PROTECT YOUR BUSINESS WITH KEY PERSON COVERAGE

AMERICAN NATIONAL®

Business owners carry property and casualty insurance to protect business assets, yet the most important asset of any business is the people who make the company prosperous. If the key executive who brings in sales or keeps the equipment running in the shop or anyone who, if they were no longer there, would result in a loss of business, the company needs to insure themselves against the loss of that key person.

What is Key Person Coverage?

Key person insurance is life insurance that is purchased by a business on certain key persons to protect against loss of business or disruption of the business due to the loss of a key employee. The company pays the premiums and receives the death benefit. It is the equivalent of life insurance for businesses and provides protection for the business as well as customers and suppliers who depend upon the business.

How Much Do Clients Need and What Type of Insurance Should They Use?

Find out if their business has a key employee who if they were lost would:

- Reduce sales or business profits
- Result in the loss of a key skill that keeps the company going
- Disrupt the daily operation of the business
- Make customers go elsewhere if the business is unstable
- Make creditors call in loans and suppliers' question whether they will be paid

There is no set rule for how much insurance is needed. However, to comply with insurable interest rules, the company and its accountant need to determine an amount. A look at the responsibilities of the key executive and what their responsibilities are can help. If they are responsible for sales, the loss may be the amount of profit the key person generates from sales that individual makes. Also, will the loss continue for more than one year? The value needed along with the cost of hiring and training a replacement would all factor into determining the potential loss.

Once the amount is determined and backed up with projections, the type of insurance should be determined. Typically, if an executive is expected to retire at a specific age, term insurance can be used. However, if the key person is also an owner or expected to continue to work after normal retirement age, then a permanent policy may better suit the situation. In addition, a permanent policy can contain cash value or a cash-out provision so if the employee retires, the cash value can be used to replace the individual or even provide that individual a cash benefit from the policy cash value or cash-out provisions in the Guaranteed UL policy.

Who Should Own the Policy?

In Key Person policies, the company owns the policy and pays the premiums and is the beneficiary of the policy. The primary purpose is to reimburse the company for the loss of the key employee, but the company can also provide a benefit to the key employee's family with a portion of the death benefit. If the company chooses a cash value policy or one with a cash-out feature that could also provide a benefit for the employee.

The company should obtain the employee's written permission to own the amount of insurance on the employee's life to avoid the death benefit being taxable to the company.

Benefits of Key Person coverage:

Key person insurance can protect the company in the event of a loss of such key employee and compensate the company to:

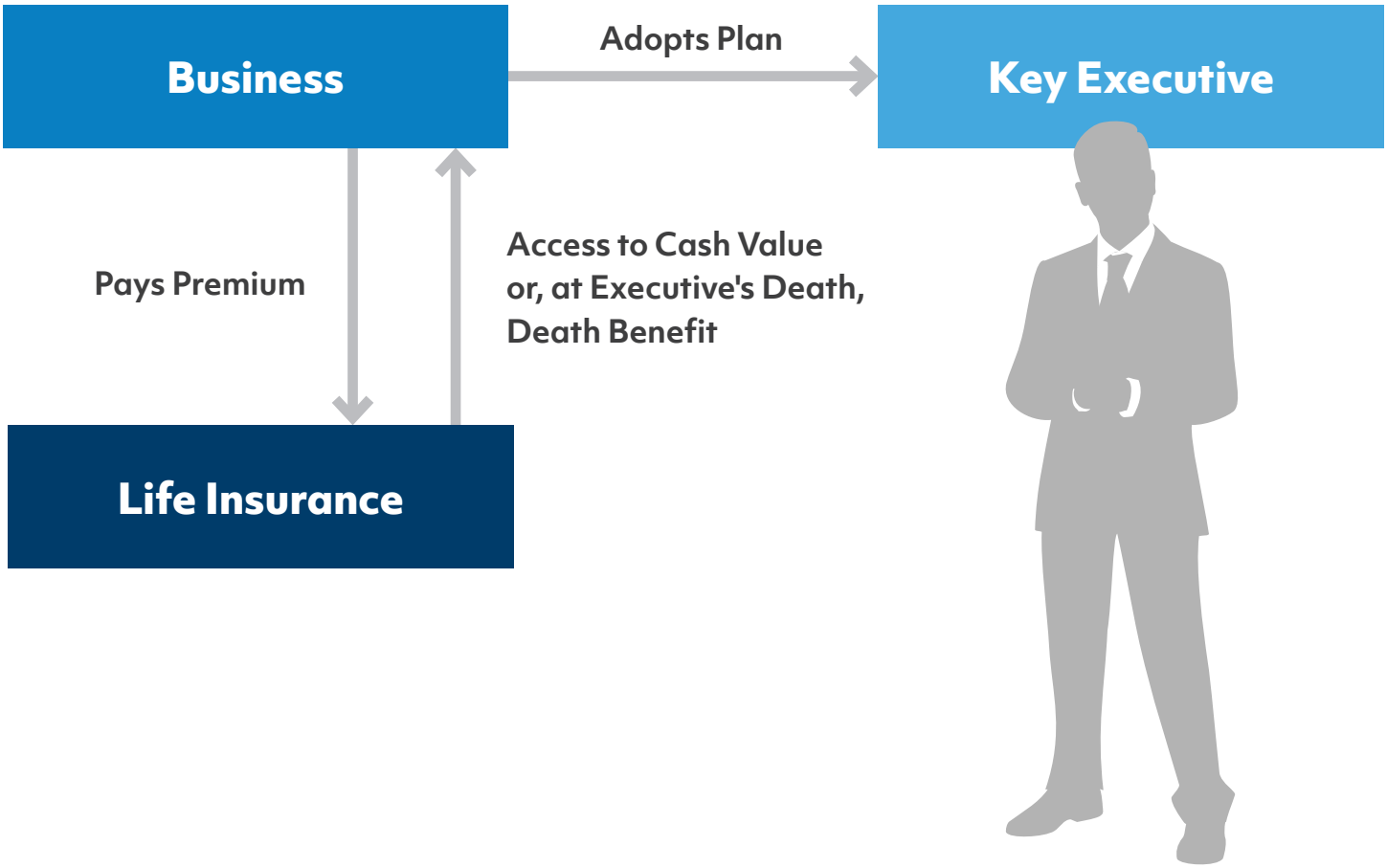
- Offset business interruption and loss of cash flow from reduced profits
- Hire a temporary substitute
- Offset the expense of attracting and hiring a new employee
- Compensate the business for any loss accumulated

Conclusion

Key Person insurance is easy to implement and is not part of a qualified plan, so the employer chooses who is a key person. Although premium payments are not deductible by the business, key person insurance protects not only the company but also protects banks, suppliers, and customers of the company from concern about the loss of a key person. If set up properly, there should be no income taxes on the death benefit the business receives. Don't let your client's company be exposed to the potential loss of a key employee when there is insurance to protect the company.

For questions and more information, contact the Advanced Sales Department at 888-504-2550 ext. 5767. Neither American National Insurance Company nor its agents offer tax or legal advice. Clients should consult their tax and legal advisors.

Overview: Key Person Life Insurance



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