

Protect Your Key Assets with Key-person Life Insurance



Most organizations employ at least one individual who is essential to the company's success. This person may be a partner, majority stockholder or an individual with expertise that is unmatched throughout the rest of the company. If this person's exit from the company is planned, such as retirement or voluntary termination, then you can prepare for the loss and take the necessary precautions to minimize the impact. However, if the departure is unplanned due to a death, disabling accident or quitting on the spot, then the company is exposed to financial risks. If your organization employs individuals who are vital to its success, consider key-person life insurance to offset your risk. This insurance solution can protect your organization's solvency in the event that you lose the key person or people without warning, and also the investments made by lenders and investors to the company.

How Does Key-person Life Insurance Work?

It is important to know how key-person life insurance works while you consider if it's the right fit for your company:

- Employer purchases life insurance on the key individual(s).
- Employer is the beneficiary of the life insurance policy and applies for and owns the policy. If the key employee dies prematurely, the policy pays out to

the employer.

- Tax-free dollars from the policy can be put towards finding, hiring and training a replacement employee, compensation for lost business during the transition and/or financing timely business transactions.
- Policy can be transferred to a departing key employee as a retirement benefit or to a different key individual, upon the retirement of the original key employee.
- Can be used to buy out the key employee's shares or interest in the company.
- Premiums are based on several factors, including the key employee's age, physical conditions and health history. The amount of coverage also affects the premium.

Advantages of Key-person Life Insurance

Key-person life insurance has a number of advantages that can help mitigate your company's risks:

- Can be easily implemented and does not require Internal Revenue Service (IRS) approval; only requires an annual report to the IRS.
- Life insurance benefits are paid to the company tax-free.

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- Customers, creditors, lenders and stockholders have the assurance that the business has a continuation plan and coverage in place.
- There is flexibility in what the funds can be used for.

Considerations before Purchasing Key-person Life Insurance

The following points should be considered before purchasing key-person life insurance:

- Estimate the value of your key employees. Think about the projects that would be lost without these people, the amount of sales generated by these people and costs associated with replacing them.
- Determine if this coverage is necessary, as Credit Insurance will cover outstanding loans and debts.
- Create a business continuation plan that outlines how your business will function if you lose key employees. This plan is vital, in addition to proper coverage.

Buckman-Mitchell, Inc. - Financial & Insurance Services understands that your key assets need protecting and we are here to assist you. Please contact us today at 559-733-1181 to learn more about our key-person life insurance solutions and other ways to mitigate your risk.