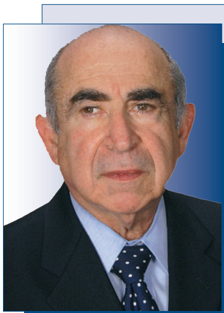
Disability Insurance Insights…

The Keys To Key Person DI



EUGENE COHEN

began his insurance industry career in Cleveland, OH, with a company that specialized in disability income protection.

In 1981 Cohen founded the Eugene Cohen Insurance Agency, Inc., Skokie, IL, which specializes in DI, life, LTCI, fixed annuities, and impaired risk cases. The agency is a member of LifeMark Partners, NAILBA, the IDIS and is a founding member of The Plus Group.

Cohen received the W. Harold Petersen Lifetime Achievement Award from the IDIS and NAILBA's Douglas Mooers Award for Excellence.

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In planning, one of the most overlooked product needs is key-person disability insurance. The product need is as significant as key-person life insurance, but doesn't get sold as often. The reason would appear to be a lack of awareness as opposed to a lack of need. The amount of key-person life insurance applications we see are far greater than the key-person DI applications, yet the need is very similar. In addition, the rate of disabilities (morbidity rates) far outweigh the mortality rates for almost all classes and segments that you can stratify of working adults. The majority of smaller type businesses have a few "key" go-to people who support the business and are the drivers of growth. Think about most of your clients who own and operate a business. This can be a professional firm, manufacturing firm, service firm or retail sales firm. They're all going to have a few key employees.

Using a bell curve appraisal management system to evaluate the types of employees who work in a firm, there tends to be a general pattern that appears. The breakdown tends to fall under three categories: High performers, average or satisfactory performers, and your non-performers. Everyone can have their own criteria of categories, but you should get a general idea. Typically, firms find that the high performers make up about 20 percent or so of the firm, while 70 percent fall into the satisfactory range, and 10 percent tend to be your non-performers. What makes the high performers so good? These tend to be the leaders in the organization. These are the drivers who make that business unique or special. Most business owners can identify those top employees

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who make their firm so successful.

Ask your business owner clients: Who are the top people in your business who would be the hardest to replace? Who in the firm has special talents? Who in the firm brings in the most business? Who in the firm do you most regret taking an extended vacation? These are all key people to the business. Of course, some may be more key than others, but these 20 percent are usually the core of most small businesses. The more niche the business or industry, the longer it tends to take to find a replacement and the longer it can take to train someone for that unique position.

So now, what would happen if one of these key employees would go on an extended leave due to an injury or sickness, or never come back to work? The whole firm can be affected in morale, income, productivity and net profit to the owners. A key-person DI policy can help provide needed funds to the business that can help offset various types of expenses, some that can be obvious and some not so obvious. Funds to:

- Help offset costs associated with recruiting a new employee, especially if the industry or business is very niche. The cost of an executive search agency can be exorbitant. In addition, signing bonuses, moving costs, and other recruiting costs may need to be incurred in order to find that "right" person.
- Help pay for overtime or bonuses that need to be paid to other employees who have to do additional job duties besides their own.
- Help offset some of the dedicated fixed expenses or infrastructure expenses that the key person required to perform their job, such as secretaries, office space, car leases, and other fixed expenses.
- Help offset the cost of lost or spoiled inventory that couldn't be sold due to the key person's absence.
- Help offset the lost revenue of clients who were served by the key employee and no longer seek the services of the firm since the loss of the key employee.
- Help protect the owners from lost net income due to any or all of the above expenses and risks.

Also, with some carriers, it may be possible to insure the owners, assuming that they own 50 percent or less of the company. Therefore, if there are multiple owners of a smaller percentage, such as a law firm or CPA firm, it may be possible to insure the key owners as well. Of course, depending on the company, there can be various underwriting requirements and other criteria needed to obtain a policy. So the next time you are working with clients who own a business, be sure to take a deeper look at key-person disability insurance.