



Key Person Insurance

A way for businesses – especially niche businesses – to address a major risk.

Provided by Chris Eller

Who are the people most crucial to your business? Have you taken steps to insure them?

At every company, there are certain people whose absence would cause day-to-day operations to grind to a halt. If they die or become disabled, the future of the company may be jeopardized.

Key person insurance is designed to help businesses deal with this kind of major disruption. Its payout can offer some monetary relief so that operations can continue running smoothly.

Small & large businesses choose key person insurance for a variety of reasons. The insurance benefit can be used to settle outstanding loans, and to fund the recruitment and training of a new hire. Key person insurance benefits may also help in an ownership transition, and become a component in an executive compensation plan. If a key person dies, the business owner(s) may want to provide his or her spouse or family with the equivalent of their salary for a time.

How easy it is to arrange this type of insurance? In a word, very. As private insurance, it requires no IRS filings or disclosures. In the case of key person life insurance, both permanent life and term life options may be explored. Typically, term coverage is the choice.^{1,2}

Key person disability insurance amounts to an insurance contract, whereby the policy provides coverage up to a certain age or a certain date – for example, the end of the period in which monthly cash benefits are paid to the disabled employee, or the retirement date of the employee.

The payout from a key person insurance policy is tax-free. As a tradeoff for that, the premium payments are not tax-deductible. Typically, the company owns the policy, pays the premiums and is listed as policy beneficiary.^{2,3}

This is the kind of perk that can help you attract & keep good employees. The knowledge that a manager or executive can count on some financial support in the event of a health crisis, the understanding that his or her family could receive insurance benefits in the event of a tragedy – this may make a job offer that much more compelling.

Key person insurance can even be continued after the key employee retires or transfers his or her ownership interest – a nice addition to that person's retirement package.

Key person insurance can also boost your standing as you seek financing. It can give your business added financial stability that might help its loan prospects and credit position. If you apply for a business

loan, the question of whether you have key person insurance will come up quickly. If your company lacks key person coverage, the loan may not be forthcoming. If you intend to apply for a loan guaranteed through the Small Business Administration, key person insurance is often a prerequisite.⁴

Niche businesses arguably need this coverage the most. A software development firm, a biomedical company, any kind of business where the owner or employees must have “expert” knowledge of a discipline or an industry ... these businesses may be most at risk if a key employee dies or is left disabled.

Does your company lack key person insurance? Too many businesses do. While insuring a company’s information, equipment and inventory against loss is par for the course, insuring a business against the loss of human and creative capital is not. A loss of knowledge and mastery can spell the end for a business that has transitioned from survival to success, and even for an established sole proprietorship or partnership. Look into this today, for you never know what tomorrow may hold.

Chris may be reached at 815-539-3437 or chris.eller@investmentcenters.com.
www.chris-eller.com

Citations.

1 - rbcinurance.com/business/small-business/key-person-insurance.html [11/9/15]

2 - smallbusiness.com/manage/why-you-need-key-person-insurance/ [11/9/15]

3 - raymondjames.com/small_business_key.htm [11/9/15]

4 - sba.gov/offices/headquarters/oca/resources/4950 [11/9/15]

This material was prepared by MarketingPro, Inc., and does not necessarily represent the views of the presenting party, nor their affiliates. This information has been derived from sources believed to be accurate. Please note - investing involves risk, and past performance is no guarantee of future results. The publisher is not engaged in rendering legal, accounting or other professional services. If assistance is needed, the reader is advised to engage the services of a competent professional. This information should not be construed as investment, tax or legal advice and may not be relied on for the purpose of avoiding any Federal tax penalty. This is neither a solicitation nor recommendation to purchase or sell any investment or insurance product or service, and should not be relied upon as such. All indices are unmanaged and are not illustrative of any particular investment.

Investment Centers of America, Inc. (ICA) member FINRA, SIPC and a Registered Investment Advisor is not affiliated with First State Bank or Chris Eller First State Investment Services. Securities, advisory services and insurance products offered through ICA and affiliated agencies are ***not insured by the FDIC or any other Federal Government agency *not a deposit or other obligation of, or guaranteed by any bank or their affiliates *subject to risks including the possible loss of principal amount invested.** ICA does not provide tax or legal advice.