

**broadbench**

# Your Guide To Key Person Insurance

Who Is Essential To The Smooth  
Running Of Your Business?



[broadbench.co.uk](http://broadbench.co.uk)



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# What Is Key Person Insurance?

Many businesses find that certain key individuals are responsible for a significant proportion of their profits. Losing one of them can have a serious impact on the health of the business.

Did you know that 50% of small businesses fail within the first five years of operation? Of those that fail, 42% cite the unexpected loss of a key person as the primary reason\*.

But there's a solution - with Key Person cover, you can mitigate the impact of their absence. If the key person were to die or suffer from a severe illness, the policy pays a cash lump sum to make up for any loss in revenue or profits, thereby keeping the business on track.

Don't leave the future of your business to chance. Key Person Insurance is designed for small businesses that rely heavily on the expertise of a few key individuals. Invest in the security of your business today.

\* Data sourced from the National Small Business Association survey,



# Why Consider Key Person Insurance?

## Could you be putting the future of your business in jeopardy by not having Key Person Insurance in place?

The shock of losing someone crucial to your business is enough on its own, let alone considering the effect it will have on your company. If someone you relied on to carry out a vital role was suddenly unable to do so, what would you do? And how would it impact your business if you were unable to replace them?

While people will always come first, the cold, hard truth is that a business must be able to continue should you lose a key person, however integral they are to the organisation.

Let's say you suddenly lose an experienced employee who accounted for 40% of your overall profits. Having been with the business for so long, they were everyone's 'go-to' person.

With no protection plan in place, you'll need a way to sort out your immediate cash-flow issues. After all, you still have to pay the wages and your suppliers, but now from only 60% of your usual income.

You'll need to hire a replacement and train them - both costly and time-consuming. Plus, you're worried about the impact on your remaining team, morale is understandably low.

This example illustrates why it's so important to protect key people in your business as you do your loved ones through Key Person Insurance.

## Did you know? 1 in 4 UK companies would close immediately after losing a key person

According to L&G research

## Don't Be A Statistic

These statistics demonstrate the importance of having Key Person Insurance in place. The unexpected loss of a key person can have a significant impact on a business's ability to continue operating and generating revenue.

- According to a survey by the National Small Business Association, 50% of small businesses fail within the first five years of operation. Of those that fail, **42% cite the unexpected loss of a key person as the primary reason.**
- A survey by Legal & General found that **only 12% of small business owners have Key Person Insurance in place** to protect their business in the event of the death or incapacitation of a key employee.
- A study by the National Small Business Association found that the average cost of **replacing a key person is equal to six times the key person's salary.** This can be a significant financial burden for a small business.
- According to a survey by Swiss Re, **one in five small and medium-sized enterprises would have to close** within six months of losing a key person.





## What Are The Chances?

### What's the likelihood of getting a serious illness?

Many of our customers ask this and the truth is that approximately **1 in 5 men, and 1 in 6 women, will suffer a long-term illness in their lifetime.**

**The average age for critical illness claims is only 47 years old.**

Having a valued colleague become seriously ill or worse is not the nicest thing to consider, but having the right insurance in place is vital for every business. This is especially true of smaller businesses without significant cash reserves to fall back on.

# Who Is A Key Person?

**A key person is an individual whose skill, knowledge, experience or leadership contributes to the continued financial success of the business.**

In fact, it could be ANYONE whose death could lead to a financial loss for the business through:

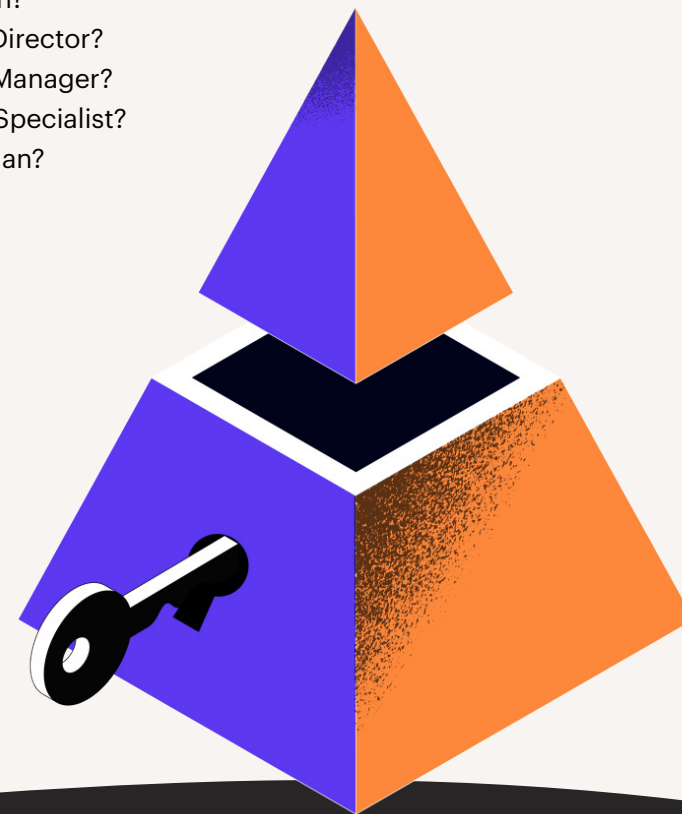
- Loss of profits.
- Having to recruit or train a replacement.
- Important personal or business contracts are lost due to the key person not being there to maintain a contract.
- Loss of goodwill which could have a direct effect when it comes to raising capital for the business or attracting new investors.
- Customers and suppliers losing confidence in the business.
- Outstanding loans.

## Do I Need To Prove Someone Is A Key Person?

It's pretty straightforward, as long as you can reasonably show that the business stands to suffer a financial loss of profits as a result of the death, terminal or critical illness (if chosen) of that employee. They are classed as a key employee.

## Who's Essential To Your Business?

- You?
- Chairperson?
- Managing Director?
- Marketing Manager?
- Computer Specialist?
- Top Salesman?



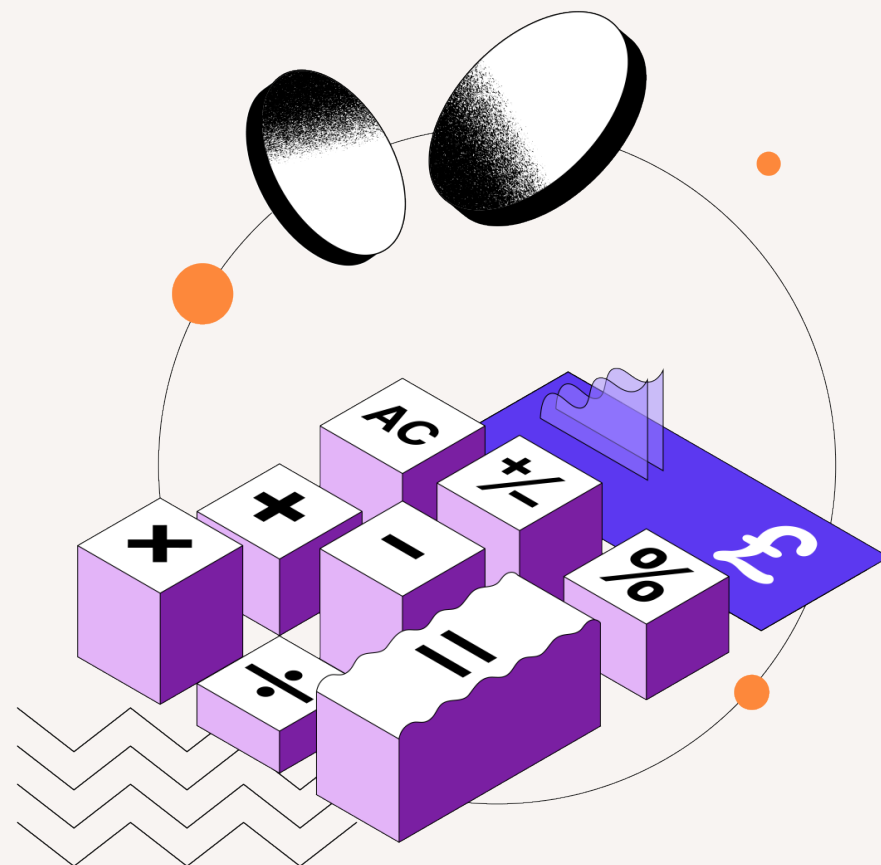
# Calculate The Value Of Your Key Person

## Ask Yourself The Following:

- How much revenue does your key person generate?
- Would your business loans be impacted if your key person were to be suddenly absent due to serious illness or death?
- Would the business suffer a loss of vision?
- Does your business have sufficient cash reserves to cover any loss of income?
- Can you afford to recruit a replacement straight away?
- Without insurance, how confident would your lenders or investors be?
- What would be the impact on the rest of your team? Would morale dip and who could provide the same level of knowledge as your key person?
- Would any of your customer/supplier relationships be affected?

## Are You A Team Of One?

The lump sum payment your company will receive from the key person cover will allow you time off work to recuperate without the need to worry about money. You'll continue to trade, cover your mortgage, pay household bills or make alterations to your home or lifestyle to allow you to adjust. This plan also safeguards any savings you have accumulated over the years (and paid tax on!).





# What Can I Use The Payout For?

## 1. Protecting Your Finances

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If losing a key person or you, mean lost profits, Key Person cover will help cover those costs until you've recovered. It can be used to pay for wages, replacement staff and even loan repayments owed by the business. This will help keep your business afloat during a difficult period.

## 3. Future-Proofing Your Business

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Going through something so difficult as a business as the loss of a key employee could have a huge effect on your staff - particularly the future of the business. With Key Person Insurance taking care of the money side of things, employees can at least be more reassured that the business's financial future is secure and their jobs aren't immediately at risk.

## 5. Employee Benefit

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You can use some of the lump sum received to support your employee during their illness - this makes for an excellent employee benefit.

## 2. Paying Off Any Outstanding Debts

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With this insurance, any overdrafts and loan repayments are covered. It guarantees the repayment of loans (depending on the cover you choose) in the event of the death of a key person. Having this in place will limit the wider impact on the business to prevent closure.

## 4. Covering Recruitment Costs

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You might not want to think about replacing someone under such circumstances, especially not immediately after, but the reality is you have to continue doing business. This involves finding someone new to be a part of that. Key Person Insurance will cover the cost of a new employee, as well as the process of advertising and interviewing candidates.

## 6. Taking Care Of The Key Person's Family

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It can also provide financial protection for the key person's family in the event of their death or incapacitation.

# The Important Stuff

## Taxation of Key Person Plans

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If an employer insures their business against loss of profits due to the death, critical illness, accident or injury of an employee, director or another key person, the premiums may be tax-deductible if:

- The sole purpose of the insurance policy is to meet a loss of trading income from the loss of that key person, and not a capital loss to the business
- If the insurance is a term insurance policy providing cover against the risk of one or more key lives within the term of the policy, and no other benefits. It's also important that the insurance term should not exceed the key employee's usefulness to a company

## Calculating The Amount Of Cover

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When calculating the appropriate amount of cover needed you should consider the effect of the loss of the key person on the business including whether this would directly impact the profits, and what the cost of hiring a replacement might be.

There are many calculations such as salary multipliers online, however, the level of coverage required will depend on your unique needs. We recommend that you speak to your Broadbench expert who will help you to calculate an appropriate amount.

Your Broadbench adviser will be able to walk you through the specifics of the policy you choose.

# The Important Stuff

## What If The Key Person Leaves/Retires?

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If a key person were to leave or retire before the end of the key person protection policy term, the business could do one of the following:

- Stop paying the premiums and the policy would then lapse.
- Continue paying the premiums until the end of the policy term and, in the event of a claim, the business would receive a capital sum.
- Assign the policy to the key person who would then become the legal owner of the policy and could continue paying the premiums.

Where a partner is a key person and the policy is written in trust, the policy would automatically revert to the key person.

## Why Use A Trust For A Partnership?

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A partnership in England, Wales and Northern Ireland cannot be the owner of a policy because it does not have a separate legal identity. If the key person is one of the partners, that partner could take out their own life plan, and write it in trust, at the outset, for the other partners. We have in-house trust experts to guide you through the process.

The taxation of this can be complicated, for both the company and the life insured. National Insurance and Capital Gains tax may also need to be considered. Our advisers can help by providing specialist advice on this.

## Why Broadbench?

Many of us decide on what insurance to go for (whether it's for your car, your house or your life) that fits the monthly premium we want to pay. Of course, you could go to a price comparison site and very quickly find the cheapest quote on the market, but would it be the best solution for you and your family?

Our advisers have the skills and knowledge to offer you bespoke and impartial advice, taking in a holistic understanding of your circumstances and combining it with a deep knowledge of what different providers offer. Not only that, but they know how to quickly navigate the insurance minefield and set up exactly what you require, taking the hassle out of your hands.

### The Benefits Of Using Broadbench:

- Bespoke and impartial advice
- You deal with a human, not a computer
- The hassle is taken out of your hands
- Access to expert market knowledge



## 4 Simple Steps

We make your life more manageable in 4 simple steps:

### 1. We Listen To You

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Getting to know you, your requirements and how you work enables us to find the perfect products for your needs.

### 2. We Study The Market

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Leveraging our network of lenders and insurers, we scour the market to find the best options and dig into the detail to make sure they're the right fit for you.

### 3. We Do The Boring Bits

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You just want to sign up with the right provider, not be buried in forms and red tape. That's why we run you through the details and fill out all the paperwork ahead of your final approval.

### 4. We Stay In Touch

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We don't just recommend and walk away. We'll regularly check whether your product is right for your current circumstances and, if not, find a new one that is.

## Our Services

### Business Protection

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- Relevant Life Insurance
- Key Person Insurance
- Executive Income Protection
- Business Healthcare
- Shareholder Protection
- Business Loan Protection
- Professional Indemnity

### Personal Protection & Insurance

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- Life Insurance
- Whole Of Life
- Critical Illness Insurance
- Private Healthcare
- Indemnity Insurance
- Personal Income Protection
- Buildings & Contents

### Mortgages

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- First Time Buyer
- Home Mover
- Remortgages
- Buy to Let

### Other Services

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- Pensions

## What Our Customers Say

We are passionate about our customers and providing giving the very best service. Take a look at our latest reviews on Trustpilot.

“Was very well looked after by Mike and the team, good lines of communication and an all round pleasant experience using Broadbench. Will definitely be using them again in future and would highly recommend.”

★★★★★ by Adam

Rated 4.9 / 5 | 308 reviews

★ Trustpilot

“Great company to do business with. Nothing is too much trouble and they keep you informed all the way through the process.”

★★★★★ by John

Rated 4.9 / 5 | 308 reviews

★ Trustpilot

“Tricky insurance renewal all sorted!! – I had a bit of a tricky insurance renewal requirement with lots of back and forth with my insurance provider. Jess and the team at Broadbench were brilliant! Chasing, unblocking issues and helping ...

★★★★★ by Paul

Rated 4.9 / 5 | 308 reviews

★ Trustpilot

“Broadbench did a great job of securing mortgage extension for me, kept informed throughout, would recommend.”

★★★★★ by DD

Rated 4.9 / 5 | 308 reviews

★ Trustpilot

“I am very happy and grateful of the service I get from all the staff of Broadbench. Excellent team!”

★★★★★ by Micheal Teklekle

Rated 4.9 / 5 | 308 reviews

★ Trustpilot

“Broadbench. Number One Provider! – We have used Broadbench as our chosen insurance broker for a fair number of years now. Both Tom & Jess have always fullfiled their duties and we could not reccomend them enough. Thanks Broadbench.”

★★★★★ by Terry Warman

Rated 4.9 / 5 | 308 reviews

★ Trustpilot

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## Find Out More

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