Business Continuation Planning

Key Person Disability Insurance

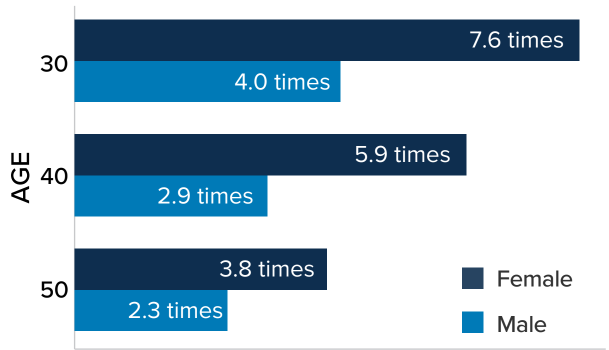
> **Key Person Disability Insurance provides the funds necessary to continue normal business operations and minimize disruption should a key person become too sick or injured to work.**

Many businesses mitigate the risks associated with losing a key employee to an unexpected death. However, the unexpected long-term disability of an owner or a key employee can also put an undue financial strain on a business and have a detrimental impact on its operations.

Key Person Disability Insurance

- A monthly disability benefit provides some assurance that the continued success of the business is protected should a key employee become disabled and is unable to contribute to the company's growth.
- Recommended for clients whose profitability is heavily dependent on one or two individuals, or clients with an upcoming merger or acquisition where the continued success of the acquired company is dependent on key individuals.
- The business owns the policy on the key employee (premiums are not deductible by the business), and benefits received are tax-free.
- The risk of long-term disability, often underestimated, is much greater than the risk of premature death during working years.

Risk of Disability vs. Risk of Death*



**Disability Fact Book, GenRe, Seventh Edition, 2013–2014*

Advantages of Key Person Disability Insurance

- Indemnity-based benefits help the business with operating expenses, compensating for lost productivity, covering the cost of hiring a replacement or temporary staff, and other expenses.
- Alleviates strain on the business and staff when replacing a key employee with valuable relationships and experience.
- Coordinate with Disability Buy Out insurance as an initial tier of coverage with a shorter waiting period, ensuring financial protection for the business until the buy-sell agreement is executed.

Policy Plan Design Considerations

- **Guaranteed Continuable to Age 65**
- **Maximum Issue Age:** Age 55 (60 for multi-life 3+ lives)
- **Maximum Benefits:** Generally, $20,000/mo., or $500,000 lump sum, or $1,000,000 aggregate
- **Benefit Payment Options:**
  - **Lump Sum Plan** — Lump-sum payment after the elimination period
  - **Combination Monthly Installment and Lump-Sum Plan** — Monthly benefit payments after an elimination period of 90 or 180 days. Monthly benefits continue until the lump sum payment elimination period of 180, 365, or 730 days is satisfied.

Policy Availability

Key Person disability insurance is not available in all states and is not widely available in the domestic insurance market, with two providers currently offering product solutions. When coverage through domestic carriers is not available or insufficient, the Lloyd's of London market can be a solution.

It is important to address both life and disability risks as part of a comprehensive risk assessment, particularly when a key individual's inability to work due to death or disability could potentially destabilize the organization's financial status.

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