BLOG

No Time Like the Present: Loss of Key Employee Insurance

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The extended absences and too often, losses of critical employees during the pandemic cycle have had business owners reacting in real-time to unprecedented and often unanticipated threats to their revenue streams. Many have found that, like supply chains, these revenue streams are more vulnerable to disruption than we tend to think. Moreover, the current wave has affected businesses in virtually all sectors of the economy, as well as employees in every level of the affected organizations.

Recognition of this trend is but one more reason for owners to raise the priority of reassessing and developing effective risk mitigation strategies to counteract the loss of any key employee. Importantly, this is not the same exercise as reviewing Key Employee Life Insurance. More on that below.

Of course, the prerequisite to covering the loss of key personnel is the task of determining exactly who in your organization qualifies as a “key” individual. And that list might just be longer than you think.

Who is key?

Meeting the definition of “key individual” is fairly straightforward. A key person is deemed as any individual the company relies on to generate a substantial portion of its income. Of course, what constitutes a substantial portion of the company’s income is worth pondering. What fraction could the company, in extremis, do without for an indefinite period of time?

Confronting this question candidly leads directly to the question of who is fundamental to the production of that income. And here is where the rubber meets the road. Think of anyone who has special skills that would be prohibitively difficult to replace. Or, any employee who holds claim to intellectual property or knowledge of product or processes that are critical to the production of the income. Or, an employee whose business relationships are crucial to retention of the income stream.

Any and all of these may qualify as key employees. And, of course, it is assumed that the officers and owners of the company likely qualify by definition. As difficult as these questions are, casting a clear light on whose contributions are inseparable from the production of significant income is the only way to adequately defend the company against its sudden loss.

What is covered?

Now, let’s get to the heart of what this type of coverage actually accomplishes. Loss of key employee coverage is designed to protect you against any fortuity that prevents or disables the individuals named in the declarations from providing their services to the insured, whether temporarily or permanently.

Read that sentence one more time, thinking of the risks and volatility to which organizations have become accustomed in merely the past few years. Loss of key employee coverage typically shall include, but is not limited to: disability, kidnap, imprisonment and absence for reasons of litigation whether civil or criminal.

Those are, or at least may seem like, extraordinary risks. And yet, examples of “any fortuity” might include the more “everyday world” aspects of life from jury duty to extended medical leave and even including accidental death.

Again, it is critically important to think transparently about the daily risks that must be borne unless adequately prepared for in advance.

What loss of key employee coverage is not.

Loss of key employee coverage is not the same thing as key man life insurance. It’s important to understand the distinction.

Key man life insurance is protection against the death of an important individual. The business is both the policy owner and the beneficiary, with the key employee being the insured. The insured person does not receive benefits from the key man life insurance policy.

On the other hand, under loss of key employee insurance policies, the business is the policy owner, the beneficiary and also the insured. Importantly, loss of key employee coverage is not limited to death situations, whereas key man life insurance only covers death of the employee.

As with all policies, there are exclusions. Loss of key employee coverage does exclude the voluntary absence of the persons named. And, while accidental death is covered, death from any other cause is excluded.

Placing a value on the invaluable.

In its collective consciousness, every organization has some notion of who or what is invaluable to the life of the enterprise. There are employees whose absence would cause extensive or possibly irreparable loss to the employer, measured in lost business or the cost or replacement.

Recognition of these facts is not a threat. It’s merely putting a price on the eventuality of that loss, which would be revealed at an inopportune time, and dealing with it in a preemptive fashion. In other words, confronting who is invaluable is sound management.

The captive insurance model is one option to address your coverage needs for loss of key employee insurance. It’s important to speak to a captive manager you can trust and have a confidential discussion of this sensitive topic.

Want to learn more?

Connect with the Risk Strategies Captives Practice: captives@risk-strategies.com

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