

Why Do I Need Insurance?

Personal Insurance Coverage

The most valuable asset you have is you! We all take for granted that we will be there the next day, providing for our family and business. But too often that is not the case. Managing risk is a relatively straightforward task. First, you quantify the risk in the event that something could happen to you. Then, you consider the probability of it happening. After looking at the size of the loss **and** factoring in the probability of the event occurring, you are ready to make your decision on managing that risk. Your choices of managing risk are listed below.

Insurance For Your Spouse

Will your spouse lose access to your family inheritance if you die? How will that impact their financial plans? Will it affect their lifestyle before and/or after a planned retirement age? What will your death do to your children's opportunity to farm if you die before your parents? Will they be able to acquire the farming assets from your parents' estate?

Insurance On Your Spouse

What if your spouse dies? Will there be a loss of income from their work? Will your family's health insurance benefits be lost? What about the cost of childcare while you are working? It is important to consider these costs and determine if an insurance solution to cover them is appropriate. Or, are there are other alternatives available to reduce the impact such as deciding to "self-insure"?

Buy/Sell Needs For Your Farm

Does your farm have multiple owners? If so, what is your plan to fund a buyout of the interests of one of the owners if they die or are disabled? Or, what if they just want to leave the business relationship? To accomplish a buyout of any owner, you would need to consider the following:

1. How would you value the interests of each owner?
2. How would you fund the buyout of their shares?

There are four ways to consider accomplishing a buyout of ownership shares, described below:

Borrow Money	Sell Assets	"Spin Off" Assets	Buy Insurance
Unpredictable cost due to uncertainty of Interest rates Credit worthiness following departure of one owner Significant cash flow drain on the operation for a number of years	The way you own the assets and the structure of that ownership is important here for tax reasons The assets you sell are lost to the remaining owners in working the farm going forward	Could possibly "spin off" the asset values to buy out the owner leaving the farm The form of business and how the assets are owned will matter in this option The assets you "spin off" are lost to the remaining owners in working the farm going forward	Insurance can be purchased to fund the buyout of an owner at death or disability Tax-free source of fund Predictable cost structure -Known at the time of purchase -Not dependent on interest rates -No potential tax issues on sale or "spin off" of assets

Questions? Contact Douglas Krasne, Insurance Planning Resource

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