Key person life insurance can help you retain your key employees and plan for the continuity of your business.

**If something were to happen to one of your key employees, how would that impact your business?**

When a key person leaves for a different position, is unable to work, or passes away, it can cause a long-term disruption to the operations – and even the profitability – of your business.

Although you can’t always prevent situations like these, one way to prepare for them is through the purchase of key person life insurance.

**What is key person life insurance?**

Key person life insurance is a life insurance policy that covers one (or more) of your key employees, for the primary goal of protecting the value and ongoing operations of your business. A key person is an employee whose absence would have an adverse economic effect on your business.

Think of it as part of a succession plan for your business. The death benefit – and in some cases, its potential to accumulate cash value you can access through policy loans and withdrawals in an emergency – can help make sure that, in the event of the loss of a key employee, your business has the ability to continue.

**How key person life insurance works**

The business purchases a life insurance policy on the key employee (insured), pays the premium, and names itself as the beneficiary. (The employer must provide a written notice of the life insurance and obtain written consent from the insured key employee prior to the policy being issued.)

As the owner of the policy, your business may surrender it, borrow against it, and use either the available cash value accumulation or the death benefit as desired, including using it to supplement costs if something were to happen to your key employee.

Must be accompanied by the *Understanding fixed index universal life insurance* brochure (M-3959) or the appropriate product brochure.

---

1 Policy loans and withdrawals will reduce the available cash value and death benefit and may cause unintended consequences, including lapse or taxable events. Please see the full loan and withdrawal disclosure within this material for details.

2 An employer-owned life insurance policy is subject to the requirements of Internal Revenue Code 101(j) in order to obtain an income-tax-free death benefit. In general, those rules require that before the policy is issued, the employer must provide the insured with a written notice of the life insurance, obtain a written consent from the insured, and provide the IRS with ongoing annual reporting regarding policy ownership. Consult with an attorney for application of those rules to a specific situation.

Product and feature availability may vary by state and broker/dealer.

M-5107
Determining the amount of life insurance needed

Although there are no hard rules for calculating a key employee’s economic value, these guidelines may help:

- **Replacement value**: The appropriate coverage could equal the salary for the new employee minus the key employee’s compensation; multiply the difference by the number of years to get the new hire trained, plus any applicable training costs.
- **Business life value**: Estimate the loss of your annual earnings if the key person were to die or leave, multiply that by the number of years the key person would have worked for you until retirement, and then discount that earning stream to its present value.

Company benefits

- Provides financial protection through the death benefit if the key employee passes away.
- Some types of life insurance have the potential to accumulate cash value that the business can access through policy loans and withdrawals in an emergency.
- Use the business-owned life insurance for an additional or different purpose – such as to provide a split-dollar life insurance arrangement, or to informally fund a nonqualified deferred compensation plan. Either of those arrangements can help retain your key employees. A split-dollar life insurance arrangement and a nonqualified plan would each require a separate legal agreement drafted by an attorney.
- Your business can continue to pay the premiums and keep the policy in force or surrender the policy if the key employee leaves or retires.

Company considerations

- Life insurance is an underwritten product, and any strategy that includes it is contingent on health and financial underwriting.
- The premiums paid by you, the employer, are not deductible from your business’s federal income tax since your business is the recipient of the benefits. However, in most cases, any death benefit your business receives is not taxed.
- The income-tax-free death benefit of key person life insurance is subject to Internal Revenue Code 101(j). As the employer, you must provide the insured with a written notice of the life insurance and obtain written consent from the key employee before the policy is issued.
- You should consult your tax advisor and/or attorney to discuss your specific situation.

To find out more ways that life insurance can help with your business objectives, ask your team of professionals.

---

1 Policy loans and withdrawals will reduce the available cash value and death benefit and may cause the policy to lapse, or affect guarantees against lapse. Withdrawals in excess of premiums paid will be subject to ordinary income tax. Additional premium payments may be required to keep the policy in force. In the event of a lapse, outstanding policy loans in excess of unrecovered cost basis will be subject to ordinary income tax. If a policy is a modified endowment contract (MEC), policy loans and withdrawals will be taxable as ordinary income to the extent there are earnings in the policy. If any of these features are exercised prior to age 59½ on a MEC, a 10% federal additional tax may be imposed. Tax laws are subject to change and you should consult a tax professional.

2 An employer-owned life insurance policy is subject to the requirements of Internal Revenue Code 101(j) in order to obtain an income-tax-free death benefit. In general, those rules require that before the policy is issued, the employer must provide the insured with a written notice of the life insurance, obtain written consent from the key employee before the policy is issued. As the employer, you must provide the insured with a written notice of the life insurance and obtain written consent from the key employee before the policy is issued. You should consult your tax advisor and/or attorney to discuss your specific situation.