



Keyman Disability Insurance for Businesses

For many years businesses have been using insurance, primarily Term Life, to mitigate the risks associated with losing a key employee or owner to an unexpected death. There is however, a much bigger hazard to consider. The potential ramifications of losing a key person to an unexpected disability due to injury or sickness are often under-estimated by a business but the implications can be even greater than death if it were to occur.

How does Keyperson Insurance work?

Whether mitigating the risk of death or disability the policy structure is the same. The insurance covers the key person and the benefits of the policy are paid to the company after the triggering event (and elimination period if applicable). These funds can be used to cover a variety of expenses as the benefits are considered “arbitrary funds.” They can be used for whatever is needed to ensure business continuity (ie. salary replacement, coverage of expenses, buy-sell, etc.) Keyperson Insurance premiums are non-deductible and the benefits are paid out tax-free.

How are maximum benefit amounts determined?

The insurable amounts are generally determined by the income of the individual being covered. Normally 2-4x annual income is the initial insurance limit and benefits can be increased based on ownership interest or other justified financial implications if the key person were to be lost to death or disability.

Creating a Keyperson Risk Mitigation Portfolio

is a very simple, economical and effective way of ensuring a business is protected from the impacts of the loss of a key person. By positioning Keyperson Life & Disability as a package, business owners can be assured that corporate cash flow is not affected if or when a loss occurs, thus ensuring the business can continue to operate.

Take the example of a 35 year old executive making 165k/year. For under \$150/month the company can protect the investment of this key person up to \$500k in benefit paid after a 180 day elimination. And if written when there is an existing DI Multi-Life program the premium can be less than \$115 per month. For such a valuable corporate benefit this is a very reasonable investment.

Who is eligible?

The target market for Disability Keyperson Insurance is business owners with 50% or less ownership or non-owner key employees. We see this being used primarily in the Medical, Technology, Legal (partnerships), and closely held and family businesses. Because of the indemnity-based benefits of this policy it can also be used as an initial tier of coverage to fund Disability BuySell Agreements. BuySell DI is a reimbursement benefit, so utilizing Keyperson as an initial tier of coverage ensures the BuySell Agreement can be triggered without creating an interruption of cash flow.

In conclusion, if you are consulting with Businesses, a Risk Mitigation Strategy including Disability is an essential and valuable recommendation - especially if Keyperson Life insurance is already in force.



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