

Key person life insurance

Protect your business against the unexpected loss of a key employee

DID YOU KNOW?

22%

of small business owners surveyed have spoken with their financial professional about protecting against the loss of key people.¹

A key employee is often a business's most valuable asset. These individuals may be co-owners, top executives, or other important members of the organization with unique talents and experiences critical to the success of the business.

A loss of a key employee can:

- Cause significant business disruption to sources of revenue.
- Raise concerns with creditors.
- Impose additional financial burdens associated with finding a viable replacement.

Key person life insurance can help preserve business continuity by providing an immediate source of liquidity to the business upon the passing of a key person.

Key person coverage has many benefits

- Income tax-free death benefits provide an immediate source of funds to help cover lost profits attributable to the key person, reducing the need to access cash, additional credit, or sell assets.
- Maintain lender confidence during replacement transition period; policies can even be pledged as collateral to help secure additional credit.²
- Business determines who to insure and controls the policy if the key person leaves and no IRS approval is required.

Determining coverage amounts

- Multiple of key person(s) salary
- A percentage of profits attributable to employee
- Business debt obligations of an owner(s)

¹"Lincoln Financial Wants Consumers to Understand Life Insurance's Living Benefits," *Insurance Newsnet*, September 15, 2022, press release, <https://insurancenewsnet.com/inarticle/lincoln-financial-wants-consumers-to-understand-life-insurances-living-benefits>.

² Annual increase in policy cash values and death benefit proceeds may have corporate alternative minimum tax implications.



Learn how to protect
your business.
Contact your financial
professional today.

Not a deposit
Not FDIC-insured
Not insured by any federal government agency
Not guaranteed by any bank or savings association
May go down in value

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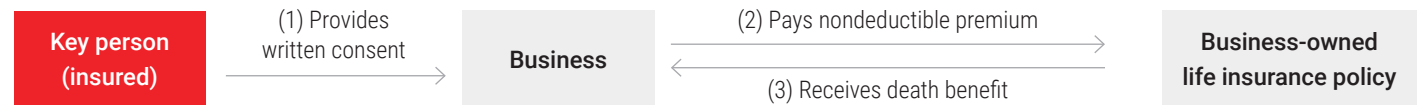
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How the strategy works



- Identify key persons in the business and determine the financial impact of losing that individual(s).
- The key employee provides written consent for the business to purchase life insurance on their life.
- The business is the owner and beneficiary of the life insurance policy.
- The business pays the nondeductible premiums and at the death of the key person, the business receives the death benefit proceeds, generally federal income tax-free.³

Considerations for key person coverage:

- Determine the appropriate amount of life insurance coverage.
- If funded with cash value life insurance, policy cash values are a balance-sheet asset that grow potentially tax-deferred and can be accessed for other business planning needs. Note: Amounts accessed through loans and withdrawals will reduce the death benefit and cash value, may cause the policy to lapse and may have tax consequences.
- Premiums paid for by the business are not tax-deductible and an annual report to the IRS is required, which identifies employer-owned life insurance policies.

³ For federal income tax purposes, life insurance death benefits generally pay income tax-free to beneficiaries pursuant to IRC Sec. 101(a)(1). In certain situations, however, life insurance death benefits may be partially or wholly taxable. Situations include, but are not limited to: the transfer of a life insurance policy for valuable consideration unless the transfer qualifies for an exception under IRC Sec. 101(a)(2) (the transfer-for-value rule), arrangements that lack an insurable interest based on state law, and an employer-owned policy unless the policy qualifies for an exception under IRC Sec. 101(j).

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It is possible coverage will expire when either no premiums are paid following the initial premium, or subsequent premiums are insufficient to continue coverage.