

Think about this: “Focusing on people whose contributions are significant to the business”

Key employees are the most important assets to a business because of the special talents/abilities they possess. Losing a key employee might put undue financial strain on the business couples with disrupted management, impaired credit, lost confidence among vendors, etc.

Business owners need to think of insuring their key employees with a goal of business continuation.

Steps in the process:

1. Identify key employee, who could be top salesperson, key decision maker, excellent administrator, highly paid executives, employees with special training critical to the functioning of the business, etc.
2. Perform key person valuation which could be based on replacement cost/s, loss of earnings, contribution to profits, present value of lost earnings, capitalization of salary, etc.
3. The business then applies for insurance on the key employee/s life.
4. Business pays the premiums and is both the owner and beneficiary of the life policy.
5. If the key employee dies, life insurance proceeds are paid to the business tax free (some C corporations might face alternate minimum tax issues and must check with the company’s tax advisor). The business uses the insurance proceeds to offset loss in profits, sales, productivity, etc.

FAQs by the business owner:

1. Does the employee have rights to the policy? *No, employee has no rights to the policy proceeds.*
2. Can business get a tax deduction on premiums? *No, premium payments are non deductible.*
3. Will employee be taxed on premium payments? *No, there is no income tax consequence to the insured employee.*
4. Does the business need to have a written agreement with the employee and send a copy to the IRS? *No to both parts of the question. It is advisable however, for the business to establish guidelines for this process.*
5. I have heard that only permanent policies should be purchased. Is that correct? *No, permanent policies provide cash value access, if needed but term policies could also be purchased if the issue is premium affordability.*

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