

Life



# Business solutions

Key person

*Marketing guide*





## Business solutions

The success of any business depends on smart strategy and planning. Whether your clients own a large company or a small family-operated business, it's important to protect their hard work. North American Company offers business solutions to help ensure that all the effort and money invested in a business won't disappear when the unexpected happens.

### Key person life insurance

Most companies have a person(s) whose skills are vital to the success of the business. A key person may be an owner, partner, or employee without whom your client's business would suffer serious consequences, whether that be a loss of credit, loss of key accounts, diminished earnings, unexpected replacement costs, or even the loss of remaining employees' confidence in the future of the company. Ultimately, every business will be in this position sooner or later, due to a death, disability, or a key employee deciding to leave the company.

### Why permanent life insurance?

From modest family operations to multi-billion dollar corporations, the death of a key person can seriously cripple the stability of a business. With life insurance, the business can use the death benefit proceeds to cover the expense of hiring and training a replacement. If the key person becomes disabled or leaves the company, the policy's accumulated cash value could provide a source of income or money to find a replacement. Often, a key person is also an owner of the company. If an owner were to die, a life insurance policy can help to protect remaining owners from a forced sale or loss of control of the business. Life insurance can be a cost-efficient, relatively simple solution, and the death benefit proceeds are generally tax-free.<sup>1</sup>

### Who can benefit?

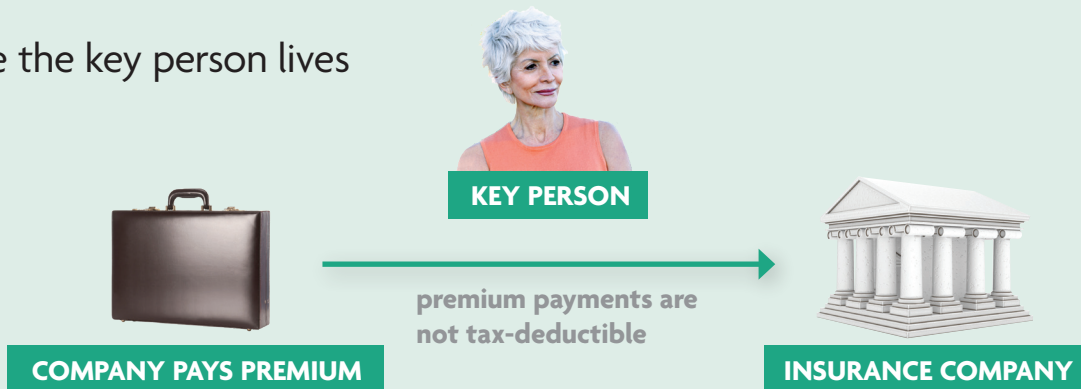
Purchasing key person insurance helps to protect business owners from shouldering the financial burden of replacing the deceased employee. Depending on how much the key person's contribution is worth to the business, it can be expensive and difficult to compensate that kind of loss to company operations. Surviving owners may have to borrow the funds necessary to hire and train a replacement at expensive interest rates, which could damage the business. It could mean liquidating business capital still needed by the business, which could also have negative effects. Sometimes, borrowing isn't an option at all — especially when the stability of the company is in question. Surviving owners could be forced to use their personal property such as a home or car as collateral on a private loan. And ultimately, if none of these risky options work, the business could lose the confidence of outside investors, customers, and employees.

## How it works:

It's simple. The key person applies for life insurance coverage and gets approved for a policy. The business purchases the policy on the key employee's life, pays the premiums, and is the beneficiary of the policy. If the key employee dies while the policy is still in force, the company receives the death benefit proceeds to help cover financial losses resulting from the employee's death. These financial losses could include:

- Loss of managerial skill and experience
- Decrease in sales
- Adverse effects on production
- Restrictions on credit to the company
- Expense of recruiting and training a replacement

### While the key person lives



### When the key person dies



Any accumulated cash value of the insurance policy can also be used while the key employee is still alive. If, for example, the employee becomes disabled, is terminated, or leaves the company voluntarily, the owner of the policy (the business) could use the cash value to help with the financial impact of the situation.<sup>2</sup>

Placing a dollar value on a key employee's worth to a company can be difficult for clients. There are many things to consider, like the employee's current salary, net business profits directly attributed to the key employee, and the employee's future value to the company.

**Your clients work hard to be successful in business. Help them plan for the unexpected with one of North American Company's products today.**



1. Neither North American Company nor its agents give tax or legal advice. Please advise your customers to consult with and rely on a qualified legal or tax advisor before entering into or paying additional premiums with respect to such arrangements.
2. 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.

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