



## Key Person Replacement Insurance

# Help Businesses Protect Their Most Valuable Assets

What would your business clients say is their most valuable asset? Not surprisingly, it's usually their key employees – those critical to the livelihood of the business. Many employers protect their businesses from the loss of key employees due to death, but few are protected from a key employee's total disability. Employers may not realize how a total disability could be a major disruption to their business. These clients need to know about Key Person Replacement insurance from Principal Life Insurance Company.

### The need

It's important to remind business owners they could suffer from a key employee's total disability in many ways:

- Loss of management skill and experience, especially in a business without management depth
- Disruption of the business when clients withhold or delay their business until the impact of the employee's disability is known
- Difficulties when cautious creditors wait until they can assess how the disability affects the business
- Increased expenses associated with hiring and training a key employee's replacement

### How it works



1. The employer pays the premium and is the owner of the policy insuring the key employee in the event of a Total Disability.
2. If the key employee becomes Totally Disabled, the employer receives benefits, generally tax-free. These benefits\* can be used at the discretion of the business but common uses include bridging the revenue gap, hiring and training a replacement and filling temporary staffing needs.

\*These benefits cannot be assigned to the key employee. The maximum benefit amount available is based on a calculation of two times the key employee's earned income (up to \$500,000).

## Who is a key employee?

Typically, a key employee is someone who:

- Is critical to the livelihood of the business
- May or may not be one of the owners
- Is responsible for management decisions
- Is highly paid
- Has a significant impact on sales
- May have a special rapport with customers or creditors

### Principal Life guidelines for key employees

- Earned income must be more than \$30,000/year
- May not own more than 50% of the business
- Can only be insured as a key person under one business entity
- Must be actively working full time (at least 30 hours per week) in the key person position
- Must be employed in the key person position for at least 12 months
- Ages 18 to 55

## Target market

Key Person Replacement insurance is ideal for small- to medium-sized businesses, specifically those with employees who have specialties or experience that is not easily replaced, such as medical professionals, attorneys, engineers/IT programmers, architects and CPAs.

## Hypothetical example

Med Technology Company is a leading manufacturer of specialized surgical equipment and relies on its talented development engineer, Bob Jones, to rapidly develop new ideas into marketable products. Bob has been with the company for several years and is the only development engineer on staff. He is critical to the success of the business and currently earns \$250,000/year.

If Bob were to become totally disabled and no longer be able to perform the substantial and material duties of his occupation, Med Tech would suffer a significant financial loss. Because of this, Med Tech purchases a Key Person Replacement insurance policy on Bob.

If Bob does become totally disabled, this policy pays Med Tech a lump sum benefit of \$500,000 (two times Bob's earned income at time of purchase). These funds would help Med Tech find and train a new development engineer, minimizing the impact of any reduced revenue due to Bob's departure from the business.

FOR MORE INFORMATION

Contact your local representative



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Principal Life Insurance Company, Des Moines, Iowa 50392-0002, [www.principal.com](http://www.principal.com)

To see if your state has approved Key Person Replacement insurance, visit: [principal.com/distateapprovals](http://principal.com/distateapprovals)

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## Key Person Replacement Insurance

# Policy Highlights

What would happen to your business if a key employee who is critical to the livelihood of the business became totally disabled? You can help protect your business with Key Person Replacement insurance from Principal Life Insurance Company. This policy is an effective way to provide your business with the funds necessary to help handle the loss of a key employee and recruit and train a replacement. Here's how it works:



1. The employer pays the premium and is the owner of the policy insuring the key employee in the event of a Total Disability.
2. If the key employee becomes Totally Disabled, the employer receives benefits, generally tax-free. These benefits cannot be assigned to the key employee.

### Why purchase Key Person Replacement insurance

- It provides benefits after the total disability of an insured employee that can be used at the discretion of the owner.
- The policy can be used to demonstrate financial stability to creditors and clients.
- The insured key employee is not limited in amount of Individual Disability Income insurance benefits he/she may qualify for from Principal Life.

### How the policy pays

If the insured key employee meets the definition of Total Disability, the owner of the policy receives either a lump sum payment or a combination of monthly and lump sum payments (depending on how the policy is structured).

To meet the definition of Total Disability, the insured must be unable to perform the substantial and material duties of his/her Key Person Occupation and not be working in any other occupation which is comparable by duties and/or earnings for the business.

## Receiving disability benefits

Once the insured key employee is disabled under the terms of the policy, the elimination period must be satisfied. Benefits are received at the end of the elimination period, assuming all the claim requirements have been submitted.

If the insured key employee dies during the elimination period, no benefits are payable. If the insured key employee dies while the maximum monthly benefit is being paid, those payments stop at the date of death.

## Key Person Replacement insurance policy benefits

These benefits are automatically built into Principal Life's Key Person Replacement insurance policy:

- **Guaranteed Premium** – Principal Life cannot change premiums due to changes in the insured key employee's health. The policy can be canceled only if:
  - Employment is terminated with the company for any reason other than Total Disability.
  - Policy premiums are not paid.
  - The insured key employee dies.
  - The lump sum benefit has been paid.
- **Flexible Payment Methods** – The policy can be set up to provide benefits in a lump sum payment or a combination of monthly and lump sum.
- **Waiver of Premium** – After the insured key person is disabled and meets the elimination period, premiums are waived. We'll refund the premiums paid after the insured's total disability begins and will continue to waive all premiums that come due during the disability.
- **Interrupted Elimination Period** – Principal Life will combine different periods of disability to help reach the policy's Elimination Period. These periods of disability must occur within a period that is twice as long as the elimination period, but less than one year.

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This is a general description; it is not the policy, and does not modify or change the provisions of the policy. All features and provisions may not be available in all states, with all occupation classes and in conjunction with each other. They may also be subject to state variations and require an additional premium. Please read the policy carefully for exact definitions in your state. Disability Income insurance has limitations and exclusions. For costs and complete details of coverage, contact your Principal Life financial representative.



## Key Person Replacement

# Could This Be Your Case?

Individual Disability Insurance solutions from Principal Life Insurance Company help you give employers an edge in protecting their businesses. Learn from your peers and find success selling Principal Life's Key Person Replacement (KPR) insurance and other disability solutions.

### Sales manager with significant client relationships

#### Background

- An equipment distribution company wanted to protect a sales manager who was critical to the business due to his many key client relationships. If he became too sick or hurt to work, the company would lose revenue and it would be a challenge to find and train a replacement.
- In 2006, the employer purchased both key person life and disability insurance on the sales manager from other carriers.

#### Solution

- KPR insurance with a 180-day Elimination Period and a \$420,000 lump sum benefit (two times the sales manager's annual salary).
- The policy met the employer's desire to have "guaranteed" premiums. Plus, the policy offered a stronger, more competitive definition of disability.

#### Compensation

- \$3,570 in annual premium; \$1,785 in first-year commissions
- \$714 in renewal commissions over five years<sup>1</sup>
- Additional sales opportunities: offering employees Individual Disability Income (DI) insurance, replacing group long-term disability benefits and purchasing KPR insurance on other key employees.

### Executive search leads to new CEO

#### Background

- A non-profit hospital recently hired a new Chief Executive Officer (CEO) after an extensive and expensive search.
- The hospital was an existing group benefit client.

#### Solution

- KPR insurance policy with a 90-day Elimination Period and a \$10,000/month benefit, followed by a 365-day Elimination Period and a \$110,000 lump sum benefit.
- The benefits can be used at the discretion of the hospital, but will likely be used toward the costs of recruiting and hiring a replacement.

#### Compensation

- \$2,295 in annual premium; \$1,148 in first-year commissions
- \$459 in renewal commissions over five years<sup>1</sup>

## Business owner sees the impact of disability

### Background

- The owner of a small health care agency recently watched a close friend become too sick or hurt to work due to a sudden illness. She saw how not having proper insurance impacted her friend.
- The owner was interested in finding insurance solutions to protect her family and business.

### Solution

A comprehensive disability solution including:

- KPR insurance for a sales/marketing manager critical to the business, that provided a 90-day Elimination Period and a \$4,000/month benefit, followed by a 180-day Elimination Period and a \$58,000 lump sum benefit.
- Overhead Expense insurance to help cover key business expenses.
- Voluntary Multi-Life Individual DI insurance for employees (four of the 11 eligible employees purchased coverage).
- Plus, since more than three individuals with a common employer purchased disability insurance, everyone received a 20 percent Multi-Life Discount.<sup>2</sup> **A total of \$3,248 was saved!**

### Compensation

- \$9,189 in annual premium; \$4,595 in first-year commissions
- \$1,838 in renewal commissions over five years<sup>1</sup>
- Additional sales opportunities: offering a Simplified Employee Pension plan, life insurance and additional Individual DI insurance as more employees are hired.

*Key Person Replacement is not available in all states, go to: [principal.com/distateapprovals](http://principal.com/distateapprovals) for more information.*

<sup>1</sup> Assumes Series 700 compensation, 100 percent persistency and no annual coverage increases.

<sup>2</sup> Individual DI insurance discount based on gender neutral rates; all other products based on gender-specific rates. In Ohio, the Multi-Life Discount is not available on business products and any sold will not count towards the three lives qualification.

### FOR MORE INFORMATION

Contact your local representative.

Please remember to abide by the company's policy on disclosure of compensation. You can obtain more information, as well as a disclosure form, at [www.principal.com](http://www.principal.com).



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