

# protecting your people

## key person protection insurance

### Key persons

Business owners and top executives are most often thought of as key persons. However, key people could also include: scientists, researchers, creative talent, investment managers and professional athletes - amongst many others. Essentially, a key person is anyone whose death or disability could:

Result in **lost customers** and **negatively impact business profits**



Create a **management void** that **cannot be filled by current staff**



Impair the **organisation's financing** or its ability to **secure additional financing**



Result in a **loss of intellectual capital**



### Key person insurance

The business can suffer a severe financial impact if a key person dies, suffers a critical illness or becomes permanently disabled. Key person insurance, alongside a viable transition plan, can help to reassure creditors, suppliers, customers and employees. It works as follows:

- The business pays a premium to insure an identified key employee for a specified amount.
- On the death or diagnosis of a specified serious illness of the employee, the insurer pays the sum assured to the business.



## Appropriate levels of cover

There are a four available options to calculate the appropriate level of cover.

### 1 Multiple of remuneration

A multiple of the key person's remuneration, including all fluctuating emoluments and the value of any fringe benefits, can be used to calculate the sum assured:

**5-10 x remuneration**

### 2 Multiple of profit

A multiple of the business's gross or net profit can also be used. Net profit is profit after expenses but before tax:

**2 x gross profit or 2.5 x net profit**

### 3 Protect any business lending

The amount of any new or outstanding business lending, including the remaining term and current interest rate:

**Amount in € of any business loan or commercial mortgage**

### 4 Contribution to profitability

This method of calculation is helpful only if the key person's salary and total payroll are/have been stable. The calculation below can be used to value the contribution made by the key person to the business:

$$\frac{\text{Key person's remuneration} \times \text{Averaged annual gross profit} \times \text{Expected recovery period (in years)}}{\text{Total salary roll}}$$

## How can Mercer help?

Mercer's team provides specialist advice and insurance solutions to protect your business's critical human assets, its people.

We will work with you to determine the appropriate amount of key person insurance required. This includes conducting an unbiased assessment of a broad range of competitive insurance providers and streamlining the application process. This will allow you to concentrate on the important task of running your business.

To learn more, please contact your Mercer protection planning consultant on **+353 1 553 0189** or email us at **myprotection@mercer.com**.

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