senior MBA</b>	\$2,000	\$1,200	\$250

<sup>1</sup> CAT Rider not available in CA or CT.

<sup>2</sup> RetireGuard® Rider not available in CA or NJ.

Riders available at an additional cost.

# Business Owner Programs

## Business Owner Benefit Increase Program

We recognize that earned income may not accurately reflect the amount of income a business owner needs to protect. If an applicant is at least a 20% active working owner, we can offer the Business Owner Benefit Increase Program.

This program provides an additional monthly benefit increase of up to \$2,500. The additional monthly benefit amount is determined by increasing the business owner’s earned income by 20%.<sup>1</sup>

### Example Business Owner earns \$85,000:

- $\$85,000 \times 20\% = \$17,000$
- $\$85,000 + \$17,000 = \$102,000$

Insurable income used to determine monthly benefit amount is \$102,000.

## Business Owner Upgrade Program

Business owners are eligible for an occupational class upgrade provided they work full-time year round and have at least 20% ownership in the business.

Upgrade Program Details			
Initial Class	Upgrade Class	Requirements	Years Owning Business/Income
A 2A	2A 3A	<ul style="list-style-type: none"><li>• 5 or more full-time employees</li><li>• &lt;20% manual labor</li></ul>	5+ yrs/\$25k or more for last 2 yrs
3A	4A	<ul style="list-style-type: none"><li>• 5 or more full-time employees</li><li>• &lt;10% manual labor</li></ul>	5+ yrs/\$50k or more for last 2 yrs
4A	5A	<ul style="list-style-type: none"><li>• 10 or more full-time employees</li><li>• Office and consulting duties only</li></ul>	5+ yrs/\$75k or more for last 2 yrs

The following occupations are not eligible for this program: *medical professions, dental professions; individuals working from home; individuals engaged in a new business or profession.*

<sup>1</sup> Not to exceed maximum published limits; not available to medical/dental markets.

## Policy Assurance Program – a Modified Guaranteed Issue offering

Our Policy Assurance Program, a modified guaranteed issue (MGI) program for disability income insurance, is specially designed for employer pay cases with between 3 and 9 lives. Under an MGI offer, MassMutual guarantees that a DI policy will be offered to applicants after full financial and medical underwriting. Individual employee coverage may be rated or conditions excluded, based on underwriting findings.

Benefits of the Policy Assurance Program for employers are:

- 15% discounted off unisex rates.
- Ideal for use in an executive carve-out or small-firm offering.
- Attract and retain key employees.
- Tax-favorable benefit.
- Declared dividends, while not guaranteed, are payable to the employer.

## Radius Executive Select Program

The Radius Executive Select program is for your 5A and 4A<sup>1</sup> clients with annual income of \$800,000 or more. Executive Select is one of the industry's only individual disability income insurance programs targeted to high income earning executives that provides non-cancelable, portable coverage with a level premium for the life of the contract.

This disability income insurance program enables executives to cover a larger percentage of their salaries than in the past, up to 50% of their pre-disability income at the time the policy is issued (provided they are insured under a Group Long-Term Disability plan) to a possible maximum benefit of \$50,000 per month, or over a half a million dollars of tax-free income per year, if totally disabled. Individuals who do not have Group Long Term Disability may be eligible for up to 25% replacement.

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<sup>1</sup> Medical and Dental occupations are not eligible for this program. Not available in CA, FL, or PR.



# Tax considerations

Business owners have a variety of ways they can organize their company. Considerations such as business size, potential liability, tax consequences as well as advice from a CPA or attorney typically drive the choice of business entity.

While you may not give tax advice in your capacity as a MassMutual financial professional, it's important that you familiarize yourself with each business entity and the tax implications so you can more effectively sell disability income products.



## Sole Proprietors

A sole proprietor is the sole owner of a business. The sole proprietor is personally taxed on all business income – the business is not a separate legal entity or taxpayer. Sole proprietors file a Schedule C (with their individual IRS Form 1040) to report business income and expenses.

To determine earned income for Sole Proprietors, use:

- Net profit of the business.

In addition, other considerations for a Sole Proprietor are:

- Sole Proprietors are not considered to be employees, but rather self-employed individuals.
- Individual disability income insurance premiums paid by a Sole Proprietor are not deductible, therefore, benefits received are tax free.
- Sole Proprietorships may not make a deductible contribution to a pension or profit sharing plan on behalf of an owner. Instead, any contribution is deducted on the sole proprietor's individual Form 1040.
- W-2 wages are not paid to the sole proprietor. Instead, the net income of the business is reported on the proprietor's Form 1040 and is subject to self employment tax (SECA).

## Partnerships

Partnerships do not pay federal income tax. Instead income or loss flows to the partners who are taxed on the partnership earnings in proportion to their ownership interest. Partnerships file informational tax returns and issue Forms K-1 to partners. The Form K-1 reports the partner's share of income, credits and deductions and is used to prepare the partner's individual tax return.

To determine earned income for individual partners, use:

- Insured's share of business profit/loss.
- Any guaranteed payments (also found on schedule K-1) made to the partner.

In addition, other considerations for Partnerships are:

- Partners are not considered to be employees, but rather self-employed individuals.
- Individual disability income insurance premiums paid by the partnership may be deducted as a guaranteed payment by the Partnership. As such, they are included in the insured partner's current income; benefits paid under the policy are tax free.
- Partnerships may not deduct contributions made to a pension or profit sharing plan on behalf of a partner.
- W-2 wages are not paid to individual partners. Instead, each partner's share of partnership income is reported on their Form 1040 and is subject to SECA tax.

## S Corporation

Like a Partnership, an S corporation does not pay federal income tax. Instead, income or loss of the business flows through the individual shareholders in proportion to their ownership interest. An S corporation also shares some similarities with C corporations, such as limited liability of owners and issuance of wages paid to shareholder/employees. S corporations file informational tax returns and issue Forms K-1 to shareholders. The Form K-1 reports the shareholder's share of income, credits and deductions and is used to prepare the shareholder's tax return (individual or corporation). Shareholders who are also employees are typically paid a salary for their services as an employee (which will be reported on Form W-2), as well as having a right to a share of the profits of the business as a shareholder.

To determine earned income for S-Corporation shareholders, use:

- Insured's share of business profit/loss.
- Insured's salary.
- Contribution to pension/profit sharing plan made on the insured's behalf by the S corporation.

In addition, other considerations for S corporations are:

- Individual disability income insurance premiums paid may be deducted by the S corporation. Because more than 2% shareholder/employees are treated as self-employed for accident and health benefit purposes, the premiums are included in the shareholder's taxable income, resulting in tax-free benefits.
- The business entity may make contributions to a pension or profit sharing plan on behalf of individual shareholder/employees.<sup>1</sup>

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<sup>1</sup> Shareholders must also be an employee, receiving wages reported on Form W-2, in order to be eligible for qualified plan contributions made by the business entity

## C Corporation

A C corporation is a common form of business organization; some characteristics include limited liability of owners and issuance of shares. C corporations are distinct legal entities that file their own tax return and pay their own tax. Shareholders who are also employees are typically paid a salary for their services as an employee (which will be reported on Form W-2) as well as having a right to a share of the profits of the business as a shareholder.

To determine earned income for C corporation shareholders, use:

- Insured's share of business profit/loss.
- Insured's salary.
- Contributions to a pension/profit sharing plan made on the insured's behalf by the C corporation.

In addition, other considerations for C corporations are:

- Disability insurance premiums may be paid and deducted by the C corporation.<sup>1</sup>
- If premiums paid by the C corporation are excluded from the shareholder/employee's W-2 income as accident & health insurance premiums, then any benefits paid under the policy will be taxable.
- If those premiums paid are instead included in the shareholder/employee's W-2 income, a non-taxable benefit will result.
- The business entity may also make a contribution to a pension or profit sharing plan on behalf of the shareholder(s).

## What about BOE?

- Premiums paid for BOE are considered a business expense and deductible regardless of how the business is organized.
- We recommend the business always own the BOE policy so that the benefit flows through the business.
- While the BOE benefit is considered taxable income to the business (assuming the business is the owner of the policy), the overhead expenses will generally offset the benefits paid to eliminate a taxable gain.

## What about Disability Buy-Sell?

- Buy-Sell coverage protects an interest in a business and is considered a personal insurance purchase.
- Buy-Sell premiums are not tax-deductible and any benefits are paid tax free.
- When the disabled owner's interest is purchased, he/she will generally recognize a capital gain on the difference between his/her basis in the business and the purchase price.

**MassMutual understands the unique needs of small business owners. That's why we have a portfolio of disability insurance products designed with the small business owner in mind. These products enable you, the financial professional, to provide the right solutions to today's small business owners.**

<sup>1</sup> This only applies if the premium is paid on behalf of the insured in his or her capacity as an employee. If it is paid only because of his or her status as a shareholder, it will be considered a taxable dividend, and the premium would be included in shareholders' income.

*The information provided is not written or intended as specific tax or legal advice. MassMutual, its employees and representatives are not authorized to give tax or legal advice. Individuals are encouraged to seek advice from their own tax or legal counsel.*





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