A STRATEGY SPOTLIGHT

Key Employee Life Insurance

Your business is only as strong as its employees. Employees contribute to management, have a significant impact on sales, and may have a special rapport with customers or creditors. In short, they are an integral part of the success of your business.

Just as a family protects against the risk that the primary wage earner may die prematurely by purchasing life insurance, your business can protect against the risk that its key employee(s) may die prematurely in the same way. This can be done by purchasing life insurance on that employee(s). Remember, a business owner in most cases is also considered a key employee.

Key employee insurance is a life insurance policy taken out by a business on the life of a key employee to help protect the business in case of an unexpected death. This can be anyone in the business whose death could have a significant impact on the company or may result in a loss of business. This might be the owner, a partner, or an employee whose knowledge and contributions to the company are valuable. The purpose of this life insurance is to help the company survive the blow of losing the person who makes the business work.

How it Works

The business buys a life insurance policy on the life of the key employee, and the business is the owner and the beneficiary of the policy. The business will pay the entire premium, which is not tax deductible. At the death of the employee, the business will receive the entire death benefit. The death benefit will only be income tax free if the requirements of Internal Revenue Code (IRC) 101(j) are met. This includes providing notice to the key employee and receiving consent from them as to the amount of insurance the employer plans to acquire. This income tax-free death benefit may be used to replace lost profits, recruit and/or retain qualified replacements, or help protect the company's credit position. The employee does not have any interest in the policy, nor does his or her family typically receive any benefits from the policy when death occurs.

Once the key employee retires, your company can retain the policy, use it to provide the employee with supplemental retirement income, or transfer the policy to the employee for his/her own personal insurance needs.[1]

If the key employee leaves your company for reasons other than retirement, it may be possible to substitute the insured on the policy with another key employee (subject to medical underwriting). Additionally, your company can surrender the policy, pay income tax on any gain, and recoup some or all of the cost of the insurance.

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[1] May be subject to income tax.

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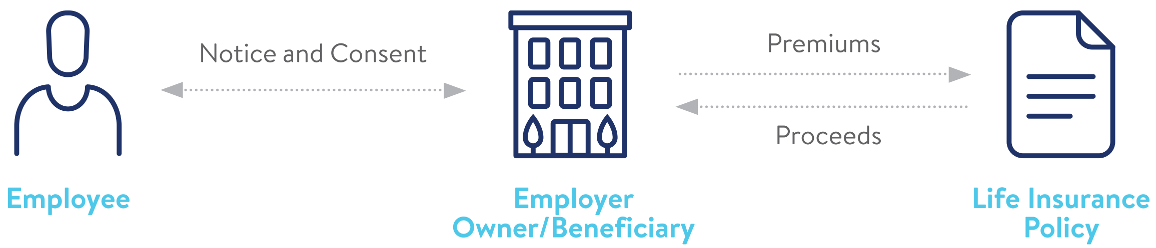
Benefits

- Simple to implement and no need for IRS approval.
- Not only will the business have death benefit protection in case of an unexpected death, it will be able to access the potential cash values[2] of the life insurance policies for cash flow, supplemental retirement benefits, or for unanticipated expenses.

Life insurance allows your company the opportunity to:

- Keep the business operating after the death of a key employee.
- Help assure creditors of a smooth transition.
- Cover the expense of finding and training a suitable replacement.
- Protect goodwill and/or replace lost profits.
- Have flexibility to decide later whether or not to use the policy to fund supplemental income to the executive at retirement, to transfer the policy at that time, or to keep the policy as cost recovery.

KEY EMPLOYEE INSURANCE



- The employer gives the employee notice and obtains consent from the employee.
- The employer applies for, owns, and is the beneficiary of insurance on the key employee's life.
- The employer pays the premiums on the policy.
- If the employee dies, policy proceeds are paid to the employer.
- The premiums are not deductible by the employer.

[2] Distributions under the policy (including cash dividends and partial/full surrenders) are not subject to taxation up to the amount paid into the policy (cost basis). If the policy is a Modified Endowment Contract, policy loans and/or distributions are taxable to the extent of gain and are subject to a 10% tax penalty.

Access to cash values through borrowing or partial surrenders will reduce the policy's cash value and death benefit, increase the chance the policy will lapse, and may result in a tax liability if the policy terminates before the death of the insured.

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