

INSURING KEY PERSONNEL



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Teamwork may be the key to a successful business, but every team has key players whose contributions are simply irreplaceable. The question becomes, “How big of a hit would your bottom line take if one of these key players were to suddenly die?”

Key person insurance is a common practice among Fortune 500 companies to help protect against such an event. Typically, it’s a term or permanent life insurance policy owned by the business in case a critical contributor dies. The policy serves as a stopgap measure to ensure the company has sufficient capital to cover any loss in revenue created by the vacancy.

Most business owners can immediately see the value in covering certain sales personnel who have critical contacts and bring in significant revenue that would diminish if not disappear without them. However, there are other roles within a company that can be equally critical. Someone with unique knowledge of your business operations, your IT systems, or your product development plans may be equally as critical to future revenue, if indirectly so. A silent partner or someone who provides capital directly to the business may also be irreplaceable and in need of a company-owned life insurance policy.

An insurance policy provides the liquid, tax-free capital necessary to help protect the business and bridge the gap until the company is once again on solid ground after the loss of a key employee. As a rule of thumb, most key person insurance policies will equal five to ten times the person’s annual salary.

One of the most important responsibilities of a business owner is to prepare for worst case scenarios. The consequences of the death or permanent disability of a key employee is a possibility that must be faced in advance in order to prepare an effective strategy.

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