



Case Study

Key Person Protection

Scenario

XYZ Limited employs a small number of individuals with two directors who founded and built the company and who are due to retire in 5 years' time. The skills, knowledge, experience, and leadership of the two directors contribute to the continued financial success of the business.

During a meeting with the directors, a discussion took place in relation to the potential impact of their deaths on the company, which would include:

- Loss of profits.
- Having to recruit or train a replacement.
- Contracts being lost due to the person not being there to maintain the contract.
- Loss of goodwill.
- Customers and suppliers losing confidence in the business.
- Outstanding loans not being able to be repaid.

Solution

We arranged two separate Key Person policies to cover each director under the following terms:

Life Assured	Director
Policy Owner	XYZ Limited
Sum Assured	£500,000 Life Insurance with Critical Illness Cover (Based on 5 times salary of the director, we can use various measure to calculate the sum assured)
Term	5 years (Term until the directors are due to retire)
Monthly Premium	Subject to medical underwriting

Results

- XYZ Limited, as the policy owner, will receive the sum assured if one of the directors passes away or suffers a critical illness. This sum assured can be used to help with the continuity of the business given the influence the directors have.
- It should be noted that the sum assured will likely be treated as a trading receipt and be subject to corporation tax, but the premiums could potentially be a tax-deductible business expense.



Potential Risks and Disadvantages

- Protection plans may expire on either a claim being made or at the end of the term if not renewed. If the policies reach the end of the term and no claim is made, there will be no benefits paid to you nor will there be a surrender value.
- If there are guaranteed premiums, once the plans are in force you will be unable to alter this.
- Underwriting terms may be applied which could increase your premium and/or discount certain conditions covered within your policy, from that covered in the Key Features Document.
- If you do not cancel your policy within the cancellation period, you may not receive a refund on your premiums paid up to this point.
- If you stop paying your premiums, your cover will stop.
- The premiums quoted may increase after medical underwriting or the level of cover offered by the insurance company could be reduced.
- If the policies being taken out are on a level basis, over time the benefit which would be received would be reduced in real terms due to the effect of inflation and could be insufficient to carry out any work required to your property or pay for treatment.
- After medical underwriting there may, be certain common conditions that will be excluded from your plan depending on your medical history.
- There is no guarantee that the new cover will be underwritten on similar terms to that of your existing cover.
- Any benefit pay out may be liable for corporation tax, reducing the total payout you may receive.

Specific to Protection Plans

- If any relevant information provided has not been disclosed accurately and honestly, this could result in any cover offered becoming invalid and may result in the non-payment of any future claims.
- It is important to regularly review your levels of cover to ensure that they remain suitable to meet your needs.
- There is no guarantee that the level of cover being applied for will be offered by the provider.
- There may be certain circumstances when the terminal illness payment will not be paid, please refer to your key features document for more information.
- There may be restrictions to your policies with regards to travel or residency. Please refer to your key features document for further details.
- After medical underwriting, your premiums may increase from those quoted within this report as these have been provided for illustrative purposes only.
- If you cancel after the first 30 days of the policy, you will not receive a refund on your premiums.
- If you cancel your policy whilst a claim is being made you may not receive a pay-out.
- Applying for the same level of cover may increase in the future.

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Risk Warning

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