

## Key Person Insurance

*Key person insurance, insures a business against the death or incapacitation of a key employee, usually an executive, partner or a staff member with specific skill that is key to the operation of the business.*

**K**ey Person policies are owned by the business or partnership with the aim being to protect the business against losses incurred should the key person be unable to fulfill their role due to accident, illness or death.

The actual business losses are not indemnified by Key Person Insurance, but rather a lump sum payment as specified on the policy is paid to the business.

The cover required is usually determined by the size of the business and the financial impact that the loss of a Key Person will have on the business. The sum insured can range between \$500,000 and \$10 million of cover.

### *Who is a Key Person?*

A key person is a business owner or employees that are critical to the ongoing revenue and profitability of the business.

The key persons typically have a direct impact on company earnings or whose expertise and talents are crucial to the continuity or growth of the business.

### *What is Key Person Insurance?*

It is a simple, cost effective and flexible solution in the event of a potentially devastating event in your business.

There are two types of key person policies.

One is to protect the business cashflow, while the other is to protect business capital.

### *Key Person Revenue*

This policy can ensure that your business continues to operate by compensating your business for loss of revenue following the disability or death of the key person.

The sum insured can also include the costs of finding and hiring a suitable successor in terms of experience, ability and education.

### *Key Person Capital*

This policy can help to pay out any loans or debts of your business following the disability or death of the key person in the business.

Up to 6 people can usually be insured under the one policy.



## *Ownership Structure*

We can assist clients to construct a key person policy so as to ensure that the ideal amounts of insurance are established for the business along with correct ownership structures.

Depending upon the purpose of the key person policy (ie. revenue or capital), then we will discuss how the policy should be owned.

## *Taxation*

Generally, for key person revenue policies, the premium may be tax deductible to the company (IT155). It may also be assessable at the time of benefit paid to the business (IT 155). You should refer to your accountant for tax clarification.

## *The Benefits:*

- Offset a drop in your business revenue
- Provide your business with the time and resources to find a suitable replacement
- Continue with your business plans without significant interruption
- Provide capital to repay loans
- Protect your business from a forced sale

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