

Key Person cover

Helping you protect your business clients' key people



The most valuable asset to any business is its people, as without them, a company's survival can be at serious risk. At LV=, we're committed to protecting and supporting UK enterprise, through a range of Business Protection products which are easy to recommend, and offer quality support when it's needed most.

Why is Key Person cover important?

Key Person cover is simply life insurance (which can also include critical illness cover) written on the life of someone crucial to the business. The proceeds give the business a cash injection, either used to protect profits or clear debt.

Protecting profit

The sudden loss of a key employee can leave a business without vital skills or knowledge. The proceeds could help replace lost profits, cover expensive recruitment costs, or pay penalties due to the non-delivery of goods and services.

Paying off debt

Many businesses borrow money to start up or expand, and the ability to repay a loan could be impacted by the loss of a key person. Additionally, directors may loan the company money (known as a 'director's loan account') via undrawn salary, dividends, or actual loaned money. This would need to be repaid if the director died or took early retirement (because of a serious illness).

Who is a 'key person'?

This is any member of staff who has a direct impact on the business's profits. It could be the business owner, director, sales person or any employee with specialist skills or expertise.

Sole traders

Key Person cover can protect sole traders who are personally liable for business debt. If a sole trader dies unexpectedly, any debt would be inherited by their next of kin.

Due to tax implications, separate policies should be set up to protect profit and ensure debts can be paid.

You can use our key person calculator to help you to decide on an appropriate level of cover. You can find it at LV.com/keypersoncalculator

How much cover?

There are a number of options you could consider:

- Multiple of profits
 - Decide whether to base this on gross or net profit. Consider either 2 x gross profit or 5 x net profit.
 - Use gross profit for key people influencing money coming into the business (like sales staff).
 - Use net profit for key people responsible for managing cash flow (such as a managing director).
- Multiple of salary
 - Suggest cover between 7-10 x gross salary (including employment benefits such as a car allowance).
- Proportion of salary roll
 - This approach looks at the key person's contribution to company turnover using the following simple formula:

$$\frac{\text{Salary} \times \text{turnover} \times \text{years to recruit and train replacement}}{\text{total salaries}}$$

- Loan security (to pay off debt)
 - Base the cover on any loans and other relevant lending.
- Recruitment costs
 - Look at the cost of recruiting and training a replacement, and how long it would take for them to get up to speed in the role
- Business start up
 - It can be trickier to work out how much cover to recommend to a new business. One approach is to look at the working capital at risk compared to the key person's proportion of this risk.



Why choose LV=

- **LV= Business Care** - Once your client takes out a business protection policy with us, they'll have access to LV= Business Care, our free business advice service which includes the following:
 - **Business legal advice line** - We've partnered with a firm of solicitors to offer your clients free business legal advice. This service offers advice on a number of commercial issues, including:
 - Employment law
 - Health and safety issues
 - Commercial risks
 - Advice on contracts
 - **Business tax and VAT advice line** - Our value added service also provides access to tax and VAT experts, including accountants and ex HMRC employees, covering areas such as:
 - Tax and VAT relief
 - Self-assessment returns
 - Change to tax and VAT rules
 - Dividends paid from limited companies
- **Personal advice line** - we also offer a free personal line for all policy owners and the person insured. The advice offered includes access to legal experts, health and wellbeing advice and counselling.
- **Comprehensive Critical Illness cover** - our policy is one of the most comprehensive in the market and includes 64 conditions, with 44 full payment, 20 additional payments and 16 unique enhanced claim payment conditions.
- **Children's cover** - unlike some other business protection providers, we'll cover the children of the life insured (critical illness cover only). The proceeds paid under a claim can allow businesses to give their key people time off work to look after their sick or injured child, minimising the financial impact on the firm.
- **LV= Doctor Services** - Once your client has taken out business protection with us, the insured employee can use LV= Doctor Services at no added cost. This provides fast, convenient access to UK based doctors and medical specialists through three expert medical services:
 - Remote GP
 - Second Opinion
 - Prescription ServicesThe three services are provided by our partner, Square Health and accessed via one simple app, LV= Doctor Services. This helps your clients to keep their own health in check (and their children's too) whatever their medical concern and wherever they are - at home, at work, or away on holiday.

LV= Doctor Services is a non-contractual benefit and can be changed or removed at any time.

Supporting you

- **Helping you develop your Business Protection business** - we're here to help you maximise the opportunity; whether it's answering technical questions, pre-sales advice or marketing ideas. Writing Business Protection can be complicated, but our experienced team can talk you through the application process, advising you on the best ways to write the cover and which legal documents can support you along the way. We'll also offer you our dedicated team of administrators for each submitted LV= Business Protection case.
- **Specimen trust forms for you to use** - alternatively, we will accept bespoke arrangements drawn up by a client solicitor, which can be a better option especially if your client's circumstances are complex.
- **Future planning** - we understand needs change, which is why our guaranteed increase options are well equipped for an increase in the value of your client's business. Under our business GIOs, you can increase the amount of cover by up to 50% (subject to a maximum increase of £250,000). Please see the terms and conditions for more information.
- **Webinars and sales training** - our Business Protection team offer webinar training to help you expand your business. They can also help you network and find new opportunities, as well as advise you on how to cross sell against your existing personal protection client base.
- **Online tools** - we've developed a number of easy-to-use, interactive calculators to help you work out the amount of cover your client needs, as well as the real health risk to business owners and their key people.
- **Client-facing brochures and literature** - you can download and request printed copies of our jargon-free and easy-to-understand sales aids, to help you effectively introduce Business Protection to your clients.

Top tip: We recommend you review your client's protection regularly to take into account any changes in business value or shareholding.

To find out more about LV= Business Protection, please contact your LV= Account Manager or visit [LV.com/BusinessProtection](https://www.lv.com/businessprotection)



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