Business Protection
Help protect the future of your clients' businesses

Premium **equalisation**

Arriving at a fair distribution of premiums

'Clear Space', a design consultancy, is owned by three male partners, Miller (aged 55 next birthday), Smith (aged 45 next birthday), and Jones (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 £1million.

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	4,876.42
Smith	45NB	35%	350,000	2,540.74
Jones	35NB	25%	250,000	970.56

* Source: Legal & General Assurance Society 20 July 2008
Based on male, non smoker, no waiver, term with reviewable CIC, annual premiums

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 partner's 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:

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

For example:
As Miller owns 40% of the business, Smith owns 35% and Jones owns 25%, on Miller's death Smith will receive (35/60) 58% and Jones 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	Smith	Miller	Jones
Share	35%	40%	25%
Smith dies		40/65 = 62%	25/65 = 38%
Miller dies	35/60 = 58%		25/60 = 42%
Jones dies	35/75 = 47%	40/75 = 53%	

Miller therefore pays:
62% of Smith's premium = £1,575.26
plus 53% of Jones' premium = £514.40
Total £2,089.66

Smith pays:
58% of Miller's premium = £2,828.32
plus 47% of Jones' premium = £456.16
Total £3,284.48

Jones pays:
42% of Miller's premium = £2,048.10
plus 38% of Smith's premium = £965.48
Total £3,013.58

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 partner's drawings.

Although this example is based on a partnership, the same principles apply to Director/Share 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.

Legal & General Assurance Society Limited
Registered in England No. 166055
Registered office: One Coleman Street, London EC2R 5AA
www.legalandgeneral.com
Q171 06/09 Approval Number: H0093188
At least 55% of this paper is made from recycled materials

Legal & General