



KEY PERSON EVALUATION

for the continued success of your business

John Smith

Vice President
ABC Manufacturing

Valued Advisor

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Who Are Your Key People?

Key people can't be easily replaced and their absence will reduce the financial performance of your company by increasing costs or losing profits. Key people have special skills that have a direct impact on your profits year after year.

Do any of your employees have these characteristics?

- Special Contacts or Connections
- Unique Sales Ability
- Financial Expertise
- Account Management Skills
- Product Design/Innovation
- Leadership Skills
- Computer/Technical Skills
- Ability to Get Things Done

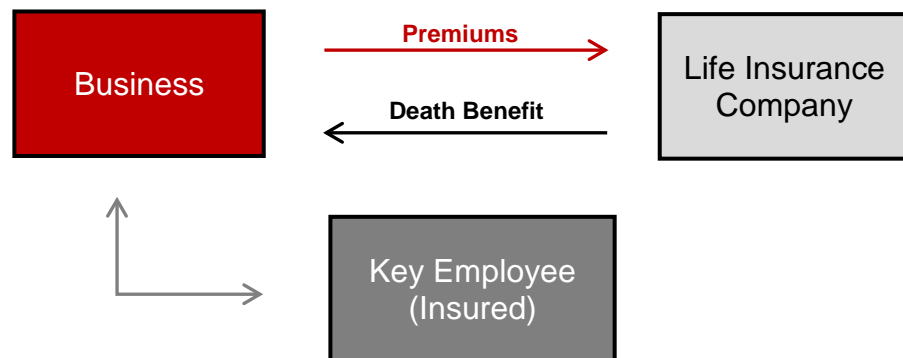
What Happens When a Key Person Dies?

Replacing essential personnel of a company could cost significant time and money. Without sufficient planning, the loss of a key person may result in:

- Increased costs
- Customers moving their business to a competitor
- Employees becoming concerned and leaving the company
- Business owners assuming the key employee's duties
- Reduced revenue and/or profits

What is Key Person Life Insurance?

Key person life insurance insures the life of an employee who is critical to the success and profitability of a business. The policy helps reimburse the business for economic loss when a key person dies. The business provides the employee notice that it intends to purchase life insurance on the employee's life and obtains the employee's written consent. The policy is owned by the company, with the premiums paid by the company, solely for the company's benefit. Should the key person pass away, the death benefit proceeds are received income tax free.



What are the Benefits of Key Person Insurance?

Key person life insurance benefits a business in several important ways:

- Provides cash to indemnify the business for lost sales
- Assures creditors that business is financially sound
- Offers comfort to customers and employees that business will continue operations
- Allows business to recruit, hire and train a qualified replacement

How is Key Person Life Insurance Taxed?

In most cases, the death benefit proceeds are paid to the business income tax-free as long as the business complies with IRC Section 101(j). In a C corporation, it is possible for the death benefit to trigger the alternative minimum tax.

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Key Person Information

Prepared for:
John Smith
Vice President
ABC Manufacturing

What makes John Smith a key person?

- Special contracts/connections
- Management ability
- Computer/technical skills
- Sales ability
- Product design/innovation
- Ability to get things done
- Financial expertise
- Leadership skills

Key Person Valuation

General Information

Number of years the key person is anticipated to be employed by the company	15
Estimated fair market value of the company	\$6,000,000
Key person's equity/ownership in the company	50%

Total Annual Compensation

Salary, bonuses and other compensation	\$250,000
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Potential Lost Profits

Revenues attributable to key person	\$2,000,000
Profit margin percent on revenues	26.0%
Number of years to replace	3
Total value of lost profits	\$1,560,000

Additional Expenses to Consider

Replacement's total compensation and benefits	\$250,000
Recruiting, advertising and placement costs	\$100,000
Training expenses	\$35,000
Increased interest cost on business loans	\$0
Other costs	\$15,000
Total amount of additional expenses to consider	\$400,000

Estimated risk associated with the loss of John Smith **\$1,960,000**

Proposed Funding Solutions

Appropriate Amount of Coverage	\$1,960,000
Type of Coverage	15 Year Level Term
Policy Owner and Beneficiary	ABC Manufacturing
Estimated Annual Premium Amount*	\$5,325

*Assumes a male age 51 who qualifies for standard non-nicotine rates. All calculations assume rates in effect at the time calculations were made.

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