

# 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's unmatched throughout the rest of the company. If this person's exit from the company is planned, such as through retirement or a 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 sudden resignation, 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 coverage 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's important to know how key-person life insurance works while you consider if it's the right fit for your company:

- The employer purchases key-person life insurance on the key individual(s).
- The employer is the beneficiary of the policy and applies for and owns the coverage. If the key

employee dies prematurely, the policy pays out to the employer.

- In some cases, IRS guidelines allow for tax-free dollars from the policy to be put towards finding, hiring and training a replacement employee, compensation for lost business during the transition, and financing timely business transactions.
- Depending on the specific language in the policy, it can sometimes be transferred to a departing key employee as a retirement benefit.
- The policy 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:

- Policies can be easily implemented and don't require IRS approval. Your business only needs to prepare an annual report for the IRS.
- If all IRS guidelines are followed, the policy's benefits

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may be paid to the company tax-free.

- Customers, creditors, lenders and stockholders have the assurance that the business has a continuation plan and coverage in place.
- There's flexibility when using funds paid by the policy.

## 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 continuity plan that outlines how your business will function if you lose key employees.

RiskSOURCE Clark-Theders understands that your key assets need protection and we're here to assist you. Please contact us today at 513-779-2800 to learn more about our key-person life insurance solutions and other ways to mitigate your risks.