

Key-man Insurance

A company's employees are one of its most valuable assets. If a key employee dies, the business may experience financial difficulty. To pinpoint areas of greatest vulnerability, business owners ask these questions: Who is relied upon the most? Which employee would you fire last? Who runs the business if you're not there? Who is in charge of sales? Who makes the money for the company? Who is in charge of production? Who will replace you when you retire? Who brings in the most revenue? Here are some examples of Key People:

- The highest paid employee
- Provides special skills unique to the business
- Is responsible for manufacturing
- Is responsible for bank financing

When a business loses a key person, finding a replacement becomes necessary. The business needs to assess how long it will take to replace the key person. Some issues are: Is special training needed? Are the skills readily available? Can I replace the key person lost at the same salary or will I have to pay more including bonuses/stock options? Replacement cost also includes estimating the amount of lost earnings if a replacement is not identified quickly. Options to funding a new key person may come from a sinking fund/savings account, current profits of the corporation, or life insurance.

The most effective way for most business owners to fund a key employee replacement is through life insurance. With life insurance, cash values grow tax deferred. Security is confirmed. The death benefit is tax free and the cash values are assets of the corporation. Key Person Life Insurance works in the following manner:

- The employer owns and is the beneficiary of life insurance on the key employee
- The employer pays life insurance premiums (not a tax deductible expense)
- If the key employee dies, policy proceeds are paid to the employer

If the key person leaves the company, cash value of the policy remains as an asset to the employer. The policy can be surrendered for its cash value. If the key person retires, the cash value can be used to supplement the key person's retirement income. Freedom Financial Services assists business owners in selecting a Key Man insurance plan for their situation. For prompt assistance with Key-Man insurance, contact us through the Contact Us page of this website.