

## Do you need key person insurance?



To decide whether you need key person insurance, think about the individuals who are key to the success of the business. They may be senior people – but not always. For example, a researcher who is developing a new product may be relatively junior but difficult to replace quickly or without delaying a new product or otherwise affecting future profits.

Draw up a list of anyone who might be such a key person, then estimate the financial consequences if, tomorrow morning, they died suddenly, could not work because of a critical illness, or were expected to be off work for months or years. The costs might include:

- Recruitment costs of employing the right person to take over the role
- Loss of profits
- Delays in introducing new products or ideas
- Loss of customers
- Replacing lost business
- Repaying business loans.

If the sums involved are relatively small or easily managed, you probably do not need key person cover for that individual. But if the loss of the key person would be hard to manage, you should consider key person protection as a priority.

### How much cover?

An employer can only insure an employee for the financial cost that might be incurred as a result of their death or illness. For example, you might decide that if a particular key person died, the additional costs to the business might be £150,000. If so, you could take out a life insurance policy up to that amount.

Or, if a key person became disabled following a car crash and was expected to be off work for a year, you might conclude that the additional costs would run to £10,000 a month. If so, you could take out income protection insurance, usually for up to around 60% of that figure. We can help you determine the amount of cover you might need in each case.

### How much will it cost?

The cost of key person insurance will depend on a range of factors, including each individual's age, health and medical history, and precise occupation. In practice, the cost of key person insurance is usually only a very small proportion of their annual salary and benefits costs (and an even smaller proportion of the firm's total turnover).

### What is the tax position?

For life insurance and critical illness insurance, there is generally no tax relief on the premiums. There are some exceptions to this, but most key person policies do not attract tax relief. Any payout is normally not taxed. For key person income protection, premiums normally count as a business expense but regular payments to the firm count as a trading receipt.