

Employee Benefits

Key Person Insurance: A Summary

With many small and medium sized companies dependent on a few specialists, Key Person Insurance is designed to help protect the business in the event of death or severe illness of key employees.

What is Key Person Insurance?

Key Person Insurance is simply life insurance on the key person in a business. It is used to cover the life of someone whose absence from a business would greatly impact the management or profitability of the company. It is the business that is the owner of the policy and the beneficiary of any pay out, not the individual employee.

How does it work?

A company purchases a life insurance policy on its key employee(s) and pays the premiums. If that person unexpectedly dies, or is diagnosed with a specific critical illness, the company receives the insurance payment. This sum can then be used to assist with the cost of ensuring business continuity, such as recruiting a replacement and to cover for any loss of profits the company may experience.

How does it help?

Key Person Insurance is important because the death of a key person in a small to medium sized business can turn a profitable business into a loss-making entity. The purpose of the insurance is to help the company cope with the sudden blow of losing a person who plays a significant role in making the business work. In the most severe circumstances, it may help a company avoid bankruptcy.

How does Key Person Insurance support a business owner?

If you are choosing to invest in or acquire a new business, the ongoing success of that company is likely tied to the individuals working there. A reduction in the profitability of that company due to the loss of one of those key individuals will have a negative impact on the value of the investment. Purchasing Key Person Insurance is a way to protect that investment, providing the investor with the financial support that can help them overcome the loss.

How to determine who needs this insurance?

Employers should look at their business and think about who is irreplaceable in the short term. In many small businesses it is the owner, Managing Director or Chief Executive who holds the business together and guides the direction of the company. In other businesses it may be sales people with key client contacts and who are responsible for a large proportion of the company's transactions. In finance firms, it may be a highly skilled investment manager. Who is a Key Person will depend on the size of the company and the nature of the business. Any employee earning above £150,000 per annum is likely to be considered a key person.

How can 3HR help you?

It is important to determine which individuals within the business should be covered and to what extent. 3HR can help analyse your workforce and determine those individuals and recommend suitable levels of cover for each of them. We can then conduct a market review and identify the most suitable providers and those with the most competitive premium costs. We will then manage the insurance set up process and work directly with the key individuals to ensure all underwriting is completed correctly first time and in a manner that is as easy as possible for the company and those individuals.



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