

If you are a business owner, you know how vital certain employees are to the success of your business.

## KEY PERSON

Maybe you have an employee that is responsible for the majority of sales, or perhaps you have an employee that has been with you so long that they know the ins and outs of your operation better than you. While retaining key employees is often a major concern for business owners, replacing those key employees in the event of untimely death or disability is often overlooked. As the leader of a thriving business entity you have worked hard to build your business; so you should ask yourself what you would do if you lost an integral member of your organization.

- > Could your business survive?
- > Would you be able to hire a replacement?
- > What would you do in the meantime to supplement lost revenue?

Insuring your key employees can help to alleviate any financial uncertainty your business might face in the event of their departure or untimely death.



Life insurance offers a unique and cost efficient strategy to ensure your business can survive the loss of a key employee. Key Person insurance is a concept whereby the business purchases life insurance on its key employee(s). The business is the owner and the beneficiary of the policy. The premiums are not tax deductible to the business, but if structured properly, the death benefit proceeds are paid out income tax-free to the business.

The life insurance death benefit proceeds can be used a number of ways. The death benefit might help to keep the business financially afloat while you hire someone new, and could even be used if necessary to offer a sign on bonus to that new employee. If your key employee was responsible for the majority of the sales revenue the death

benefit might be used to supplement the lost income to the business.

In the worst circumstances, if that employee was so vital that the business can no longer survive, the death benefit proceeds might offer enough cash on hand to close your business properly in lieu of filing for bankruptcy.

Cash value life insurance can offer you the flexibility and protection your business would need in a time of uncertainty. Perhaps your key employee(s) doesn't leave the company due to his or her death, perhaps they just leave. The business would still own the life insurance policy on that person and a policy with cash value would have just that – cash value that the business could access in a time

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This presentation presents an overview of business planning. It is not intended to provide full disclosure. It is not intended to give tax or legal advice. Any comments about tax treatment simply reflect an understanding of current interpretations of tax laws as they relate to business planning and life insurance. Tax laws are always subject to interpretation and possible changes in the future. It is recommended that you seek the counsel of your attorney, accountant, or other qualified tax advisor regarding business planning and life insurance taxation as it applies to your particular situation. These pages depict certain business planning options. All references to the present or future value of death benefits and cash values of pre-existing life insurance policies are based on the information you have provided for purposes of this analysis. They should not be construed to be the actual present or future values of the death benefits or cash values available in those life insurance policies. For a detailed projection of policy values of a given life insurance policy, please contact the company that issued the policy(ies) in question.

## KEY PERSON (CONT.)

of need; perhaps to cover lost revenue or perhaps to offer a bonus to a replacement hire. Many permanent life insurance policies also offer a Substitution of Insured rider. What good does it do the business to own a policy on an employee that is no longer with the company? None. With a Substitution of Insured rider<sup>1</sup> the business can request the new employee be added as the insured to the existing policy. This not only offers the business seamless key person protection, it prevents the business from losing any money paid into the previous policy.

Building a successful business takes a significant amount of time and financial commitment. Life insurance and specifically key person insurance can offer you financial protection in the event of a key employee's departure or untimely death; protection that will help ensure the future success of the business you have worked so hard to build.

<sup>1</sup>Substitution of Insured riders, also referred to as Change of Insured riders, require full underwriting for the new insured. Cost of insurance charges will also be adjusted based on the new insured's sex, rate class and age.