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## Keep Your Dream Alive With Key-Person Life Insurance By Dawn Coleman

**R**unning your own business is both demanding and rewarding. With so much on your plate, you may not have given much thought to a matter that may significantly impact the future of your business: “key person” insurance. And, while no one likes to plan for the death of a company leader, being properly insured now can help keep your business afloat in the event of an unexpected tragedy.

### **What is Key Person Insurance?**

Key Person insurance is simply life or disability insurance on the key person in a given business. Key Person life insurance works like individual life insurance - when the insured dies the policy pays out a benefit. Instead of an individual insuring himself or a family member, however, the business owns the policy and pays the premium. If the insured dies, the business is the beneficiary and will receive the policy payout.

The purpose of key person insurance is to help the company survive in the absence of the person who essentially makes the business work. The company can use the insurance proceeds for expenses until it can find a replacement person, or, if necessary, pay off debts, distribute money to investors, pay severance to employees and close the business down in an orderly manner. In a tragic situation, key person insurance gives the company some options beyond bankruptcy.

### **Who Do You Cover?**

The first thought is probably to insure the company founder, but when it comes to business continuation, rank is less important than role. While your business might falter without its founder, it also may not be able to survive without its revenue-generating sales manager or the growth offered by a business development leader. A careful evaluation of your business and its employees will help you select the best insurance options for the company’s key players.

### **Contemplating Coverage**

In general, key person coverage ranges from matching the key person’s base salary to as high as 15 times his salary - or it can be a flat amount. As with any insurance decision, the amount of key-person insurance the business needs will vary a lot based on the specific situation. Your best bet is to sit down with your financial professional and discuss the options. You should ask yourself the following questions:

What would it cost if you had to hire someone to perform the services of the key person?

How long would it take for a replacement person to get fully up to speed?

What is the balance on the loans you would need to pay off?

What would it cost to buy out the principal’s stock or partnership interest?

How much can the business afford to spend on key person life insurance annually?

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A qualified financial professional can help you estimate how much money your business would need to survive until it could replace the key person, come up to speed, and get the business back on its feet.

Whether you are the only key person in your business or you have other employees who contribute greatly to the success of your business, you don't want to leave your company's future hanging in the balance. If you are like most people, your business is your baby, and deserves as much carefully considered insurance coverage as insurance for the benefit of your spouse and children. Putting an insurance policy into place today will help guard your business and its employees against potential financial loss in the event of a tragedy. And that's more than just common sense. It's good business.

*Provided courtesy of Prudential. For more information, contact Dawn Coleman, Ca license number 0685858, a Sales Professional with The Prudential Insurance Company of America's Greater Orange Coast Agency, the agency is located in Irvine, California. Dawn Coleman's private office is located in Long Beach, California. She can be reached at [dawn.coleman@prudential.com](mailto:dawn.coleman@prudential.com) and (562)438-5118.*

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