



J. KRUG & ASSOCIATES, INC.

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INSURANCE BROKERS AND CONSULTANTS

Key Person Life Insurance

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Most companies have a person whose position is vital to the success of the business. A key person may be an owner, partner, or employee and without that person, your business would suffer serious consequences such as loss of credit, loss of key accounts, lost earnings, high replacement costs or maybe diminished confidence in the remaining employees.

Why life insurance?

Whether a small family owned company or a multi-billion dollar corporation, the death of a key person can drastically cripple a business quickly. If you have life insurance on those key people, you can name the beneficiary as the business and use the death proceeds to fund all lost earnings, replacement costs, etc. If a key person were to become disabled or left the company, the policies cash value could be used as a source of income for the company to find a replacement. If the key person were to die, the proceeds can also fund buy out plans for remaining spouses or partners; protecting from a forced sale or loss of control in your business. Life insurance is cost efficient, guaranteed, and generally tax free.

How does key person insurance work?

Business purchases policy on key employee's life, pays premiums, and is beneficiary of the policy. If the insured dies; the proceeds can be used to fund anything the business needs, such as:

- *Loss of management*
- *Loss of revenue*
- *Adverse effect on production*
- *Restriction of credit on company*
- *Expenses to recruit, train, and replace*

Who might be a key person?

High-level executives, someone with key relationship contacts, someone with a specialized skill or knowledge, leading sales and marketing people, managers, special project leaders, owners, partners

Think about these people's salaries, cost of temporary replacement, recruiting/training, then permanent replacement, profit lost from sales, delays or cancellations that may occur, will outsourcing be necessary and how much will that cost, and/or losing a business loan.

What kind of coverage would each key person need?

Factors include all of the above, plus a timeline, type of coverage:

- *Temporary*
- *Permanent (with or without cash value)*

How do we value each key employee?

- *Multiples of Income - multiply salary by 5-7 times*
- *Replacement Cost Method - based directly on what it would cost to replace*
- *Contributions to Earnings Method - calculated based on profits lost death of person*