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# Risk Manager

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## The Benefits of Key Employee Life Insurance

If you employ a key person who significantly contributes to the success of your business, have you considered how losing such an employee could impact your operations? **Key employee life insurance** can help protect your business from the financial consequences of a key



employee's death. Take a look at the variables in the following case:

Peter, a talented chemical engineer, works at ZZ Plastics, Inc., a hypothetical plastics fabrication company. In his seven years with the company, Peter has developed important compounds, and an innovative new process for manufacturing automobile engine blocks. Because he has been so instrumental to ZZ Plastics, and his work has propelled the company to the forefront of its industry, Peter is considered one of the company's key employees.

ZZ Plastics' owners realize the importance of Peter to the success of the company and have purchased a key employee life insurance policy. This type of policy could be of great benefit in the event of the loss of such a valuable employee.

### Employer Benefit

A company like ZZ Plastics may benefit from life insurance held by the company on key employees in a few ways:

- Proceeds from the policy can provide ZZ Plastics with funds to compensate for the loss that

could result in the event of a key employee's death. The company could then use the money to recruit a new employee with credentials and capabilities similar to those of Peter, train the new employee, promote additional sales, or provide for improvements that would eventually compensate for the loss sustained after the death of such a valuable employee.

- Permanent life insurance on a key employee could provide ZZ Plastics with an accumulation of funds to be used in emergencies. Payment of the annual premiums provides an orderly accumulation of funds with an increasing **cash surrender value**. Ordinarily, the policy has a guaranteed cash value, as the cash surrender value can be determined for any period of time. Guarantees are based on the claims-paying ability of the issuing company.
- By maintaining key employee insurance, ZZ Plastics may strengthen its credit. The insurance may be used as supporting collateral

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# Did You Know?

## Steer Clear of Night Driving Dangers

With the seasons changing and the days getting shorter, it's important to be aware of the unique concerns associated with driving after dark, as traffic-related death rates are three times higher at night than during the day.



Without the benefit of daylight, peripheral vision, depth perception, and color recognition are all compromised. Older drivers, in particular, may struggle to see at night. For example, a 50-year-old driver may need twice as much light to see as well as a 30-year-old driver on the road at night. Fatigue, which can dull concentration and slow reaction time, also contributes to the danger of night driving. In addition, alcohol consumption, a major factor in about half of all motor vehicle-related deaths, is far more common at night, especially on weekend nights.

However, taking extra precautions before and after getting behind the wheel may help to protect you when driving at night. Here are some safety tips for you to consider:

- Perform a simple vehicle check before driving. Turn on the lights and walk around your car to ensure that all lights are working properly. Check to see if your directional lights work, the tires are properly inflated, and if there are any fluid leaks.

- Always drive with your headlights on. A car is visible for nearly four times the distance with its headlights on—even during the day.
- In case of a breakdown, keep flares or reflectors in an easily accessible area of your car, and pull as far off the road as possible. Immediately warn approaching traffic by setting up reflectors near your vehicle, as well as 300 feet behind it. Turn on flashers and the inside dome light. Stay off the roadway.
- Make sure your headlights are properly aimed. Check with your car's service manual for the proper procedure.
- Keep your headlights and windshield clean. You want to be able to see and be seen.
- Don't look directly at oncoming headlights. Instead, focus on the edges of oncoming traffic and bright objects. Staring directly into headlights can blind you for up to five seconds until your eyes adjust.
- If it starts to snow or rain when driving, slow down. The standard "driving instructor rule of thumb" is slow down by a third in the rain, and by at least half in the snow. If ice may be present, slow down even more.
- Eye exams are recommended once every three years for drivers younger than 40; every two years for drivers between 41 to 60; and once a year for drivers older than 60. If you have perfect vision but have trouble seeing at night, simple glasses with anti-reflective lenses could help.
- Be particularly careful when Daylight Savings Time ends. Darkness falls earlier and more pedestrians are out during peak evening traffic hours.

You can steer clear of night driving dangers and arrive safely at your destination by taking some precautions.

## Travel Taxes and Fees

According to the Global Business Travel Association's (GBTA) annual report on car rental, hotel, and meal taxes in the top 50 U.S. business travel destinations, travel taxes and service fees impose an average increased cost of 56% over general sales tax. To help companies choose more cost-effective meeting and event locations, the 2011 study ranks the top 50 cities by overall travel tax burden, including general sales tax and discriminatory travel taxes.

## Leadership Programs

Companies with high-impact leadership development programs foster a new kind of leader, and are seven times more effective at delivering improved business and talent results than organizations with less sophisticated leadership development. According to a study by Bersin & Associates, nearly 60% of people-focused organizations that spent money on leadership training, but also followed specific practices that drive accelerated business results, improved business growth; 66% improved bench strength; and 62% improved employee retention.

## Industry Trends

A study by the American Advertising Federation (AAF) explored future trends in the marketing and advertising workplace with industry leaders. Of those surveyed, 64% say creative professionals will have more influence on company business decisions; 84% anticipate workers being more connected to the office outside of business hours and working remotely by 2016; 34% say mobile will be the premier advertising medium over the same period; and 82% expect more culturally diverse creative teams.

# For Your Information



## *Biz-Fit Challenge*

The National Minority Supplier Development Council (NMSDC) offers the Biz-Fit Challenge, a series of online business tools, to certified minority business owners (MBEs) for assessing their financial operating capacity, business health, and value. The Biz-Health Analyzer for evaluating industry peers, Break-even Analyzer providing five-year projected breakeven revenues, and the Valuation Analyzer for estimating company fair market value, help MBEs outline strategies for improvement. To learn more, visit [www.nmsdc.org](http://www.nmsdc.org).

## *Energy Saving in Buildings*

The Commercial Building Initiative (CBI) sponsored by the U.S. Department of Energy (DOE) helps improve the energy efficiency of commercial buildings in the United States. CBI provides resources to commercial builders, building owners, contractors, engineers, and architects for whole building design, which reduces the amount of energy required in buildings by incorporating technologies that decrease operating costs, reduce environmental impact, and increase employee productivity. For more information, visit [www1.eere.energy.gov](http://www1.eere.energy.gov).

## *SCORE Mentoring Program*

SCORE is a network of 13,000 volunteers comprised of retired business executives and leaders who offer small business owners business-related counseling services at no charge. SCORE provides business plan templates and tools, including online and local workshops and events to connect with the resources they need to start, grow, and succeed. For more information, visit [www.score.org](http://www.score.org).

## *The Benefits of Key Employee Life Insurance*

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for loans and may be considered evidence that the company will continue to meet its debt obligations in the event of the key insured employee's death.

### **Key Employee Benefit**

While life insurance on a key employee can help protect ZZ Plastics against the premature death of Peter, there is no guarantee that such a key employee will remain with the company until retirement or death. Therefore, establishing a **deferred compensation plan** for that employee may provide an incentive for the desired employee to stay with the company.

Under this plan, ZZ Plastics would enter into a contract with Peter to pay certain benefits upon his retirement. ZZ Plastics may also require Peter to promise not to compete (a **noncompete agreement**) with the company after his retirement. The contract is a separate plan and is not tied directly to the insurance policy. However, life insurance can be an advantageous way to fund the deferred compensation plan.

A combination key employee deferred compensation plan may be adopted and

funded with a single life insurance policy. That policy would provide indemnity to ZZ Plastics in the event of Peter's death and would also serve as a source of retirement income for Peter upon his retirement. ZZ Plastics would take out a life insurance policy on Peter; he would not be a party to this insurance contract. Then, at the same time, ZZ Plastics and Peter would both enter into the deferred compensation plan.

As a result, ZZ Plastics would have indemnity protection until Peter's retirement date. Upon that date, the company can surrender the policy and use the proceeds to make the deferred compensation payments. This type of key employee insurance plan does not have to cover any specific number or class of employees. It may be particularly appropriate for companies that do not wish to establish qualified deferred compensation plans.

If you have employees who are vital to the successful operation of your company, consider taking the steps that ZZ Plastics took and purchase life insurance as protection and incentive for key employees.



## Workers Compensation: Protection for Employer and Employee

Although you might think the concept of **Workers Compensation** originated in factories during the Industrial Revolution of the late 18<sup>th</sup> and early 19<sup>th</sup> centuries, it actually dates back to the 17<sup>th</sup> century on the high seas. Before seafaring crew members received payment for long journeys aboard trading ships that often navigated through uncharted territories fraught with a multitude of dangers, a special distribution was made to those workers who had been injured in action.

### *Into the Modern Age*

With the advent of industrialization and the resulting increase in machinery-related injuries, workers compensation became formalized. The first laws were instituted in Germany in the 1880s, followed soon afterward in England and then in the United States, where Wisconsin enacted the first state workers compensation law in 1911.

Today, workers compensation law in the United States is considerably more sophisticated. State statutes define workers compensation, which means that laws differ from one state to another. While employers in almost every state are required to purchase workers compensation insurance, *mandatory* workers compensation coverage typically only applies to employers who have at least a certain number of employees or with annual payrolls above a certain amount of money. Texas is the single exception to mandatory workers compensation insurance for larger employers; instead, all employers in Texas may make their own decisions about whether to purchase this type of insurance.

The objective of workers compensation law is to substitute the common law rights of a covered employee (i.e., the ability to sue) against his or her employer with a legal remedy that requires the employer to pay benefits according to the applicable state statute.



Most state compensation laws prohibit lawsuits by employees against their employers. However, two of the more common exceptions are intentional harm, such as an injury arising from a safety violation, and bad faith arising from harassment of an employee during the claims process.

### *Who Benefits?*

Workers compensation legally recognizes that when an employee sustains a work-related injury, the employer is obligated to pay for medical expenses, temporary and permanent disability benefits, rehabilitation benefits, and survivors' benefits in the event of death.

State workers compensation statutes cover most employees within that state. Federal statutes limit coverage to Federal employees or those employed in a significant aspect of interstate commerce.

Under a typical state statute, the employee is guaranteed workers compensation benefits on a timely basis. With a common law remedy, the injured worker could be subject to the delays and expense of litigation. Consequently, the injured worker may not receive compensation until a court makes an award or the case is settled. In turn, the employer is protected from open-ended financial losses associated with employee injuries, which could be substantial if employer negligence were proven in a court of law. The employer controls these potential losses through insurance premiums for workers compensation coverage.

While both parties have relinquished rights under our modern system of workers compensation (the right to a common law remedy by the employee and the right of due process by the employer), the benefits provided are generally believed to be worth the trade-off. Therefore, workers compensation protects both the welfare of the employee and the financial concerns of the employer.