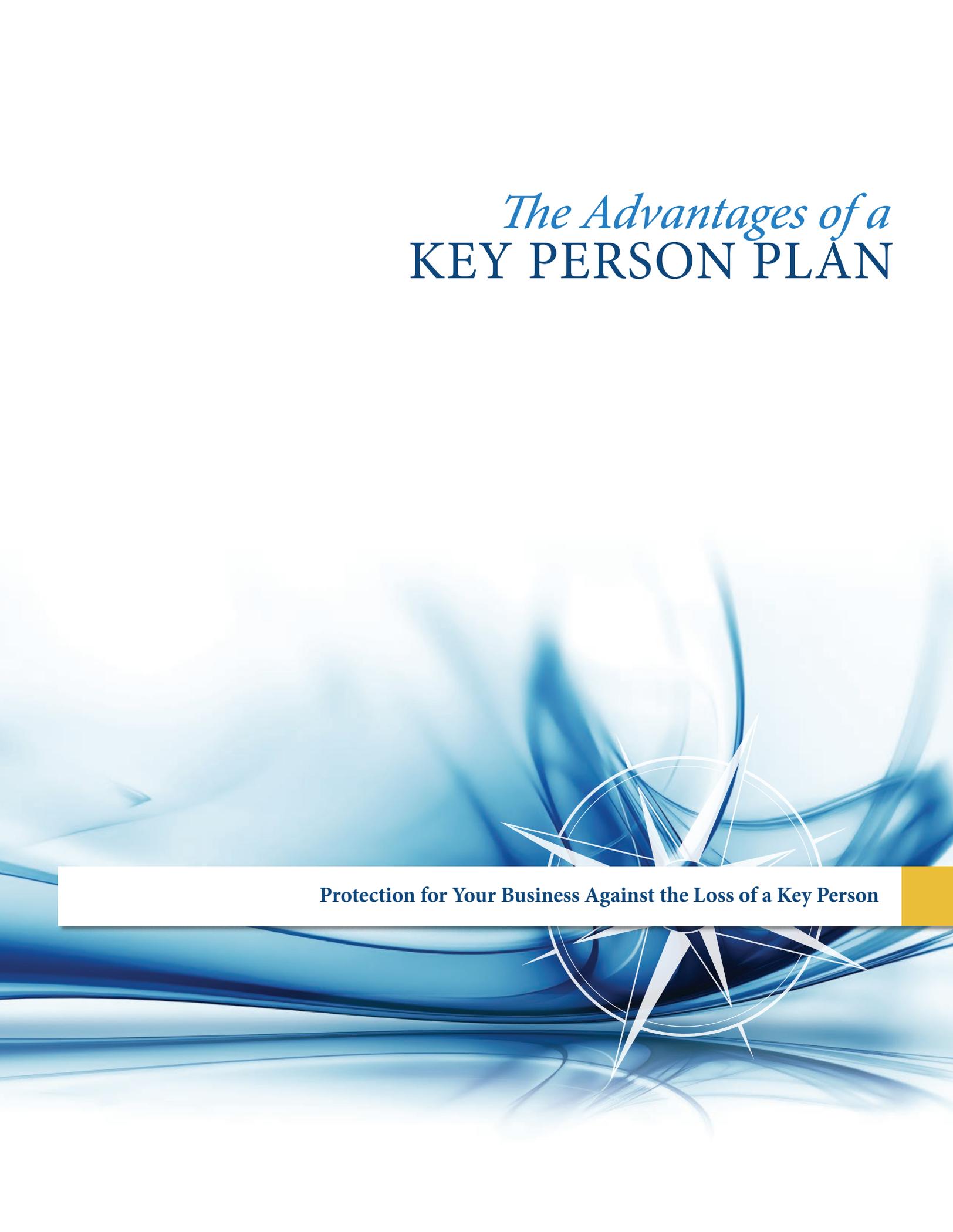


*The Advantages of a*  
**KEY PERSON PLAN**

**Protection for Your Business Against the Loss of a Key Person**





## Protection for Your Business **Against the Loss of a Key Person**

Often the talents and skills of a very few people are creating the success of many closely held businesses. That's why the loss or disability of one of these people can threaten the future of the business. Key Person Insurance is designed to address the financial consequences of such a loss, including:

- Interruption of cash flow
- Expenses of attracting and hiring a replacement
- Loss of clients to a competitor
- Negative impact on credit



## Advantages of a **Key Person Plan**

### ***Selectivity:***

The owner of the business can select which key employees to include in the plan.

### ***Tax Benefits:***

Life insurance proceeds are paid to the business income tax free if the rules of business-owned life insurance are followed.<sup>1</sup>

### ***Flexibility:***

The business can use policy cash values for opportunities or emergencies, or if the key employee becomes disabled, retires or leaves.

### ***Assurance:***

Creditors and clients are assured of business continuity.

### ***Simplicity:***

Key person plans are easy to implement and do not require IRS approval.



## How the Plan Works

The business purchases life insurance on the life of the key employee. It pays the premiums and is the beneficiary. The plan can be used in a variety of situations to ensure that the business continues to thrive.

### Death of a Key Person

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The business receives the death benefit free of income tax. The proceeds can be used to offset any decreased profitability, pay creditors, hire and train a new employee or fund a benefit for the employee's family.

### Retirement of a Key Person

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The business uses the accumulated cash values to:

- Attract and hire a new employee,
- Provide retirement benefits to the key person,
- Maintain the policy and collect the death benefit, or
- Surrender the policy for its cash value (taxes would be due on any gain).

### Disability of a Key Person

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Through the use of the policy's Waiver of Premium provisions, the plan will continue in the event of the key employee's total disability.

### Departure of a Key Person

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The policy cash values can be used to offset the business expenses of hiring and training a new employee.

### Tax Considerations

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- Life insurance premiums paid by an individual or business are not deductible.
- Death proceeds received by the surviving owners or business are generally income tax free.<sup>1</sup>
- Policy cash values from a business owned insurance policy, if used for purposes in addition to the Buy-Sell at an owner's death (e.g., as disability or retirement benefits) may be subject to income tax when received by the individual.

<sup>1</sup>Business-owned life insurance on a key employee issued after 8-17-2008 is subject to the Pension Protection Act (PPA) of 2006. IRC 60391 requires the employer to annually report all business-owned life insurance contracts on IRS form 8925.



## Getting This Conversation Started

- What would happen to your company's profitability if you took a year's vacation and couldn't keep in touch by phone or email or in person? (This is what disability could cause for longer than a year, or permanently with a death).
- Have you considered that you conscientiously insure the assets which appear on your balance sheet, while the people responsible for the most important bottom-line profit on your income statement may be uninsured?
- Besides you...are there other key people whose death or long-term disability would have a substantial impact on profits? Who are they?
- Are you the rainmaker of the business?
- Are any of your key people insured as key employees?
- How much lost income and added expense would there be over a year's time if you had died last night?
  - How would that financially impact your business and family?
  - What are your wishes regarding the business at your death...its profitability, its survival, and your family's welfare?
  - Would a substantial infusion of cash to the business at your death insure those wishes?
  - Would more than a year's worth of financial assistance be needed for the business to get back on it's feet? If so, for how long?

How much do you have to sell to make a dollar in profit? If there is a way to guarantee the profits on a million of sales, would you be interested?

- If you live to retirement age, the company won't especially need this key employee policy any longer and can cancel it and use the cash values to pay you \$10,000 a year, every year, so long as the cash lasts.



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