

# KEY PERSON LIFE AND DISABILITY INSURANCE: PROTECT YOUR COMPANY'S FUTURE

The unexpected death or disability of a key employee or business owner could exert an enormous financial toll on a company. How can companies protect their investment and cushion the effects of such a loss? The answer: by purchasing a key person life or disability insurance policy. Key person insurance helps protect a company financially from the loss of a person who is crucial to the success of its business.

## WHO IS CRUCIAL TO THE SUCCESS OF YOUR BUSINESS?

How do you determine who is "key"? It could be the owner or it could be someone who has extensive sales contacts, special knowledge of the company's products, or unique skills that are difficult or impossible to replace. In any case, it is that person whose untimely death or unforeseen disability will represent a significant financial risk to the company.

A company can purchase both a life and a disability policy on a key person. Typically, the company owns the policy and pays the premiums. A term policy is generally the less expensive option and usually the

product of choice. In this scenario, the company pays the premiums until the employee retires or moves on to another company.

Key person insurance policies that are structured as permanent policies can increase in value over time. At the employee's death or disability, the company collects the proceeds which can be used for a variety of purposes, including:

- Continued payment of the key person's salary according to a pre-arranged agreement
- The cost of recruiting, hiring, and training his/her replacement
- Purchasing stock to buy out the interest of the covered employee
- Infusing cash into the business to help maintain or expand the company's market position
- Paying off creditors, thereby eliminating debt that could weaken the company's position
- Reimbursing the business from any losses caused by the death or disability of a key person

Key person insurance also provides valuable protection against the loss

of a key person within a newly acquired company, private equity fund, or mezzanine fund. Purchasing key person insurance may also help bolster investor confidence.

## PLAN NOW TO ENSURE A PROSPEROUS FUTURE

It's not pleasant to think about the loss of a talented contributor to a business. Protecting your company from economic loss with a key person insurance policy, however, makes great business sense. It will help fulfill your obligations to your investors and to the rest of your organization resulting in a surefooted transition that leads to continued success.

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