



CASE STUDY

Key Person Replacement insurance

Help business owners protect their business.

Most businesses have key employees—in fact, recent research shows 98% of business owners indicate they have at least one key employee.¹ They're typically the ones that make the greatest impact and are difficult, and often costly, to replace. A Key Person Replacement disability insurance policy² helps protect the business financially from the loss of a covered owner³ or key employee due to disability. Let's look at an example.

The challenge

Stan owns a business that relies heavily on its sales team. Kathy is the top salesperson and brings in more than 35% of the total annual sales revenue. Stan realizes his company could be at risk financially if something happens to Kathy.

A solution

Stan discusses with his financial professional ways to help protect his business if Kathy were to become disabled. They use the [key person calculator](#) from Principal® to help identify coverage options and decide on \$300,000 of Key Person Replacement disability insurance.

Here's how it works:

- The business pays the premium and is the owner of a policy insuring Kathy.
- If Kathy becomes totally disabled, the business receives a \$300,000 lump-sum benefit, income tax free⁴.
- The business can then use the benefit to help offset the cost of replacing Kathy. Allocation of the funds might look something like this:

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|-----------|---|
| \$50,000 | Severance package to Kathy |
| \$100,000 | Covering lost revenue from sales that would have been generated |
| \$50,000 | Executive recruiting services |
| \$25,000 | Costs for onboarding, relocation, etc. |
| \$75,000 | New hire signing bonus and first-year guarantee |

Putting key person coverage in place can help Stan feel more financially secure knowing his business is protected with a \$300,000 tax-free benefit if Kathy becomes disabled. His annual premium is just \$1,890.⁵

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 (principal.com/keypersoncalc). 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.

 Let's connect

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

¹ 2023 Principal Financial Group Business Owner Insights, conducted by Dynata.
² Not available in California, Florida, Montana, New York, and Vermont.
³ A business owner must own 50% or less of the business to be insured under a Key Person Replacement insurance policy.
⁴ Based on current tax laws, if Key Person Replacement disability insurance premiums are paid with after-tax dollars, then benefits are received income tax free.
⁵ Assumes a female age 40, non-smoker, 5A occupation class, \$300,000 lump-sum benefit, and \$1,890 of annual premium.



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