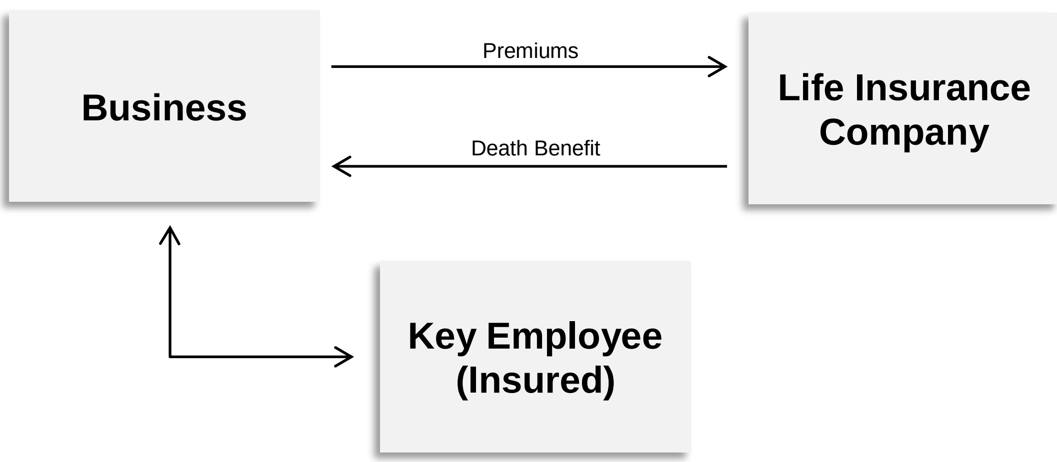
# KEY PERSON LIFE INSURANCE

Key person life insurance provides a business with protection against economic loss suffered from the death of a key employee. Key employees are any employee whose death will negatively impact a company by reducing revenue due to lost business and/or increasing expenses by the need to hire and train an adequate replacement. The business owns the life insurance policy, pays the premiums and is the sole beneficiary. The key employee is the insured. Upon the death of the key employee, the business generally receives the life insurance death benefit free of federal income tax.

## Key Person Life Insurance




## Benefits to the Business

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

## Tax Considerations

- Death benefit generally received income tax free.
- No tax deduction for life insurance premiums.
- Potential alternative minimum tax liability for “C” corporations.

## Factors Making Employee “Key”

- Employee has special knowledge about operations and products/services.
- Rival companies would have an advantage if employee was gone.
- Employee is the relationship initiator and facilitator.
- Cannot meet sales goals without employee.
- Business can’t obtain sufficient financial backing without employee.

## Factors Determining Insurance Amount

- Cost to replace the employee.
- Amount employee is worth to the bottom line.
- Total economic loss to the business.
- Typical formula is five to ten times annual compensation of key employee.