



Key Person Cover

General Guide



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INSURANCE BROKERS SINCE 1887

Is there someone important in your business?



What stops a business insuring its most important assets?

I wish I knew the answer. In May 2015 Legal & General research revealed that-

- **40% of businesses would cease trading in under a year if a key person died or became critically ill**
- **60% of businesses estimated it would take up to a year to find a replacement for their key person**

What is it?

Key Person insurance is taken out by a business to cover the loss of profits that will happen if a key person dies, falls critically ill or suffers a long term disablement.

Why Do We Need It?

If your business needs to recruit someone immediately with your Key Person's skills then you may have to pay over the odds to attract the right person.

The insurance cover provides the business with a **lump sum of money** or a regular payment so they can continue trading reducing the possibility of banks calling in loans, suppliers refusing to supply and customers switching to a competitor.

Who is the Key Person?

A key person is someone whose death or disability would have a serious effect on your future profits or indeed survival. You may have one or more employees who make a vital contribution to your profitability. The size of an individual's shareholding will not necessarily indicate who is a key person.

A person may be key to you because they:-

- Have valuable sales contacts which might be lost if they are no longer with you.
- Design or manufacture a vital proportion of the products you offer
- Are the main driving force behind the business.
- Are a controlling director or business owner who has personally guaranteed loans made to the company by a bank.
- Are heavily involved in the development of a new product because of their knowledge or expertise

- Are at the top of their line of work and have been time consuming and expensive to recruit and so might be difficult and expensive to recruit a replacement.
- Are key sales people who contribute a significant amount to your profits.

How Much Do I Cover?

There is no set method for working out an appropriate amount of cover but we will help you. The insurance company will want to make sure that they are insuring an appropriate amount; they call this financial underwriting, so they normally want to see financial accounts.

Who takes out the policy?

Normally the business, as it is the business that the policy is protecting against the loss of future profits. If your business is a company it will be the company that applies for the policy and will be the policy owner, with the key person being the life assured. As the policy owner the company is responsible for paying the premiums and if the key person dies or becomes critically ill, the company will receive the claim proceeds.

What about tax?

Tax always seems complicated. It is important, so normally we work with your other professional advisers to make sure the cover is set up in the right way for your business.

Before a company takes out a key person policy it will want to know if the premium it pays will qualify for corporation tax relief and whether the proceeds will be taxable. There isn't any direct legislation covering the taxation of key person policies but the principles were set out many years ago. Each case is looked at on its own merits and will depend on the local HM Revenue and Customs (HMRC) office, whose practices may vary (but may be known to your accountant!). It is the Inspector of Taxes that will decide whether to allow a company to claim premiums as a deduction. The status of the proceeds as a trading receipt is not affected by whether the premiums are allowable as a business expense.



Rest assured we will explain what actions you need to take, but would normally refer you to your accountant for tax advice.

What about health?

Expect for the key person to fill in a medical questionnaire and expect the insurer to ask their GP for a report. In some cases insurers ask for the key person to attend a full medical. These are normally paid for by the insurer. If they have any existing medical conditions or have suffered any in the past it's their duty to disclose them, but don't be put off considering cover, we will talk to the underwriters. Many people will have (or will have had) similar conditions; the underwriters have lots of experience in dealing with most of what can affect us.

Summary

You'll be surprised how little Key Person life assurance can cost for a very large sum assured, especially when you compare it to your other insurances. Combining critical illness cover can cost a little more and disability cover can often be more expensive again. We'll make sure a solution fits your budget.

Give me a call on **01822 855 555**.

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