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ENTREPRENEURS

When your employee coughs, do YOU catch the cold?

BY STEVE PARRISH

When a sick and weakened Steve Jobs did one of his iconic product introductions for the iPhone, Apple stock fell more than 5 percent. The market apparently was more concerned with Jobs' emaciated appearance than impressed with the breakthrough technology he was pitching.

And when 81-year-old Warren Buffett announced his prostate cancer, Berkshire Hathaway stock took a hit. It appears that if a key employee coughs, it's the *company* that catches the cold.

I've repeatedly seen a key employee's disability damage a company. Not only can it hurt stock value as it did with Steve Jobs, but it can also damage profit, sales, brand image and even employee morale. One well-publicized automobile accident for a prominent local attorney and the whole firm suffers. When Smith of Smith and Company ends up with multiple fractures from a skiing accident, the company suddenly is seen to be without a leader, and therefore a risk to suppliers and customers. The question is whether this is just one of the vagaries of doing business, or if there is something a business can do to protect itself. Is the solution PR, HR, CD ... or DI?

• Some firms see this as a **P.R.** challenge. If a key employee is disabled, the

company tries to figure out how to minimize the perceived damage. Quickly place a positive spin on a negative issue and customers won't balk at buying. Present a succession plan and suppliers won't withhold shipments. Explain the contingency plan and the bank won't freeze the credit line.

• Other firms tackle this as an **H.R.** topic. The company recognizes that key people can become disabled, so it structures backup plans. Cross-training, contingency staffing, and a team approach to management are designed to mitigate the loss. But when the disabled key person is that firm's Steve or Warren, how much can the loss be covered by other staff?

• For some companies, it may be as simple as saving for a rainy day – put some money in a **C.D.** and be done with it. Farmers are used to holding some profits in reserve to cover such years as 2012, when crops are failing. The challenge in this economy, however, is that if capital isn't deployed, it isn't earning a return. And realistically, how likely is a firm to reserve profits to cover something that's only a contingency?

• With some businesses, I think there is a simpler solution: *Insure the risk*. Just as a factory can be insured with **P&C** insurance, a key employee can be covered by **DI** – disability – insurance. And just as the financial risk of a fire can be insured, so too can

risk to the human body.

Most people are aware that individual disability income insurance policies can be purchased as a way to replace income lost by a disability. Many businesses offer this coverage as a fringe benefit for key employees. What is not as well understood is that there are a variety of disability coverages available that reimburse the company for *its* financial losses. If the risk is how to keep the doors open and the staff paid while the owner/key employee recovers from a disability, *overhead expense* insurance is available. If the concern is how to effectuate buying out an owner's share in the event of a permanent disability, some insurers offer *disability buy-out* insurance.

Something newer on the insurance scene is *key person replacement* and even *loan protection* coverage. Key person replacement coverage provides the employer benefits to help with costs such as recruiting expenses and revenue gaps. Loan protection coverage provides reimbursement for business-related loan obligations. In many cases, banks are now requiring this type of protection to approve a small business loan.

These innovative insurance coverages get to the heart of the issue: How can a company reimburse itself for the financial costs associated with the disability of a key person or owner?

It may seem heartless to put a key employee in the same context as a factory, but loss is loss. And the chances of losing a key person to disability may be higher than losing a factory to fire. For the second time in a row, “business protection” ranked first among small-business owners when asked to rank employee benefits and business owner solutions in order of importance, based

on their priorities as business owners (source: Principal Financial Group Business Owner Research, May 2012). This priority even ranked above “health and wellness solutions.” I just don’t think that business owners have put the pieces together and realize that they can use disability insurance as an indemnity solution rather than only as a fringe benefit.

If business protection is an owner’s top priority, it is wise to protect against the loss of key assets. Some assets are tangible; some intangible; and some flesh and blood. The flesh-and-blood ones have been known to cough. 

The author is a Forbes contributor. The opinions expressed are those of the writer.