

Business Protection

The right steps to help your
client's business run smoothly



Arriving at a fair distribution of premiums

“Clear Head”, a design consultancy, is owned by three male partners, Miller (aged 55 next birthday), Beck (aged 45 next birthday), and Foster (aged 35 next birthday). The ownership of the business is 40%, 35% and 25% respectively.

The original founder is Miller and their business benefits from a number of lucrative high profile clients. The business plan which is reviewed regularly currently values the business at £1m.

Partnership Protection (Life and Critical Illness Cover to age 60) is being arranged as follows:

Partner	Age	Share	Sum Assured (£)	Annual Premium (£)*
Miller	55NB	40%	400,000	5,277.31
Beck	45NB	35%	350,000	2,734.27
Foster	35NB	25%	250,000	1,028.16

* Source: Legal & General Assurance Society 18 September 2005
Based on own occupation non-smoker

Since premiums reflect the ages, sex and sums assured of each individual partner the amounts paid do not reflect the benefits each may receive in the event of a claim. This could be achieved through apportioning premiums according to each partners stake in the business. Let’s assume the partners wish to address the issue and distribute costs fairly.

In order to arrive at a fair distribution of premiums the following formula will help to calculate appropriate costs for each partner/director:

<p>FORMULA:</p> <p>Survivors own share (divided by)</p> <p>The sum of the remaining survivors shares</p>

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For example:

As Miller owns 40% of the business, Beck owns 35% and Foster owns 25%, on Miller’s death Beck will receive (35/60) 58% and Foster will receive (25/60) 42% of Miller’s share of the business and sum assured. This is summarised for all partners in the following table:

Partner	Beck	Miller	Foster
Share	35%	40%	25%
Beck Dies		40/65 = 62%	25/65 = 38%
Miller Dies	35/60 = 58%		25/60 = 42%
Foster Dies	35/75 = 47%	40/75 = 53%	

Miller therefore pays:

62% of Beck’s premium = £1,695.25
plus 53% of Foster’s premium = £544.92
Total £2,240.17

Beck pays:

58% of Miller’s premium = £3,060.84
plus 47% of Foster’s premium = £483.24
Total £3,544.08

Foster pays:

42% of Miller’s premium = £2,216.47
plus 38% of Beck’s premium = £1,039.02
Total £3,255.49

In practice the premiums are likely to be paid from a partnership account. The appropriate amounts as shown could then be deducted from current, capital or loan accounts or, as an alternative, individual partners’ drawings.

Although this example is based on a partnership, the same principles apply to Shareholder Protection. However, if the company pays the premium on behalf of the director, this will be a benefit in kind and the director will become liable for income tax on it.