

# Key person using 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 funding a life insurance policy for a key person. With this solution, the business is both the owner and beneficiary and pays the premiums. 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:

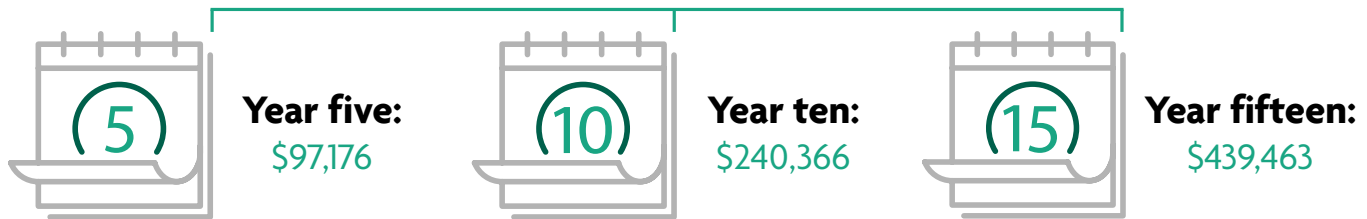
The company buys a combination of 20-year term and permanent insurance to equal approximately \$400,000 of death benefit.

**Indexed Universal Life (IUL) annual premium for 20 years: \$20,000**

**Term annual premium: \$285.80**

The potential cash value in the IUL policy could be used to provide a source of income for the key employee at retirement or money to find a replacement.

### Cash value at year:



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Male, 45, preferred non-tobacco, ADDvantage® Term and Builder Plus IUL® 4 with S&P500® Annual Pt-to-Pt index at 50% and Fidelity Multifactor Yield Index<sup>SM</sup> 5% High Par Annual Pt-to-Pt index at 50%, return of premium death benefit option<sup>1</sup>, non-guaranteed assumed 6.55% index credits, and initial death benefit of \$289,851. Builder Plus IUL 4 was chosen in this example for its potential long-term cash value accumulation. North American offers several indexed universal life insurance products.

## 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.*

## NEXT STEPS

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. Return of premium death benefit option is subject to eligibility requirements

**THE S&P 500® Index**

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