

Key person life insurance

Case study

Problem

Your client owns a company that provides IT services to businesses. One of her employees is the lead on a number of initiatives, including launching new branch locations. In the event of the employee's death, a delayed launch could cost the company up to \$400,000. Your client is concerned about how the business would survive without this integral employee.

A solution

After discussing, you suggest protecting the business by purchasing a key person life insurance policy on this star employee's life. With this solution, the business can use the death benefit proceeds to help cover the expense of hiring and training a replacement.

Benefits for business owners:

- Offset the loss of profits due to the death of a key employee
- Provide funds to recruit and train a qualified replacement
- Protect the company's credit position by reassuring banks and other creditors that the company will have the resources to honor its obligations, even if it loses a key employee
- Provide a financial hedge against a loss in business value

Case study

Option one:

The company buys a \$400,000 20-year term policy on the employee that lasts until their anticipated retirement at age 65.

Annual premium: \$585



Option two:

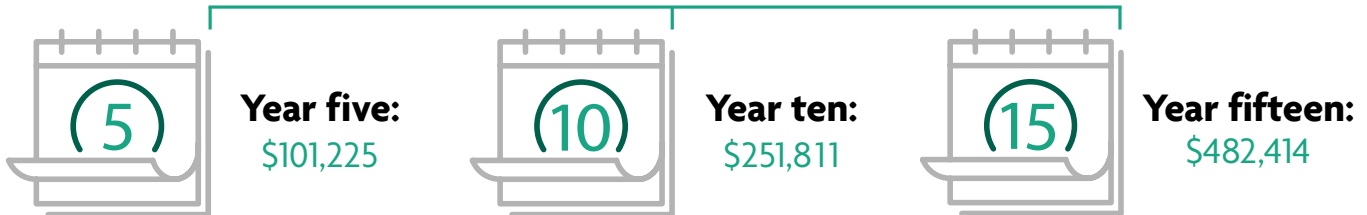
The company buys a combination of 20-year term and permanent insurance to equal \$400,000 of death benefit.

IUL annual premium for 20 years: \$20,000

Term annual premium: \$285.80

The potential cash value in the indexed universal life (IUL) policy could be used to provide a source of income for the key employee at retirement or money to find a replacement. If the policy is transferred to the employee, it would be taxed as a bonus.

Cash value at year:



The information presented is hypothetical and not intended to project or predict investment results. Illustrations are not complete unless all pages are included. (December 23, 2021, North American Web-Based Illustrations). Male, 45, preferred non-tobacco, ADDvantage® Term and Builder Plus IUL® 3 with its default index, return of premium death benefit option¹, non-guaranteed assumed 6.24% index credits, and initial death benefit of \$262,682

Case design tips

Be sure the **specified amount is enough** to meet key-person needs.

Check to see if **combining a term and IUL policy would be a more affordable way** to reach their total death benefit needs.

Be sure to discuss with clients that performance is not guaranteed and depending on funding, life insurance may not guarantee avoiding the loss of premium.



1. Make a list of clients that own businesses or hold leadership positions within their organization
2. Reach out to them to see if they are looking for ideas to help with key employee transitions
3. Share how life insurance could help them offset costs to the business if a key person passes away or leaves the company

1. Subject to eligibility requirements

In some situations loans and withdrawals may be subject to federal taxes. North American does not give tax or legal advice. Clients should be instructed to consult with and rely on their own tax advisor or attorney for advice on their specific situation. Income and growth on accumulated cash values is generally taxable only upon withdrawal. Adverse tax consequences may result if withdrawals exceed premiums paid into the policy. Withdrawals or surrenders made during a Surrender Charge period will be subject to withdrawal charges, processing fees, or surrender charges, and may reduce the ultimate death benefit and cash value. Surrender charges vary by product, issue age, sex, underwriting class, and policy year.

Income and growth on accumulated cash values is generally taxable only upon withdrawal. Adverse tax consequences may result if withdrawals exceed premiums paid into the policy. Withdrawals or surrenders made during a Surrender Charge period will be subject to surrender charges and may reduce the ultimate death benefit and cash value. Surrender charges vary by product, issue age, sex, underwriting class, and policy year.

Indexed universal life insurance products are not an investment in the "market" or in the applicable index and are subject to all policy fees and charges normally associated with most universal life insurance.

Builder Plus IUL 3 (policy form series LS191) and ADDvantage Term (policy form series LS174) or state variation, including all applicable endorsements and riders, are issued by North American Company for Life and Health Insurance, Administrative Office, One Sammons Plaza, Sioux Falls, SD 57193. Products, features, riders, endorsement or issue ages may not be available in all jurisdictions. Restrictions or limitations may apply.

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