



Key Person Insurance

Protecting your business also means protecting one of your most valuable assets - your key employees.

1 - Do I need Key Person Insurance?

2 - Who are my key employees?

3 - How can I determine the cost of Key Person Insurance?

The death of a key person may subject the business to substantial economic loss due to:

- » Reduction of earnings (impact on profits)
- » Disruption of management
- » Impairment of credit
- » Possible loss of customers to competition
- » Cost and time involved finding and training a replacement

Examples of key employees might include:

- » Business owners
- » Top sales people
- » Key executives or proven managers
- » Hard-to-replace specialists (such as engineers, R&D scientists, etc.)
- » Skilled financial people

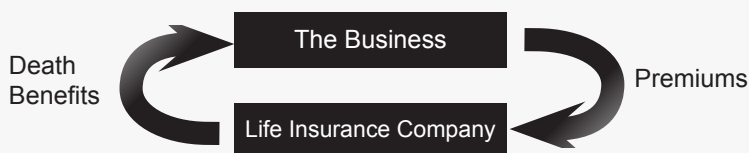
Insurance on the lives of your key people can be a cost-effective means of providing funding to help recover from the death of a person who is critical to the success of your business. The business should be the premium payor, owners, and beneficiary of the policy. However, death benefits are received tax free by your business.

The following guidelines may assist in determining the amount of insurance needed to cover the loss of a key person:

1. Capitalization of Salary - This method uses a capitalization factor between three and ten times annual salary (five times being the average). The more technical or difficult the skill is to obtain, the higher the capitalization factor should be.

2. One-Year Profit Method: The amount of life insurance purchased is equal to one year's business profit associated with the experience and performance of the key person. This buys the business one year to find and train a replacement.

How Key Person Insurance Works



1. The business purchases and retains all ownership rights to a policy on the life of the key person (employee).
2. The business pays premiums to the life insurance company to keep the policy in force.
3. At the key person's death, the death benefit is paid directly to the business.