

## How Key Person Life Insurance Can Help Stabilize and Fortify Businesses

*Key person life insurance and key person disability insurance can help protect companies financially following the death or injury of a valued team member.*

All employees can and should play a part in an organization's success. But every company, large or small, can identify select employees whose roles are especially significant. The sudden absence of these key people can stress a company financially and even challenge its stability.

Key person life insurance can help a company through the transitional period following the death of an essential member of its team. In partnerships, key person insurance can provide a strategy to position a surviving partner or partners (or shareholders) to buy the financial interests owned by the deceased partner. And key person policies may also be required by a lender or investor as a condition of financing or funding.

### How Key Person Life Insurance Works

A company purchases a key person life insurance policy on a select employee. The company pays the premiums on the policy and designates itself as the beneficiary, making the company both the policy owner and the policy beneficiary. The company can, however, only take out a key person insurance policy with the written consent of the selected employee, provided through an employer-owned life insurance notice and consent form.

Various types of life insurance products can be used for key person coverage. The policy may include disability coverage. Serious illness or disability coverage can also be provided through a wholly separate policy from the key person life insurance.

The amount of coverage purchased varies by company, the nature of the business, and the estimated impact of the loss of the insured employee.

### Who is a Key Person?

In some situations, a key employee's value to an organization is based on product knowledge, unique skills, or extensive experience. Employees with a respected reputation or deep client relationships can also be highly valued by a company. Founders of a company, c-suite leadership, top sales representatives, and talented designers, engineers, or product developers are all potential candidates for key person life insurance and/or key person disability insurance.

## More About Key Person Life Insurance

Key person life insurance is a form of corporate owned life insurance (COLI). The policy can be structured in various ways and can even be used as an employee retention strategy if it provides lifelong coverage, and the company elects to assign it to the employee at the time of retirement. Because of flexibility in structuring key person life insurance policies, an organization will want to consider its needs and objectives carefully and the numerous potential benefits the policy can provide.

With the key employee's consent, the company purchases a life insurance policy on that individual.

If the employee dies while the policy is in effect, the company receives tax-free death benefit proceeds.

The death benefit may be used to recruit or train a replacement employee

The death benefit may offset expenses, loans, loss, or other costs related to the transitional period.

The death benefit can also be used to fund a buy-sell agreement between or among partners.

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