

What is Key Person Life Insurance

Key Person Insurance is a life insurance policy that a business purchases on the life of a key employee to help the company survive financially if something happens to the employee. The key person policy can either be term insurance or permanent insurance. While the main purpose of Key Person Insurance is to provide a death benefit to the business in the event of the premature death of an essential employee, it can also be used as a way to provide the key person with supplemental non-qualified retirement benefits.

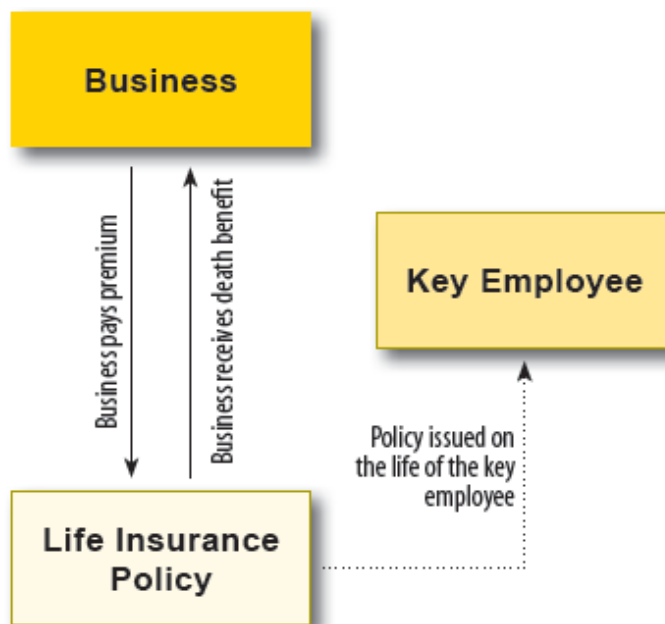
Why Life Insurance?

Life insurance is the one financial instrument that provides the necessary funds at precisely the time they are needed most. While it may not be possible to completely replace the contributions the employee made to the business, insurance coverage can help ensure that the business will have the funds to:

- stay in business
- assure creditors that everything is fine
- assure customers that the business will continue to operate as usual

How Does It Work?

The business buys a life insurance policy on the life of the key person. The business is the owner and beneficiary of the policy. The business pays the entire premium and will receive the entire death benefit. The key person does not have any interest in the policy, nor does his/her family typically receive any benefit from it when death occurs.



Who Is A Key Person?

A key person can be a business owner, a successful sales rep, a high level manager, or other individuals whose daily contributions are key to the success of the business. To determine a person's value, several factors should be considered, such as:

- Ability to obtain financial assistance: If something happens, would the business still be able to obtain financial backing?
- Knowledge of the products and operations: Does this person have special knowledge about the operations and products?
- Competition: Would rival companies have an advantage if this person were gone?
- Customer Relations: Is this person the relationship maker?
- Sales Ability: Will the business be able to meet sales goals without the key person?
- Creativity: Does the key person understand the market and product so well that creativity just happens?
- Important Contacts: Does the key person have the contacts needed to get results in a crisis situation?

How is the amount of Key Person coverage determined?

It depends on what the business stands to lose at the death of the key person. There are a number of valuation methods utilized in assessing this loss. They include:

- Loss of Business Value
- Loss of Excess Earnings
- Cost to Replace Experience
- Cost to Replace Contributions
- Cost to Replace Lost Sales Profits
- Multiple of Salary

What are the benefits of Key Person coverage?

The purchase of key person insurance benefits both the business and the employee. The business benefits from having a source of income to cover the expenses that occur with the loss of a key person. It can also access the potential cash value of the life insurance policy for cash flow, retirement benefits or other unexpected expenses. The employee benefits from the knowledge that he or she is essential to the business's operations, and the key person plan may be used to fund his or her supplemental retirement income by taking loans and withdrawals from the policy cash value.