CASE STUDY

Key Person Replacement insurance

Help businesses cover the cost to replace employees

A Key Person Replacement disability insurance policy[1] from Principal® helps protect a business from the total disability of an employee who's critical to its success. This coverage helps minimize the disruption to a business from losing a valued employee. Benefits are paid to the business to help offset hiring costs, staffing needs, and replacing revenue. And our Guaranteed Standard Issue underwriting program makes obtaining coverage easier for both you and your clients.

Target market

Small to midsize businesses with:

- Owners and employees who have specialties or experience not easily replaceable
- Key person life insurance in place or being considered

Typically covers business owners, corporate executives, medical professionals, attorneys, engineers, and other professionals.

The challenge

A 35-person law firm was experiencing difficulty finding new employees. Many new hires were not experienced candidates or were recent graduates. This meant absorbing the significant training time and cost associated with inexperienced employees. And, if they want to hire an experienced lawyer, they have to pay a significant sign-on-bonus to pull them away from their current firm. The firm currently has Group coverage with Principal and had already purchased individual Disability Income (DI) insurance for its employees through a competitor. So, the Group representative connected the firm with a Principal Disability representative to talk about Key Person Replacement disability insurance with Guaranteed Standard Issue as a way to help reduce the cost of finding new employees. In addition, a Principal Life representative was also tapped to sell an entity purchase solution.

A solution

To help offset the cost of finding new employees, the firm purchased Key Person Replacement disability insurance on 22 partners. They purchased $250,000 on each partner ($32,000 annual premium). Policies were issued using the 5A Select occupation class, and each received the 10% Select Occupation Discount and 20% Multi-Life Discount. Future partners can be easily added using our eEnrollment platform and eSign capability for the application. The firm opted for the 180-day waiting period before it would receive the $250,000 benefit for a disabled employee. If the employee recovers three months later after becoming disabled and the firm hasn't replaced the position, the business still gets $250,000 tax-free[2] as a lump sum, and the employee comes back to productive work.

Sales tips

When meeting with a client, ask them to walk you through the replacement of an important employee. Ask, "What are your pain points?" Obviously, one is cost. Then you can introduce Key Person Replacement disability insurance and the benefit it provides to help with replacement costs. Also, with multi-life guaranteed standard issue, there are no medical underwriting requirements making it easy for applicants. Discuss the benefits of both individual DI (if they don't offer) and Key Person Replacement. Individual DI helps with recruiting and retention, and Key Person Replacement helps with replacement.

Tools to help you succeed

Working in the business market can help you grow your practice. And we offer the tools and support you need for success.

- **Estimate owner/key employee coverage needs** with our key person calculator. Quotes for life insurance coverage are also available.
- **Get case design and sales support** from our team of experienced wholesalers and Business and Advanced Solutions professionals.
- **Make the underwriting process easy** and hassle-free for busy professionals with our Guaranteed Standard Issue underwriting program. See underwriting requirements.

Let's connect

Contact the National Sales Desk at 800-252-4678, option 2, 2.

1 Not available in California, Florida, Montana, New York, and Vermont.

2 Based on current income tax laws, if insurance premiums are paid with after-tax dollars, then benefits are received income tax-free.

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