

LIFE INSURANCE

Does Key Person Insurance Make Sense For Your Business?

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Whether you've just put the finishing touches on your first new business plan, or you're a lifelong entrepreneur, running a company is no easy task. Between setting up shop, hiring the right people, and staying current on your bills, choosing an insurance policy for your company might be the last thing on your mind. But what would happen to your business if something tragic were to happen to you, your co-founder, or another valuable employee? Chances are, your business just wouldn't be the same. Luckily, you have options. Key person insurance is a type of life insurance policy that a company can take out on an employee. Obviously, all good employees are indispensable, but losing someone in a leadership role can derail your entire operation. That's where key person insurance comes in.

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What Businesses Should Consider This Type Of Insurance?

If the unexpected loss of a key employee would result in negative ramifications to your business's bottom line (or even its daily operations), chances are [you need key person insurance](#). The insurance payout will help sustain your business while in this unexpected period of transition and vulnerability. The funds can be used for anything from operating expenses until it can find a replacement employee to paying off any debts incurred (including paying investors).

This type of insurance is especially vital to small businesses or startups that have a smaller team. In these instances, the owner or founder would likely be the "key person" as, without them, the company would struggle to stay in business.

How Does Key Person Insurance Work?

It's pretty simple: A business purchases a life insurance policy on its key employee(s) and pays the premium(s). Since the organization is the beneficiary of this type of policy, in the event of the passing of this individual(s), the company receives the insurance payout. In this unfortunate scenario, key person insurance gives the business some flexibility that doesn't have to result in immediately filing for bankruptcy.

The amount of insurance your company needs varies, but, the common wisdom is to [buy what your business can afford](#). Companies can, generally, request quotes on policies in the amounts of \$100,000, \$250,000, \$500,000, \$750,000, and \$1 million to compare the benefits.

It helps to first identify how much money your company would need in the event that the key person passes away to keep the business running.

What Does This Type Of Coverage Actually Cover?

There are several categories of loss that key person insurance addresses ranging from protecting against profit loss to protecting shareholders.

- Any losses over an extended period of time when a key person is unable to work but has not passed away
- Sheltering a company from profit loss
- Protecting shareholders or other investing entities
- Guaranteeing business loans—the value of the insurance coverage equaling outstanding debts

Even if key person insurance doesn't make sense for your business, you might still consider a term policy for yourself. It's an affordable way [to protect the financial stability of your loved ones](#)—no matter what. Get a quote instantly by applying in just 10 minutes.

Contact Us

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