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Marketing To Indispensable Business Owners

It's usually not a good sign for the rest of the band when the lead singer begins to distinguish his or her name in the group's title.

Breakin' Up Is Hard To Do

Back in the late 1950s some teenage girls in Detroit walked into the studios of the then-fledgling recording company, Motown Records. They angled for small jobs around the shop and for singing parts in the songs being produced until they eventually made the case for their own recording contract. After several vinyl misfires the act billed as *The Supremes* released the blockbuster 1964 Holland-Dozier-Holland hit, *Where Did Our Love Go*—and the roller coaster ride began. *Baby Love* quickly followed, and before the dust began to settle the ladies would chart 10 more number one songs on their way to becoming the most popular female act in history, rivaling even *The Beatles* for show business shelf space during their heyday.

As things progressed and fame increased, singer Diana Ross steadily emerged as the dominant element in the show and the "other two" were increasingly relegated to backup parts in the recordings and poor camera angles on stage. By 1967 the group was billed as *Diana Ross and the Supremes* and in 1970 superstar Ross went her own way with her own successful stand-alone career. The artists known as *The Supremes* had some success after the split, but the bloom was off the rose. After a long and

slow decline the group disbanded in 1977.

In the insurance business world we would say that Diana Ross was a key person in the enterprise that catapulted her to stardom.

It's Not for Everybody

An important aspect of business planning is protecting against the loss of employees whose untimely demise or disability would severely jeopardize the profitability and life of the company. An effective method of funding this form of risk management is through key person life insurance or key person disability coverage. Decisions in this regard should begin with a distinction among the types of key persons you may encounter as the advisor of a business client.

Key people are "important employees" if their loss results in significant inconvenience because of their particular skill levels or technical expertise. Replacement is more difficult than a rank-and-file hire, but the talent is available in the marketplace and acclimation to the particular job environment has a time line, but is not an onerous process. Generally important employees are not candidates for key person coverage—information technology staff and medical technicians are examples.

"Critical employees" are those whose absence will almost unavoidably result in a significant, and probably immediate, loss to the business. The factors that usu-

ally come together in critical employees are elevated technical skills or professional training, a knowledge and understanding of the industry in which the business participates and, often, relationships within the company and the industry that magnify the effectiveness and profitable exercise of the other qualities. Replacement will take a considerable amount of time and, once on the job, a substantial period of training and orientation is anticipated as the new employee gets his or her “sea legs” in the new position.

Critical employees are prime prospects for key person coverage planning. Financial underwriting can require finesse in key person cases where there is a young startup enterprise and the insured’s value is up and coming once the company has turned the economic corner further down the road—primarily because of the critical employee’s participation. But all that is discussion for another place and time.

Key person life insurance in such cases is an economical safety net because the duration of the person’s working life can be anticipated and the risk can be managed with economical level term life insurance. The choice by an owner to protect against the loss of a critical employee because of disability is not as common, either due to cost, greater underwriting difficulties, or the fact that many agents don’t bother to suggest such a course of action.

Indispensable employees are those without whom the enterprise could not continue. Often, indispensable employees are performing types who conduct a business that markets and promotes their talent or service and then negotiates, manages and

accounts for their appearances or gigs. The key person might be a famous personality or an athlete or an expert witness in the field of forensic medicine. More commonplace indispensable employees are highly trained, but not unique, professionals who run a business around that skill much like a sole proprietorship, even though the actual business structure may be a corporation or LLC. A dentist in a one-chair office with its attending support staff would be an indispensable employee of this ilk.

“Pay It Forward” As an Employee Benefit

In the traditional sense, key person coverage on an indispensable employee doesn’t have much of a role to play. If the insured dies there is, as a practical matter, no business to transition or carry. The main act, so to speak, is gone, so the show is pretty much over. At best the money is useful in assuring a smooth winding down. But this doesn’t mean that there is not a sale to be made!

Within the dynamics of most businesses indispensable employee life insurance can be structured in the same manner as key person coverage but can be used to fund an effective and beneficial non-qualified benefit for critical persons employed by the indispensable employee.

When a business depends solely on one person, there is always a concern among the work force that they will be without a job if that indispensable employee dies. This lack of security can be so strong as to result in the loss of good people as they look for and accept more stable positions. To avoid this, consider using a business-owned life insurance policy on the indispensable employee. If the indispensable employee

dies, the funds can be used to fund compensation bonuses for selected employees to use during the transition period needed to find new employment.

Likely income tax results would be that the premiums are paid by the business with non-deductible dollars. Assuming there exists no transfer-for-value problems, the death benefit would be received tax-free by the company and payments made to the employees would be deductible as compensation. The amounts received would be reportable as income to be paid by the employees.

The benefit could be supported by a written plan with attention to the issues that normally attend non-qualified benefits and employer-owned life insurance. Let’s call the whole thing *reverse key person* or perhaps *employee transition benefits*. After all, without a name the concept will never take on a life of its own.

Because the time period that the coverage is needed is known, the plan can be funded with economical level term insurance. Seldom will the adoption of a reverse key person plan result in really large premiums. Nonetheless it is a business insurance sale that results in a new business client. The door is open to discussions regarding more sophisticated employee benefit planning. Plan implementation may also result in opportunities to do personal insurance planning for the indispensable employee as well as others in the company.

Show professionals who thrive in their role as the indispensable quarterbacks of their companies how they can easily and economically provide for those in the organization that protect their blind side. 🌐