

Business Survival & Succession - starts with Protecting Your Key Persons!



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Key Person Protection Planning.

When you own a business, it becomes part of your legacy and part of your family. So, I guess it's not surprising that most business owners have a protection plan to secure their family and their enterprise.

In running a successful business, you're always taking on risks to make your dreams or ideas tangible and transformational. And also, the ongoing risks of taking your business or practice to the next pedigree. Failing to foresee and plan for some of these intrinsic business risks may be your demise in times of uncertainties. The greatest threat to your long-term success or legacy, I believe, is at "You" - Your Ingenuity, Talent, Creativity and Excellent Health and perhaps, those of your employees. Thanks to medical advancements, we are able to survive most catastrophic situations, but the financial toll could bring your dreams crashing while recuperating.

Try imagining also, what it would be like if your business partner were unable to work for an extended period. Suddenly, all the responsibilities of ownership and management would fall on your shoulders - as well as other financial obligations.

Many of us know someone who has been diagnosed with prolonged and severe illness or incapacitated. When this happens, it can be very devastating for the person, his or her family, friends and coworkers. And yet, the business must go on.

Many businesses have a key person(s) who's responsible for the majority of profits or have a unique and challenging to replace skills, which are vital to the success of your business. In a small business, this is usually the owner(s), founder(s) or perhaps a key employee or two. These are the people who are crucial to the sustainability of a business, the ones whose absence would sink your company. You definitely need to consider Key Person Insurance on those people.

The business takes out an insurance policy on their lives, to compensate that business for financial losses that would arise from the death or extended incapacity of a key person or member of the company. The owner/employer does this to offset the costs (such as hiring temporary help or recruiting a successor) and losses (such as a decreased ability to transact business until successors are trained), which the employer is likely to suffer in the event of the loss of a "key person."

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Who Qualifies as a Key Person...

Key people are individuals whose skills, knowledge, experience or leadership are essential to your business' continued financial success. Should something happen to one of these individuals, it is likely that their loss will have a detrimental impact on the profitability of your business and will cause financial strain. Examples

of a key individual include, but are not limited to, company directors, sales directors, IT specialists, managing directors and heads of product development.

In many small businesses, it's the owner who holds the company together--he may keep the books, manage the employees, handle the key customers and so on. If that person is gone, your business pretty much stops.

Similar kind of protection plans maybe use for other business-specific purposes, including

- Buy/sell Insurance (Shareholders Agreement Insurance)

- Debt protection

- Revenue protection

The protection coverage does not extend beyond the period of the key person's usefulness to the business. The company usually owns these policies, and the aim is to compensate your business for losses incurred with the loss of a key income generator and facilitate business continuity. Key person insurance does not indemnify the actual losses incurred but compensates with a fixed monetary sum as specified on the insurance policy.

Why Do You Need This Protection...

If an insured employee or owner were to pass away or become disabled and unable to work, the benefits payable from a key person life or disability insurance plan could help your business effectively manage;

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Recruitment: *Recruit, hire and train a replacement.*

Payment of bills: *Pay off debt and manage creditors*

Company financial stability: Ease lenders' concerns about the company's financial health.

Business Stability: Reassure customers, suppliers, employees as well as investors that your business will survive the tough season.

How Would This Benefit Your Business....

Key person insurance provides your business with the working capital it needs to keep operating and to fund the recruitment and training of a replacement should a key person pass away or become disabled. If the key person is the most significant contributor to your business, your company may not be able to continue operating without that person. In that case, key person insurance could compensate you (or your other business owners) for lost revenue should your business have to close.

How Would This Keep Your Legacy Alive...

Life happens, and should your business partner(s) decide to leave the company or sadly, your partner dies, the payout can also be used to pay taxes generated through the sale of the business, or the transfer of the company to family members or partners, as structured in your buy-sell agreement. Your business stability or continuation plan can include protective measures to ensure the business survives if something happens to one of your partners, such as illness or disability or even in retirement. The plan will also help you when seeking additional investment, selling the business or attracting new partners.

How Much Key Person Insurance Do You Need...

That depends on your business, but in general, you should get as much as you can afford. Work with an Insurance specialist and be sure to ask for term insurance; some agents will push whole or variable life, which has much higher premiums and commissions but may not be necessary for a key person policy.

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Typically, coverage can range from \$100,000 to \$1 million but estimate how much money your business would need to survive until it could replace the key person, to come up to speed and get the business back on its feet. Consider a coverage amount that fits into your budget and also address your short-term cash needs in the event of a tragedy.



If you have any questions or need guidance, we can help review your current situation and recommend the best solution to fit your needs.

For a complimentary review to ensure you have the utmost peace of mind and the best planning strategy to securing and protecting your hard-earned legacy, please contact us at fb@financial-advisory.ca or schedule a time to chat.