Business Financial Planning

Protecting against the loss of a key employee

A business can suffer if one of its key employees were to pass away. The key employee is generally someone who is highly paid, responsible for business or management decisions, has significant impact on sales or business operations, and/or has special relationships with customers or creditors. The death of this key employee could lead to loss of significant business relationships and at the very least it would be costly for the business to find, hire, and train a replacement. Key person life insurance is meant to replace the potential loss of business that would result in the death of this key person as well as the cost to find, hire, and train their replacement.

Here's how it works. The business would give the employee notice that it intends to buy life insurance on the employee and obtains the employee's written consent. The business, along with its financial, legal, or tax professionals, would calculate what an appropriate amount of life insurance for that employee would be. The business applies for and is the owner and beneficiary of the life insurance policy. Premiums on the policy are not tax deductible and the life insurance proceeds paid to the business upon the death of the employee are typically excluded for federal income tax if the notice and consent requirements have been met.

This concept can be used for key employees as well as owners of the business. The loss of a key employee could be financially devastating to a business, but not if properly planned for. Meet with your financial, tax, or legal professionals to discuss your key person insurance planning.

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