

Key Person Insurance

Problem:

The unique managerial skills and experience of key employees allow the business to be successful. Often these individuals have relationships with clients or specialized skills that generate a large portion of the company's revenue. When a business loses a key employee it can suffer a financial loss from a disruption of management, reduction in earnings, impairment of credit, and loss of customers to the competition.

Prospects:

Any business structure can be at risk of loss; it is particularly pronounced for smaller, closely held businesses. These businesses are more likely to be dependent on single individual or small group of people for profit generation and stability. Key persons include:

- Business owners
- Technical employees
- Successful salespeople
- Corporate officers
- Top managers
- Potential future owners

Solution:

Life insurance can be a cost-effective means of providing a financial cushion that can help indemnify the business for the loss of a key employee. How does it work? The business purchases a life insurance policy on the life of a key person. The business is the policy owner, beneficiary and premium payer. At the death of the key person the policy death benefit proceeds are available to assist in finding and training a replacement, covering lost profits and protecting the credit rating of the business. Although the premiums paid are not tax deductible, the life insurance proceeds are generally received income tax-free under IRC § 101(a).

Additional Benefits of Key Person Life Insurance:

- **Business Asset.** Cash values, if any, are reflected as an asset on the company's balance sheet. The cash values provide a reserve that can be accessed on a tax-favored basis through policy loans and withdrawals. Of course, withdrawals and loans cause a reduction in cash values and death benefit, may affect any guarantees against lapse, and may have tax consequences.
- **Valuable Collateral Uses.** The policy may be used to help informally fund a deferred compensation arrangement, salary continuation, or redeem the stock of a deceased owner.
- **Confidence.** Inspires confidence to the suppliers, creditors, and employees that the company will be able to meet its obligations and continue even at the death of a key employee.

Call our Advanced Marketing team to find out how Key Person Insurance can help solve your client's business planning needs.

This training material has been prepared to assist our licensed financial professionals. It is designed to provide general information in regard to the subject matter covered. It should be used with the understanding that Prudential is not rendering legal, accounting or tax advice. Such services should be provided by the client's own advisors.

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QUESTIONS? CALL ADVANCED MARKETING

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