



## Financial Underwriting – Key Employee

“**Key Employee**” insurance insures a company against the “loss” of an employee whose services are critical to the success of the organization and the expense of replacement.

### A “Key Employee” is:

- an individual whose specific talents, experience, background and/or knowledge provide services that make a substantial contribution to the success of the business
- one who has a direct effect on the profits of the company
- the “one” vital factor in the success of a venture and or the security of a loan

The amount of coverage required will vary depending on the role of the key employee. With the help of a field representative, the owner/employer can use techniques to evaluate the potential loss and effects of a key employee’s death. Typically the amount of coverage requested reflects the loss of income for the business for some period of time, a percent of an existing debt, or costs associated with finding and training an individual(s) to replace specific areas of expertise.

Underwriting a “Key Employee” is difficult when documentation supporting the need and purpose for insurance are not provided with the application for insurance. An underwriter’s evaluation begins with understanding how the amount of coverage was determined (does it make sense) and why this individual is KEY. Additional considerations are:

- total compensation
- if and how other key employees are covered
- beneficiary
- owner
- premium payer
- financial health of the company
- ownership interests and
- special talents/skills/history of this key employee. For example, the client is the founder of successful companies and their talents/skills are directly responsible for a significant part of the bottom line results.

If this amount of detail is not provided, the underwriter may use a more generic method of validation to evaluate the amount applied for, such as 5-x annual compensation and or a percent of debt calculation.

*(continued on reverse side)*

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When submitting an application for life insurance, the field representative should submit a cover letter that provides the underwriter with the business/client's objectives and how it was determined. An "Underwriting Cover Letter" (Ref. January 2002, Rx #111) will help avoid confusion, resistance, additional requirements and or unnecessary delays.

**A Good "Key Employee" cover letter includes:**

- The cost factor to replace the employee and how it was determined
- How much it would cost the business if the employee died today; to:
  - replace this individual (recruiter, training, one or more salaries) Ø maintain accounts and continue production Ø support initiatives
  - cover loans and assure creditors that the business will continue operations
  - keep a positive cash flow and the business running
  - assure customers that the business will continue to operate
- Total salary package (includes base salary, fringe benefits - qualified/nonqualified, stock options, bonuses, vehicles etc.)
- A BIO that provides details regarding specific talents, experiences, accomplishments, education, background and knowledge that are a key asset of this individual
- Information on successors, other key employees and executives, and their business insurance programs

Without these factors, the underwriter may use a generic method of validation. As a result, the face amount may or may not meet the needs of your client. Submitting the facts with the application will help us meet your client's needs and avoid unwanted delays.

To get an idea of how a client applying for Key Employee coverage would be viewed in the underwriting process – OR – to provide the underwriter with the essential facts when submitting an application, complete the attached *Ask "Rx" pert underwriter*.

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**Financial - Ask "Rx" pert underwriter  
(ask our experts)**

**Key Employee Life Insurance:**

Producer \_\_\_\_\_ Phone \_\_\_\_\_ FAX \_\_\_\_\_  
Client \_\_\_\_\_ Age/DOB \_\_\_\_\_ Sex \_\_\_\_\_

1. Company Name: \_\_\_\_\_

2. Nature of business: \_\_\_\_\_

3. Organization Type:          Sole Proprietorship    Partnership    Corporation    Other

4. Financial information:

Annual Sales: \_\_\_\_\_ Fair Market Value: \_\_\_\_\_  
Net Profit: \_\_\_\_\_ Business Net Worth: \_\_\_\_\_

5. Are the firm and its officers free from business failures, bankruptcies or pending suits?

Yes

no, please give details including dates \_\_\_\_\_

6. Is Key Employee an owner? \_\_\_\_\_ If yes please provide percent of ownership. \_\_\_\_\_ %

7. Key Employee Facts including title, job duties, impact on net profits, BIO, and description of why he is "Key" to the success of the business, etc:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

8. Key Employee's total salary package including salary, bonuses, stock options, fringe benefits, etc:

\_\_\_\_\_  
\_\_\_\_\_

9. Estimated cost to replace Key Employee: \_\_\_\_\_

10. How much of this potential replacement cost is the company willing to insure? \_\_\_\_\_

11. Are other Key Employees similarly insured? \_\_\_\_\_

12. Information on successors. For example, are there other employees that could perform Key Employee's duties if necessary?

\_\_\_\_\_  
\_\_\_\_\_

**After reading the *Rx for Success* on Financial Underwriting, please feel free to use this Ask "Rx" pert underwriter for an informal financial review or as a source for providing financial information when submitting applications.**

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