

November 2015



Protecting Business by Protecting People

Keyperson Protect







Why purchase Keyperson Insurance?

When running a business, it is vital to consider and plan for events that could adversely affect its success. In particular, it is important to consider the implications to a business of the sudden death or serious illness of a vital employee – a key person in the business.

To minimise the financial impact of losing key employees a business needs Keyperson Insurance.

Keyperson Insurance can be purchased by a company to protect against the financial consequences of the death and/or serious illness of one of their key employees. The employer pays the premiums and in the event of death of the insured, a cash sum is provided which will help to maintain the business and protect its future security.



Forms required

Keyperson Insurance Application Form



Keyperson Insurance Financial Questionnaire



This guide is designed as a quick reference to the main features of the policy. For full details of any individual cover or any other aspect of the policy, you should consult the Policy Document, which is definitive in all matters of interpretation and entitlement to benefit. In the event of any conflict between this brochure and the Policy Document, the provisions of the latter will prevail.

The keyperson

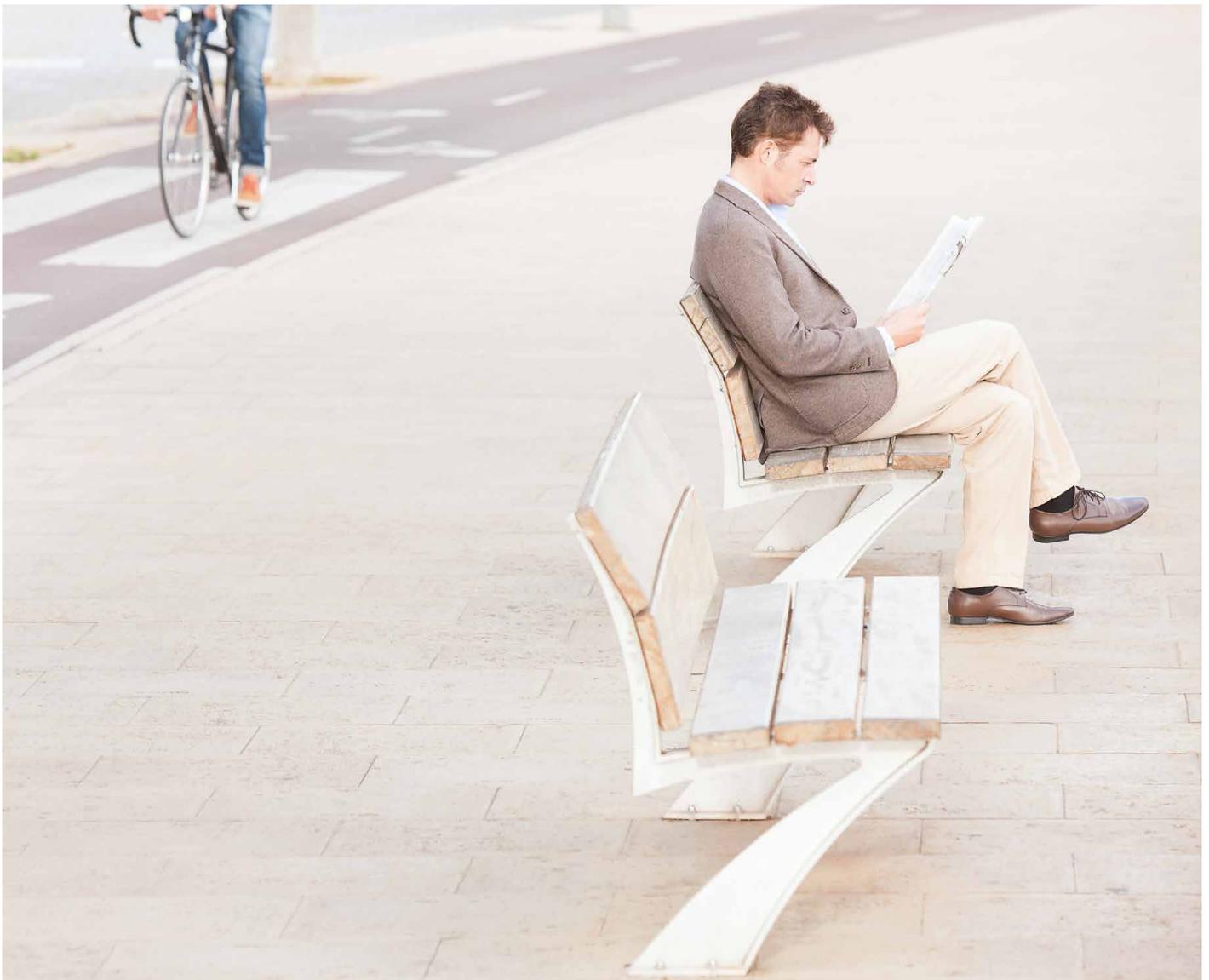
A keyperson is an employee whose expertise, knowledge and contacts are key to the continued financial success of the company.

Keyperson Insurance assists the survival of the company on the death or diagnosis of a serious illness of a key employee by compensating that company for any anticipated financial loss on the occasion of either of these events.

Business Interruption

The death or diagnosis of a serious illness of a keyperson could put a company in a financially unstable condition in a number of ways:

- An interruption of business activity and a consequent reduction in profits.
- Bank loans on which the keyperson gave a personal guarantee may be called in.
- The keyperson or his/her estate may be owed any loans made by him/her to the company.
- Banks and/or suppliers may reduce or withdraw credit facilities over worries about the future profitability of the business.
- The loss of the individual's expertise and business contacts.
- The need to commit resources to find a suitable replacement. This may be a prolonged process if the individual had unique experience and expertise.



Setting up Keyperson Insurance

The procedure for effecting Keyperson Insurance on the life of an individual is as follows:

- The decision to effect an insurance policy for the purpose of Keyperson Insurance should be made and minuted at a board meeting of the directors of the company. This resolution should clearly show that the intention of the company in effecting the policy is to protect against financial losses in the event of the death or serious illness of the Keyperson.
 - The company effects a policy on the life of the Keyperson for the amount required to protect against anticipated financial loss. A director of the company signs the application form 'For and on behalf of the company' – ideally, this should be a different person to the individual covered, but this does not have to be the case. The company's seal should be affixed to the application form over the signature of the director.
 - On acceptance by Zurich, the company pays the premiums and the Keyperson is on cover.
 - A Keyperson financial questionnaire will generally be required before it will accept the policy. This is to be completed and signed by the life insured. Zurich will decide whether this questionnaire is required.
 - Zurich will not accept a policy as a Keyperson case if the term runs past his/her Normal Retirement Age or terms of loads.
 - The Keyperson has no entitlement to the proceeds.
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Quantifying the cover

Loss of Profits

- The impact on profits of losing the Keyperson's expertise will need to be assessed. There are various approaches to calculating this e.g. a multiple of net profits or a multiple of the Keyperson's current annual remuneration. You are recommended to seek independent professional advice in assessing this.
- The cost of hiring a replacement should also be considered. The longer the recruitment process, the higher the cost to the company.

Loans

- The sum insured can also cover any loans that the keyperson has made to the company, which will have to be repaid to his/her personal representative(s).
 - Any company loans that the Keyperson has personally guaranteed may have to be repaid, and should be considered.
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Note: Tax treatment of the premiums/benefits can vary depending on what is being covered. Please refer to page 4.

Taxation

The purpose of Keyperson Insurance is not to improve the financial situation of the company and increase its value. It is meant to indemnify against loss of profits on the death of a key individual.

Premiums paid are not necessarily admissible deductions for tax purposes. In order for the premiums to be tax deductible, all of the following conditions must be met:

- The relationship between policy owner and the life insured is that of employer and employee.
- The employee controls no more than 15% of the ordinary shares in the company.
- The insurance policy has been effected for loss of profits only (e.g. not to cover repayment of loans).
- The policy is short-term, i.e. the policy cannot extend beyond the employee's likely period of service with the employer.

If the premiums are an allowable deduction for tax purposes, the proceeds will be liable to tax.

If the premiums are not allowable deductions, the proceeds are not liable to tax. Note, however, just because tax relief is not sought on premiums, it does not automatically follow that the proceeds will be tax-free.



It is therefore advisable that the company taking out the **Keyperson Insurance** writes to the Revenue to clarify the position.

Conclusion

In the same as a company insures itself against loss of profits from damage to its plant and machinery, Keyperson Insurance allows it to protect itself against financial strain from the loss of a person who is key to the business.

For More Information



Talk to your
financial broker
or advisor



Call our Financial
Planning Team directly
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