

Podcast Script: Key Person Life Insurance

Amy Underwood	<p>Hello and welcome to the BXS Insurance webcast this August 26, 2020. I'm Amy Underwood, Director of Sales and Innovation, BXS Insurance, and I'm joined today by Charlie Abboud, Senior Vice President of Employee Benefits, BXS Insurance.</p> <p>Most adults probably realize the importance of having a life insurance policy to protect their family in case the worst happens. But what about businesses? Charlie Abboud is joining us today to discuss when and why companies should consider purchasing key person life insurance.</p> <p>BXS Insurance is Right Where You Are during these challenging times. We're here with you, helping to advocate and provide guidance, so you can be there for what matters most.</p> <p>Remember, our world changes fast so things might have changed by the time you hear this.</p>
Charlie Abboud	<p>Hello, Amy. Yes, life insurance is very important for families, and most people accept that – even if not everyone buys the coverage they need. But key person life insurance for businesses is less understood, even though it can be just as important.</p>
Amy Underwood	<p>What exactly is key person life insurance?</p>
Charlie Abboud	<p>It's a life insurance policy taken out on a key employee. It's usually owned by the company, and the company is usually the beneficiary as well as the policyowner. Also, key person life insurance policies are usually a form of term life insurance. Just as with other types of term life insurance, if the insured – in this case the employee – dies within the covered term, the death benefit is paid out.</p>
Amy Underwood	<p>But the benefit is paid out to the company, right? Not to the deceased employee's family?</p>
Charlie Abboud	<p>That's correct. The company is the beneficiary of the policy, so the company receives the payout. If the key employee wants a life insurance benefit for the family – and I'd say that's definitely advisable – they'll need to get a separate policy.</p>
Amy Underwood	<p>Interesting. Why would a company need this type of policy, though?</p>
Charlie Abboud	<p>In a sense, it's for the same reason families need life insurance. When a person dies, the family can suffer economically, especially if the deceased was a breadwinner or provided childcare or other services that will now have to be paid. Likewise, when a key employee dies, the business can suffer economically. In both cases, life insurance provides a solution to the financial fallout of an unexpected death.</p>
Amy Underwood	<p>And who exactly counts as a key person? Are all employees key?</p>
Charlie Abboud	<p>Well, all employees are important, but they're not all key employees in the way we mean when we discuss key person life insurance. A key person is any person the</p>

	company really depends upon to function and stay profitable. If losing an employee would be a major blow to the company, resulting in significant financial loss, that employee probably qualifies as a key person.
Amy Underwood	That makes sense. Do all companies need key person life insurance?
Charlie Abboud	Not necessarily, but many do. And it doesn't really matter what type of company it is. Businesses of all forms and in all industries may benefit from key person life insurance coverage. It really depends on whether they have key employees who are essential to their ongoing success.
Amy Underwood	What about the size of the company? Will that make a difference?
Charlie Abboud	It might. Businesses of all sizes may be dependent upon key employees, but this is especially common among small and medium sized businesses. A survey from the National Association of Insurance Commissioners found that 71 percent of the small firms surveyed said they were very dependent on just one or two key employees for their success. These businesses could be devastated by the sudden loss of those employees.
Amy Underwood	OK, so any type of business might need key person life insurance, but it will depend on the company's situation. How should a company go about determining whether they need key person life insurance?
Charlie Abboud	There are a few things to consider. First, they need to look at the unique contributions that an employee offers. Does the company have an employee with extremely specialized knowledge? This person might be very hard to replace, and the recruitment and training of a new employee could be very expensive and time-consuming. In the meantime, the company might not be able to function properly, which will also lead to financial loss. And it's not just about specialized knowledge. Relationships can be just as important as skills. If clients do business with the company specifically because of their relationship with one employee, losing that employee could mean losing clients. Key person life insurance may be needed for employees who fit these descriptions.
Amy Underwood	So, it's a matter of thinking about what might happen if the employee dies. If it would be devastating for the company – financially devastating, that is – then key person life insurance may be needed.
Charlie Abboud	Right. Imagine you have a senior employee, let's call him Dave. He's been with the company from the start, and he helped build it. He's the only person who really understands how an essential system works. He's also developed strong relationships with many of the company's biggest clients over the years. He knows them; he knows the names of their spouses and children; he's created a lot of trust there. If he were to die, no one at the company would know how to take over his work. They'd have to figure that out, or they'd have to bring in someone to help. And some of the clients might not see much incentive to stick around now that their main contact is gone. Their relationship was with Dave, not the company. They might leave, maybe not immediately, but soon – especially if the company is struggling due to the loss of Dave. Losing Dave meant losing skills, relationships and reputation.

Amy Underwood	Are there any other reasons to purchase key person life insurance?
Charlie Abboud	Yes, certainly. Every business is different, so the motivation for considering key person life insurance can be different, too. For example, sometimes key person insurance is taken out to fund a buy sell agreement.. This way, if a partner dies, the other partners can use the benefit to buy out the deceased partner's share. The same applies for corporate owners and LLC member interests.
Amy Underwood	Would key person life insurance ever be required?
Charlie Abboud	Yes, it might be conditionally required.. For example, a bank might not agree to provide a business loan unless the company has key person life insurance. This protects the bank's interest as well as the company's profits. In any situation where a company needs to prove that it has long-term stability to another party, even if an employee who is critical to the company's success dies, key person life insurance may be required.
Amy Underwood	And how much key person life insurance should be purchased?
Charlie Abboud	That's hard to say when we're speaking in general terms. There's not a magic number that we can point to. Just as with other types of life insurance, it's really going to vary depending on the specific circumstances. Before settling on a benefit amount, a company should look at the numbers to figure out exactly how much protection they need.;consider the financial impact of the loss.
Amy Underwood	Right. You don't just want to pull a number out of thin air.
Charlie Abboud	Definitely not. The insurance carrier will want the benefit amount to be justified. You might calculate how much recruitment and training might cost, for example. The more specialized the employee, the more expensive this might be, and you want to make sure your benefit is high enough to cover this expense. You also want to look at your expected losses. If the employee dies unexpectedly, how much will the resulting interruption to business cost the company? And how many clients or customers might the company expect to lose? All of this should be calculated to determine the appropriate benefit level.
Amy Underwood	And I suppose that could change over time, couldn't it?
Charlie Abboud	Yes, that's a good point. For example, recruitment and training costs can increase over time or change with the employment market, and an employee's financial value to a company might also increase over time. It would be smart for businesses to assess their benefit levels occasionally to determine if more insurance is needed.
Amy Underwood	When should this reassessment happen?
Charlie Abboud	Since key person life insurance is typically written as term life insurance, it would make sense to look at the benefit amount when one term ends and a renewal is required. The terms can be for different lengths of time, so this schedule could vary. Companies might also reassess the amount based on changes in the company or what the employee brings to the company.

Amy Underwood	Will this just be for one employee? I imagine some companies might have multiple key employees.
Charlie Abboud	Absolutely. Multiple owners might need policies, and other key employees may need policies as well. Every company is different, so their key person insurance needs will be different as well.
Amy Underwood	Now what if an employee objects to coverage? I could see some employees not wanting their employers to benefit from their death. They might see it as morbid or they may be against it for other reasons.
Charlie Abboud	That could be a problem. The employee is required to give written consent before a key person life insurance policy can be taken out on them. This could be handled early on, during contract negotiations, for example, but if a company doesn't realize until later that coverage is needed, they'll have to approach the employee with an additional form to sign before coverage can be secured. I think the key here would be to present it right. The company needs the policy because they know how valuable the employee is. It's a compliment, really.
Amy Underwood	Yes, but then the employee might demand a raise.
Charlie Abboud	Ha ha, yes, I suppose that's possible. But that's a different issue. And most key employees are going to be pretty high up in the company chain. They probably already know their value. You might offer to provide personal coverage as well to ease any concerns.
Amy Underwood	OK, but what if the employee decides to leave? An untimely death isn't the only thing that could cause an employee to leave suddenly. Is there any way a company can protect themselves from other things that could cause an employee to leave?
Charlie Abboud	You're right. There are competitors trying to lure your best people away and there's potential for a career-ending disability. There are "golden handcuffs" and business overhead disability & key person disability insurance. Key person DI provides a payout if an insured key employee becomes injured or ill and is unable to work as a result.
Amy Underwood	And how is key person disability insurance different from traditional disability insurance?
Charlie Abboud	Traditional disability insurance typically protects the insureds' income. The beneficiary, the policyowner and the insured will likely all be the same person. If the insured experiences a disability and is unable to work, the payout will help replace lost wages so the insured can keep up with their mortgage, other bills and living expenses. Key person disability insurance is typically owned by the company. If the insured worker becomes disabled and can't work, the payout helps cover the losses the company incurs as a result, possibly including having to train a temporary or permanent replacement.
Amy Underwood	So traditional disability insurance benefits the employee, and key person disability insurance benefits the employer.

Charlie Abboud	Exactly. It's similar to the difference between key person life insurance and traditional life insurance, except it covers disability instead of death.
Amy Underwood	What about taxes? Some insurance policies have deductible premiums, right? Is this the case with key person life insurance?
Charlie Abboud	No, it's not. A business typically won't be able to deduct premium payments for key person life insurance. But businesses that have any questions about taxes and deductions should discuss and consult with their accountants.
Amy Underwood	Is there anything else you'd like to say about key person life insurance?
Charlie Abboud	Just that it's important for companies to consider. You never know what tomorrow will bring, so it's smart to be prepared for even the worst-case scenarios.
Amy Underwood	That's an important reminder for all of us, I think. Thank you, Charlie.
Charlie Abboud	Thank you, Amy.
Amy Underwood	Remember, our world changes fast so things might have changed by the time you hear this. Thank you all for listening to our webcast.

Sources:

- <https://www.iii.org/publications/insuring-your-business-small-business-owners-guide-to-insurance/specific-coverages/life-insurance-for-key-employees>
- https://www.irs.gov/publications/p535#en_US_2016_publink1000208680

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