BLOG

Key Person Coverage Protects Your Revenue Stream

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Whether you're a small company just starting out or in the Fortune 500, every organization has key people who add tremendous value to the company. Key people can be CEOs and company executives, or anyone who generates revenue. Unexpectedly losing them to death or disability creates economic hardship on the company.

Key person term life and disability insurance is an economical way to directly protect a company's revenue stream if a key person dies or becomes disabled and is unable to work. Unlike individual life insurance, the owner and beneficiary of a key person policy is the company itself.

And, with the continuous advancements in medicine and life expectancy on the rise, the cost of this type of coverage isn't just affordable; it continues to trend down.

Who to Insure?

When it comes to assessing *who* to insure, every company is different, but it always comes down to the question, "Whose death or disability would have a financial impact on the company?" Generally, the answer falls into two categories of people: revenue generators and people in positions that would be costly to replace.

Revenue generators, particularly high-level producers with loyal client bases, add a quantifiable value to a company. If that person were to die, the company would lose business and suffer a demonstrable economic loss.

While CEOs and company executives don't necessarily generate revenue, they would have to be replaced, which causes a different kind of economic hardship. Executive talent searches are long and costly. Life insurance coverage protects against the expenses associated with recruiting and finding a replacement.

Types of Coverage

Generally speaking, key person life insurance is short term. Ten- 15- or 20-year products almost always suffice. The exception is in the case of a family business in which the key people are family members and remain in the business for decades. If the key person leaves the company before the full term of the policy, the policy-holder can cancel coverage at any time.

Disability insurance is more expensive than term life because people are three times more likely to become disabled than to die during their career. Disability coverage is a specialized product that's not available to the individual marketplace. It needs to be medically underwritten, so the cooperation of insured key person is needed.

Companies can purchase up to 10 times the total annual compensation package of key person. So, a person making $500K in salary and bonuses can be covered for $5 million. In the event the insured becomes disabled, the company is paid a lump-sum benefit at the end of a 12-month waiting period.

It's important to note that these policies are owned by the company. The insured key person doesn't recognize any benefit if a claim is triggered.

Affordable Coverage

Historically, term life pricing has been going down because people are living longer. From an underwriting perspective, it's relatively easy to get people approved for term life even if they have a medical history or suffer from a chronic disease, because the efficacy of medicine is well proven.

However, it's always important to identify the right broker or consultant to guide you through the process and explain how the insurance programs work. Do you have adequate benefits and the best carriers to match the health issues of the insureds? Are you aligned with a broker who knows the marketplace, has access to the marketplace, and can get the right benefits underwritten as aggressively as possible?

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