

Special Report

How to futureproof your business with *key person* protection

*If you had a goose
that laid golden eggs,
would you insure the eggs
or the goose?*

Compiled by

Lindsay Armishaw

Risk management and lifestyle protection advisor

www.futureprooflife.com

How to make sure your business doesn't fail if a key person is seriously disabled, or dies

Running a business is demanding enough when everyone is alive and healthy, and too often we like to think we're bullet proof. But accidents do happen, and major illness such as cancer, stroke and heart attacks can have a devastating impact on your business, cash flow and lifestyle.

Survival usually depends on our ability to respond to change or crisis.

Medical statistics, (and experience), tell us that the most dramatic impact on your business and your lifestyle is the loss of a *key person* (or business *partner*) through death or disability.

However, when we understand the benefits of *key person* protection, we can create a risk management plan specifically designed to hold our business together in a crisis.

The purpose of this report is to look at your business from a risk and resilience point of view, and to help you make an informed decision on the following:

If a *key person* died or was seriously disabled last night, would the future prosperity of your business be as certain today as it was yesterday?

If a key person suddenly dies or becomes disabled, what will happen to your business?

- Will your business be unable to complete current projects & contracts?
- Will your bank lose confidence in your business and demand you to pay back their loans?
- Will your biggest customers stop doing business with you?
- Will your biggest suppliers demand payments and stop selling to you on credit?
- Will your other employees resign because of the uncertainty of the future of your business?
- Will your business lose the goodwill you've been working so hard to gain?
- Will you lose your competitive advantage to the competition?
- Will you lose so much income that you may have to sell some of your business assets to pay your debts and expenses?
- Will you have to sell some of your personal assets to pay off debts that you personally guaranteed?

Here's what we mean: let's suppose a *key person* suffers a massive heart attack, or had just been diagnosed with cancer...

Imagine running your organization without your *key person* for even just six weeks... let alone six months or longer.

If you need to upgrade old equipment, purchase new equipment, maintain market share, or important relationships, increase sales and productivity... you have a problem.

Unfortunately, no matter how much hoping, wishing, or praying you do, no one can guarantee you that a *key person* will be working with you for even just one more week.

Just check out these statistics.

In New Zealand...

- ⇒ 2 out of 5 males over the age of 30 will suffer a major illness before they reach 65
- ⇒ 1 out of 4 females over the age of 30 will suffer a major illness before they reach 65
- ⇒ 40% of disabilities are due to disease or illness, 34% are due to accident or injury
- ⇒ 32% of males will be disabled for 6 months or more before age 65
- ⇒ 78% of stroke victims will still be alive 1 year later
- ⇒ 60% of cancer sufferers will be alive 5 years after diagnosis
- ⇒ 57% of heart attack patients will be alive 1 year later

In 2003, it was estimated that 1,880 businesses ceased operation partly due to an injury of the owner of a key staff member. ACC May 2008

Individually, these risks are substantial. Together, they may form an unacceptable threat to the continued profitability of your business.

The irony is that while every business insures against the risk of losing assets, many neglect to insure the people who create the assets. (“The goose that lays the golden egg”) You are probably the most valuable person in your business.

If you suffered a major illness, such as cancer, stroke, or heart attack...or an untimely death, will your business survive without you?

Will your business be able to maintain profitability, and what will be the impact on your lifestyle? Maybe you have *life* insurance that'll provide some relief for your family to maintain their present lifestyle (on your death), or you have *income protection* that will provide cash flow if an accident or illness prevents you from earning an income.

If you had just been diagnosed with cancer, or suffered a heart attack, would you prefer a get well card – or a cheque for \$500,000?

Your risk management plan (*business* and *personal*) should include *Trauma* cover (a lump sum payment if you suffer any one of 29 major illnesses).

Your plan can be structured to provide a predictable outcome in the event of a crisis:

- ✓ Cash injected into your business **(key person** protection)
- ✓ Cash available to your family **(Lifestyle** protection)
- ✓ Cash to fund your succession plan **(Partnership/Shareholder** protection)

The temporary or even permanent loss of you, a business partner, or your key person... doesn't have to mean the end of your business.

**Just because your health suffers a temporary setback,
why should your business (and lifestyle) suffer a permanent setback?**

Key person protection injects cash into your business on the loss of a key person through suffering a major illness, disablement, or death, enabling you to find and integrate a replacement, to cover the loss of earnings and expenses incurred, and to maintain market share.

When a key person is seriously disabled, or dies, there is no tool like key person protection to provide instant cash for your business.

One of the main reasons many business owners haven't protected their businesses with *key person* protection... is they think disasters, such as death or disability, will never happen to them, their business partners, or their key people.

How many times have you heard someone say...

“I never thought that would ever happen to us!”

Probably at least dozens of times, right? Perhaps you've even said it yourself many times.

Unfortunately, even though we may know entrepreneurs and professionals whose businesses had to be shut down after they (or their business *partners* or a *key person*) died or became disabled - we still think these unfortunate events could only happen to somebody else.

It's this kind of thinking that has prevented many business owners from preparing themselves for the unexpected. *Life* is unpredictable.

You've probably heard of this statement...

If you fail to plan...then you're planning to fail!

It's fine to expect things to turn out well... as long as you've planned for the worst. This is because, in business, as in life, things *don't* always turn out the way you want them to. And disasters usually strike at the worst time, when you least expect them. *Life* is unpredictable.

Like many other responsible people, you've probably bought life, home/contents, vehicle, health and other types of insurance to protect yourself, your family, and your valuable assets, right?

In fact, you've probably also protected your business assets, such as buildings, stock, vehicles, equipment, and so on, with the right kind of business insurance, haven't you?

Key person protection is about cash - when it is needed most.

Now, while losing your tangible business assets, most of which can be replaced, will probably disrupt your business operation somewhat, the sudden loss of a *key person* could be far more damaging and disruptive, long term, to the survival and success of your business.

So, if you've protected your tangible business assets with various types of insurance, then wouldn't you agree you should also protect your human assets, which are so much more important than your physical assets, with *key person* protection?

Key person protection protects your cash flow

Once you have the right kind of *key person* protection, you'll gain security and peace of mind, knowing if a sudden unfortunate event should ever happen to you, or your *key people*, then your business and your family won't have to suffer financial hardship.

You'll have the financial resources to keep your business going.

Key person protection protects your greatest asset – people.

You may already have *key person* protection, or think you do. However, you may not have reviewed your policies for several years, you may be paying more than you need to, or be underinsured. In fact, it's not unusual for all three conditions to apply.

(NOTE: *Partnership/Shareholder* protection is an entirely different product and legal identity)

If you buy the wrong piece of office equipment or computer, it's usually not a big deal. On the other hand, if you buy the wrong type of insurance or not enough of the right kind of insurance, then you're putting your business, as well as your personal assets, and lifestyle at enormous risk.

Insurance should be used to fund the plan, not be the plan

At the end of this report, you'll discover how to get a *Free, No-Risk and No-Obligation Key Person protection review*, which will let you know if you have the right levels of risk protection for your business, your cash flow and your lifestyle, and, are you getting value for money?

Seven specific benefits of key person protection

1. To replace the loss of income due to death or disability of a key person.
2. **To cover expenses.**
3. To pay for the cost of replacing a key person.
4. **To pay debts and accounts payable.**
5. To protect your assets.
6. **To replace lost profits.**
7. To let your banks, customers, creditors, and employees know if anything should happen to you or your *key people*, then your business will still have the financial resources to keep going.

Your *key person* protection gives you instant cash, providing options and breathing space, and the ability to make the right decisions without pressing financial worries.

NOTE: *Key person* protection should be owned by the business or held by a stakeholder on its behalf. This will ensure the premiums are likely to be tax deductible.

How to identify the key people in your business

Although you probably already know who are your key people, let me give you a definition of a *key person*:

A key person is someone whose continued association with the business provides it with a significant and direct economic gain. This means more than just profit, and could include, among other things, cost savings, customer or supplier good will, access to credit, specialist skills, experience, relationships and networks, knowledge and expertise that are essential to the functioning and profitability of your business.

In other words, anyone whose death or disability would cause major financial setbacks for your business - is a *key person*.

Your *key person* could be a working director whose skill and strategic judgment continually pushes the business forward, the founder whose vision, determination and resourcefulness have placed the business where it is today, or any employee with specialised knowledge or ability.

Your key person could be yourself, your business partner, CEO, sales manager, office manager, accountant, or even all of you.

To assess the value of these individuals in your own business, ask yourself:

- How do you cope when your key people are on holiday?
- Are decisions deferred until after their return?
- Do sales decline when your top performer has two weeks well-earned rest?
- What specialist roles can be performed by only one person?
- Who consistently initiates and nurtures strategic relationships?
- What would happen to your market share if your marketing manager disappeared?
- Would you be able to run your state-of-the-art computer network?
- Could you handle your production requirements if your manager was not there?
- Besides you, who else really matters in making your business succeed?

How much key person protection is right for your business?

The amount of *key person* protection required depends on the impact a *key person's* death or disability would have on your business.

You can use these factors to figure out an approximate amount:

- 1. Salary of the key person.**
2. Experience and industry knowledge of the key person.
- 3. Goodwill generated by the key person.**
4. Cost of hiring a replacement for the key person.
- 5. Loans that may be recalled upon the death or disability of the key person.**
6. Loss of profits due to the death or disability of the key person.
- 7. Cash position of your business.**

One common rule of thumb is, key person cover to an amount equal to 2 -3 times the *key person's* annual salary... or one year of your business's net income, whichever is more.

For your security and peace of mind, let us help you figure out the right amount of *key person* protection for your business, at the best price, and from the best insurance company.

The next step is to call us on **09 413 6070** for your *Free, No-Risk and No-Obligation Key Person Insurance Analysis*. We will get back to you within 12 hours to set up a time for us to meet. (Ask for Lynne, or Heather my PA if I'm unavailable).

Let me assure you, during our meeting, you won't be asked to buy anything. Our objective is to look at your business from a risk protection point of view and discuss various options that could work for you.

The purpose of your *Free, No-Risk and No-Obligation Key Person/Partnership Protection Analysis* is for me to share some important ideas and information with you. This way, you'll learn how to best protect your business and your lifestyle.

And, if it works out that we can help you... great. We'd love to.

But, if we find you have a better buy, are adequately covered, or can improve your coverage by making a few changes with your current insurance company, we'll let you know. There's absolutely no obligation on your part, whatsoever. Thank you.

Kind regards,

Lindsay Armishaw
Risk management & lifestyle protection advisor
Lindsay@futureprooflife.com
021 673 019

(Even if you think you already have the right *key person* protection, getting an all important professional "second opinion" to confirm your good judgment will give you peace of mind.)

“Perception is strong and sight weak. In strategy it is important to see distant things as if they were close and to take a distanced view of close things”.

- Miyamoto Musashi (1584 - 1645)

“Life can only be understood backwards, but must be lived forwards”

- Soren Kierkegaard