

banknotes

Key Man Life Insurance

by Dale Rahlfs

What if your senior pulpit minister were to suddenly leave your church? How would this impact your membership numbers and the spiritual growth of the congregation?

For many, the first questions raised would relate to the spiritual health and well being of the church.

But how would this impact the financial health of your church? What if the departure was due to the death of the senior minister or an unexpected loss of a senior member of the ministry team or a key individual within the leadership of the church?

For affiliated churches, succession and replacement of key individuals may be an integral part of the annual planning process within the denomination. However, for many of the unaffiliated churches today, the loss of a senior minister or key individual may result in an empty position for a year or more. Regardless of the time period necessary to replace a key individual, the financial impact of such a loss may be significant. For many years, churches, business and other organizations have relied upon key man life insurance policies to reduce the financial impact of such a loss.

Key man or key person life insurance contracts are insurance policies taken out on a key member or members of the organization and may be payable upon death, to either the organization as the beneficiary or in some cases to the primary creditor of the organization.

This topic may seem more appropriate in the "We've Got You Covered" column vs. the "Bank Notes" column, but to banks and other lenders, this issue may be a key "deal point" of successfully underwriting an extension of credit to a church. Although this can be an uncomfortable issue to discuss, the death of a key individual may represent significant risks, to your lender. Potential lenders will typically evaluate the impact of such a loss and the church's ability to continue to make the required loan payments and other financial obligations.

Although your lender may not require key man life insurance, a prudent strategy for business administrators and risk managers would be to review how such a loss would impact their church. This review should be conducted on an annual basis as the impact of such a loss will change over time. The list of key individuals and the amount of life insurance carried on each individual should be reviewed annually to determine appropriate coverage levels and continued inclusion in the coverage. Additionally, individuals who previously may not have been included in this coverage should also be reviewed and a determination made as to an appropriate coverage level just as roles and positions within the organization are consistently changing and expanding.

Coverage amounts are typically negotiated or may be recommended by your lender. Most lenders will typically require coverage amounts that are sufficient to cover only a portion of the loan amount outstanding vs. the entire loan amount. However, in some cases the loss of a key individual may require a policy sufficient to cover the entire loan amount.

If your lender requires key man life insurance on selected individuals, it is not uncommon for the lender to require either a direct assignment of the benefits or to be named as a primary beneficiary. The most typical structure would be to have the church or owner of this policy named as the beneficiary. The policy benefits would then be assigned to the lender until the loan is repaid at which time the lender would file a release of the policy assignment.

Key man life insurance can be an effective tool for risk managers and/or business administrators in minimizing and managing the risks associated with key personnel in any organization. A timely, annual review of current, existing and/or future coverage should be an integral part of your planning and budgeting process. ❖