

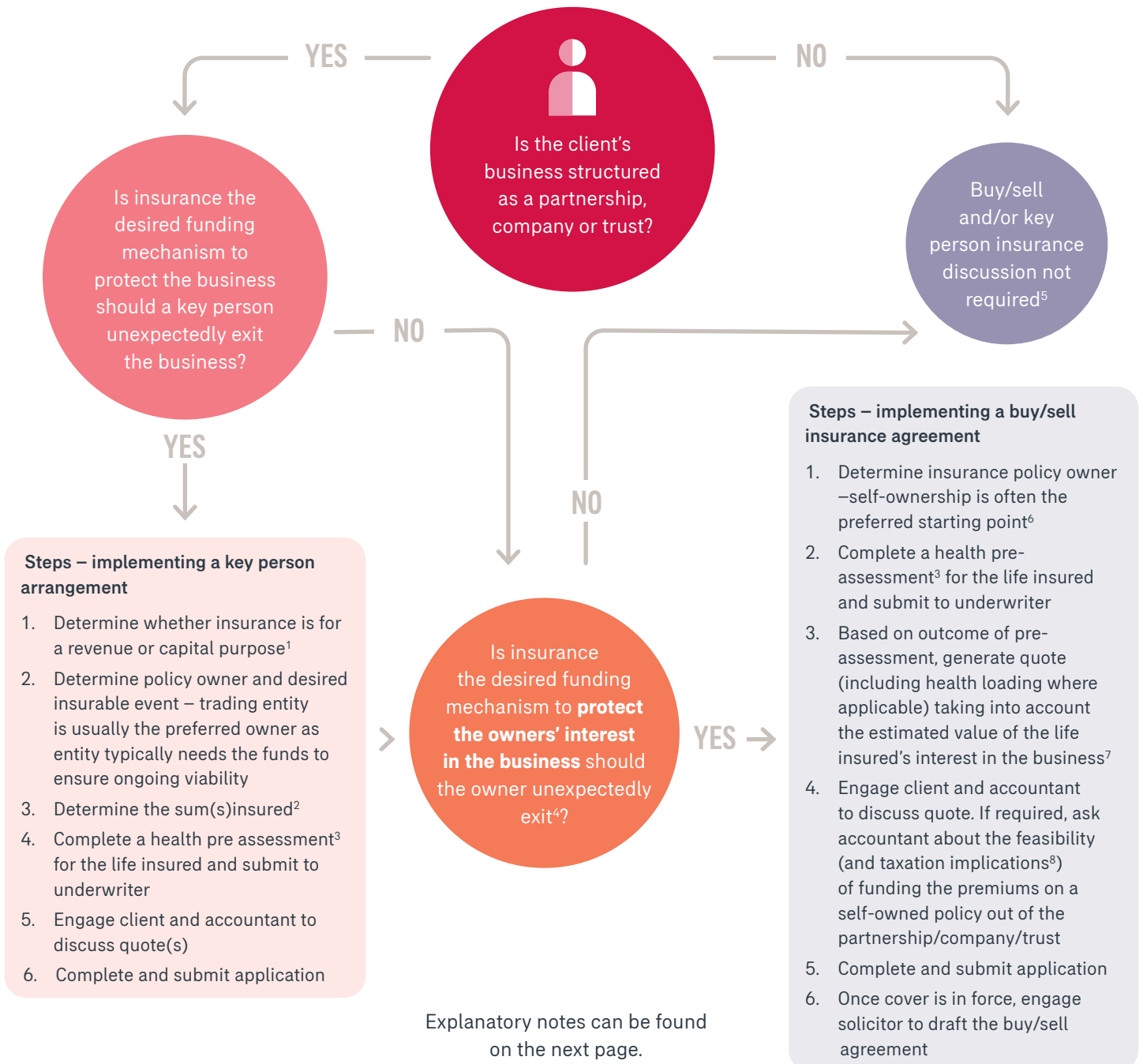
BUSINESS PROTECTION IMPLEMENTATION GUIDE



HEALTHIER, LONGER, BETTER LIVES

July 2023 | By the AIA Technical and Education Centre of Excellence (TECE) team

This guide can help advisers to work through the steps involved in implementing a key person and/or buy/sell insurance agreement with their clients. Clients should refer to their legal and tax advisers for more information when structuring their business protection needs to confirm whether any tax consequences may apply to their specific circumstances.



Notes:

1. Refer to the Buy/sell versus key person – insurance ownership guide
2. Any key person sum insured methodology is welcome as long as it is reasonable for the individual's situation. Details relevant in calculating cover may include:

- Preferred multiple of income (see below)
- Percentage of business income generation/share of net profit
- Percentage of business debt
- Age of the key person
- Clear description of the role held by the key person, and number of similar roles in the business.

For advisers who want some guidance, AIA's key person underwriting approach is generally either:

- a) An income multiple of 5 times the business net profit generated by the applicant (however this can be difficult to obtain calculate), OR
- b) An income multiple of 5 to 10 times the insured's total remuneration package (most common approach).

A multiple of up to 10 times is considered if the premium is being claimed as a tax deduction. Further, there is generally a lower multiple for individual's approaching age 60+ (i.e. 3 to 5 times).

Alternatively, refer to the key person worksheets in the Business Protection Fact Find which can help calculate the amount of cover required.

3. Refer to the Life insurance pre-assessment request form.
4. Refer to the Business Succession Advice: Why it is important document.
5. Buy/sell and/or key person insurance is not required for a sole trader or one person incorporated business. For sole traders, consider personal insurances, business expenses cover and business debt/guarantor protection cover.

If insurance is not the desired funding mechanism for key person or buy/sell agreements, ensure clients have an alternative funding solution, such as:

- Having a readily available cash reserve or create a contingency reserve
- Selling business assets
- Borrowing, or

Absorbing the loss.

6. Refer to the Guide to buy/sell insurance ownership structures document for more detail on how self-ownership (and other alternative structures) works in the buy/sell context.
7. Amount may need to be grossed up to allow for possible CGT on claim proceeds, based on entity tax rate. Refer to the Ownership Protection (Buy/Sell Insurance) section in the Business Protection Fact Find for more information.
8. Potential inefficient tax outcomes can result if an operating entity pays premiums on behalf of the business owners without declaring the amounts as salary or wages, dividends, or distributions (e.g. Division 7A provisions or fringe benefits tax liability may be triggered, or premium payment may be deemed a repayment of shareholder loan). Also, it may be prudent to check ownership structure with solicitor at this stage.

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The code can be found at <https://www.aia.com.au/en/aboutaia/about-us/industry-standards>. AIA Australia has prepared a Target Market Determination which describes the class of consumers that comprise the target market for Priority Protection. The Target Market Determination can be sourced at [aia.com.au/tmlds](https://www.aia.com.au/tmlds)