

ADVANCED PLANNING

LIFE INSURANCE

Key people help drive your business. Attract and retain them while protecting the organization.

INVESTMENT AND INSURANCE PRODUCTS ARE:

- NOT FDIC INSURED
- NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY
- NOT A DEPOSIT OR OTHER OBLIGATION OF, OR GUARANTEED BY, ANY BANK OR ITS AFFILIATES
- SUBJECT TO INVESTMENT RISKS INCLUDING POSSIBLE LOSS OF THE PRINCIPAL AMOUNT INVESTED

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BLUEPRINTS
 **BLACK WEALTH**

Life insurance can play a significant role in achieving and maintaining your financial wellness and that of your loved ones, your business, and your employees.

TAKING CARE OF BUSINESS

As a business owner, you probably didn't think twice about the need to insure the building, inventory, and equipment of your business. But have you overlooked something? How about protecting the business against the loss of its most valuable assets—its key people? Consider:

- What could happen to your business if something prevented you from returning to work, or you lost one of your key employees?
- Would your business continue to run smoothly or would projects be stalled, customers lost, and productivity reduced?
- Would creditors become nervous about continuing to extend credit?
- How would the loss affect the bottom line of your business?

TAKING CARE OF YOUR BUSINESS

It's the skill, knowledge, ability, judgment, leadership, and experience of key people that make it possible for a business to produce profits. The loss of the talents of key employees, owners, or others can financially cripple a company. Whether your business is a sole proprietorship, a partnership, a limited liability company, or a closely held corporation, insuring the people who are vital to its success may prove to be one of your most important business decisions.



Insuring key people may be one of your most important business decisions.

WHY SHOULD A BUSINESS ESTABLISH A KEY PERSON STRATEGY?

The primary purpose of insuring a key person is to help the business get through potentially difficult times should that individual pass away. Depending on who the key person is, you may need funds to hire and train replacements. You may also need to pay expenses to maintain the confidence of employees, customers, and creditors while the business stabilizes.

HELP A BUSINESS ACCESS CREDIT

When a banker is dealing with a business that has a key person whose loss would disrupt the business, the banker will often make key person life insurance—with benefits equal to the credit line assigned to the bank—part of the approval process. This is especially true where the business is a sole proprietorship or a closely held business.

HELP RETAIN KEY EMPLOYEES

Key person coverage on the owner can help fund the cost of a stay bonus plan to retain key employees in a closely held business where the loss of an owner can have a devastating impact on the operation of the business, especially if other key employees are enticed to leave the business.



HOW DO YOU IDENTIFY A KEY PERSON?



A KEY PERSON CAN BE ANYONE—AN OWNER OR A NON-OWNER

What distinguishes someone as a key person is that their loss would severely impact a business until a replacement is found. Key people can be found in a variety of positions and with various titles. They could be:

- Business management executives such as presidents and vice presidents
- Research and development executives
- Production executives
- Key sales representatives

The bottom line is that any person considered vital to the success of the business and essential to its profitable operation is a key person.

COMMON USES FOR KEY PERSON INSURANCE COVERAGE

- Securing loans for business growth
- Strengthening the business' credit position
- Providing funds for recruiting and training a replacement key employee
- Paying expenses while the business stabilizes
- Purchasing the business interest from the estate of the deceased owner
- Continuing salary for a surviving spouse
- Funding an executive compensation arrangement



Your financial professional can provide you with guidelines to help you.

WHY USE LIFE INSURANCE TO FUND A KEY PERSON STRATEGY?

While cash or loans can be used to pay the costs of replacing a key person, life insurance may be a more cost-effective alternative.

- Using cash takes money out of the day-to-day operation of the business.
- Loans come with the disadvantage that the business will have to repay the loan, plus interest.
- The company's credit may be adversely affected due to greater debt.

Life insurance, on the other hand, is easy to administer, and funds are immediately available, even if death occurs shortly after the policy is issued. When funding a key person arrangement with life insurance, the business applies for the policy and usually names itself as owner and beneficiary.

IMPORTANT TO NOTE: Before policy issue, the business must provide the key person specific written notice of its intent to acquire coverage and receive their consent. It's suggested that the business retain this notice and consent to substantiate the annual tax filing on Form 8925.

A sample notice and consent form may be available from your financial professional.



HOW MUCH LIFE INSURANCE SHOULD THE BUSINESS PURCHASE?

The amount of life insurance coverage should reflect the estimated monetary loss the business would suffer from the death of the key person. Varied approaches exist to estimate the monetary loss to the business. Your financial professional can provide you with guidelines to help you with this decision. Determining the correct amount of key person coverage is important to the future financial health of the business. Purchasing too little coverage leaves the business exposed to sudden and unexpected financial risks. Purchasing too much coverage creates unnecessary expense for the business.

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