



WHY YOUR BUSINESS NEEDS KEY PERSON INSURANCE

How Key Person Insurance Works

The purpose of key person insurance is to help a company function and survive after unexpectedly losing the person who makes the business successful. Key person insurance is simply a life or disability insurance policy on your key employee(s). The company pays the premiums and is the owner and beneficiary of the policies. If your key person dies suddenly or becomes permanently disabled, the company receives the insurance benefit. Your company can then use the insurance proceeds to recruit and train a replacement, pay ongoing expenses, or to smooth out cash flow until a transition plan can be worked out. In a tragic situation, key person insurance helps ensure that your company has options.

Key person insurance is also important when a business needs a loan. Lenders are very concerned that if something happens to one of these key people, then the business will face insurmountable challenges that it cannot recover from unless and until a new leader can be found. The lender is then open to potential loss. The key person insurance may also improve financing terms because that risk has been removed from the investment decision. Indeed, the U.S. Small Business Administration requires lenders to have borrowers carry life and disability insurance as a condition to receiving financing. The SBA Loan Closing Document for 7(a) loans states: "...the Lender should require life or disability insurance where there is a concern over whether the business could survive in the absence of an individual or small group of individuals that provide the management for the small business concern."³

As a business owner, you insure your inventory, equipment and vehicles. Yet, you may not be insuring your most valuable assets. Those are your key employees who help you to operate, manage and generate revenue for your company. Key person insurance is vital for your business.

For more information and to discuss the appropriate life and disability insurance products for your unique circumstances, please contact your local Security Mutual life insurance Advisor.

What is your most valuable business asset? Your inventory? Your state-of-the-art equipment? Your fleet of vehicles? **Wrong!** Regardless of the size of your company or the industry, you cannot survive without human capital—those key employees who are crucial to your day-to-day operation. Yet, you insure your inventory, equipment and vehicles. But do you insure your key employees? Would your business take a financial hit if your operations manager suddenly passed away and no one knew how to handle the daily tasks? Or your top salesperson was in a severe accident on a business trip? Unforeseen circumstances are why you need key person insurance.

Who Are Your Key People?

In a small business, other than the owner, the key person is usually one or two employees who helped the owner build and grow the business. It is your top revenue generator or relationship manager. These are the people who are vital for the business to continue to succeed—the ones whose death or disability would have a drastic impact on the company. These are the people you should have key person insurance on. You, as the owner, should also be insured, and that insurance can also be used to fund a business continuation arrangement in the event of a premature death or permanent disability.

What About Start-Ups?

If you're a start-up and haven't yet reached any level of success, do you need key person insurance? If you have investors, the answer is yes! The Wharton School of Business, the No. 1-ranked business school in the U.S. according to the 2020 U.S. *News and World Report's* annual ranking¹, noted in a *Wharton Magazine* article that key person insurance "provides investors the opportunity to realize venture capital-like returns with the peace of mind that their capital is protected."²

¹U.S. News & World Report. "Find the Best Business Schools." usnews.com. <https://www.usnews.com/best-graduate-schools/top-business-schools> (accessed February 14, 2020).

²Blechman, Bruce. "Insurance to the Rescue for Early-Stage Startup Risk?" *Wharton Magazine*. <https://magazine.wharton.upenn.edu/digital/insurance-to-the-rescue-for-early-stage-startup-risk/> (accessed February 14, 2020).

³U.S. Small Business Administration. "7(a) Loan Closing Checklist." sba.gov. <https://www.sba.gov/node/4950#Collateral> (accessed February 14, 2020)

The applicability of any strategy discussed is dependent upon your individual facts and circumstances. Results will vary. Products and services discussed may not be appropriate for all clients. Your needs, objectives and financial circumstances may be different and must be reviewed and analyzed independently.

Insurance products are issued by Security Mutual Life Insurance Company of New York. Product availability and features may vary by state. Eligibility for life insurance is subject to the Company's underwriting rules and receipt of payment. Premium rates will vary based on any and all information gathered during the underwriting process, and medical exams may be required. Life insurance policies contain exclusions, limitations and terms for keeping them in force. Your agent can provide costs and details. Guarantees are based on the claims-paying ability of Security Mutual Life Insurance Company of New York.

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