

# Key Person Coverage



Oftentimes, the most valuable assets of a business are the people who contribute most to its success. Key Person insurance can be helpful in protecting against the loss of an owner or key non-owner employees. With key person insurance, the business is the owner, premium payer and beneficiary of life insurance policies insuring select employees. In the event of a key person's death, the business receives the death benefit, generally income tax free<sup>1</sup>, to help recover lost income or to help recruit and train a replacement.

## Key Features

- **Flexible coverage amounts** – the death benefit is typically based upon the estimated financial loss the business would incur in the event of the death of a key employee.
  - Research suggests that direct replacement costs can reach as high as 50%-60% of an employee's annual salary, with total costs associated with turnover ranging from 90% to 200% of annual salary<sup>2</sup>.
- **Immediate liquidity** – This helps businesses alleviate the burden of having to cover the expenses of losing and replacing a key employee.
- **Cost efficiency** – Affordable term or permanent policies may provide significant death benefits relative to premiums paid.
- **Cash value potential with permanent policy option** – Potential cash values can remain an asset on the balance sheet of the business and can be used for other business expenses including executive benefit programs.
- **Not deductible** – Premium payments by the business are not income tax deductible.
- **Guaranteed Issue (GI)** – Life insurance policies can be placed on a Guaranteed Issue basis for groups of highly compensated employees of 10 or more lives.

## Solutions

- **Corporate Owned Life Insurance (COLI)**
  - Permanent
    - Cash Surrender Value (CSV) is a corporate asset on the balance sheet
    - Flexible funding
  - Term
- **Disability Insurance (DI)**
  - In addition to traditional key person life insurance, employers can consider protecting their business from the disability of a key person through DI key person coverage

<sup>1</sup> If the requirements of the Internal Revenue Code Section 101(j) are not met, death proceeds from employer-owned life insurance contracts may be taxable as ordinary income in excess of cost basis.

<sup>2</sup> The Society for Human Resource Management – SHRM