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# Implementing Key Person Insurance

July 9, 2019

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to be there for you in the

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THAT  
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# General Purposes/Reasons to Obtain Key Person Insurance

- Key Person Life is typically used as a funding mechanism for the company, in the event a person who is key to the company's success should pass away.
- A life insurance policy is placed on the individual, who provides daily contributions/value that are key to the success of the business. The company is the owner and beneficiary.
- Key Person Insurance allows employers to collect losses incurred through a death of your business' most important individual.
- Key Person can provide assets to offset interrupted or lost cash flow from reduced sales or company earnings. Hire a temporary substitute and offset the expense of attracting and hiring a qualified replacement.
- Tax-free money to reimburse business so it can recruit, hire and train a replacement
- Many business owners choose life insurance to protect against the loss of a key person. The premiums are small compared to the lump sum which would have to be quickly raised, either out of earnings or by borrowing, when a death does occur.

# Determining the amount needed and providing information to underwriters for justification.

Generally speaking most insurance companies will use 10x insureds compensation for traditional key person. Typically 5X for start-ups.

1. Start-ups are a challenge since there are no financials to back up the strength of the company and persistency to issue.
2. Insurance companies feel as if a high percentage of start-ups don't make it.
3. They normally do not include bonus as there is no way to know if that will actually occur. It needs to occur for a minimum of 2 years in a row for them to consider that aspect. However there is additional information we can take into account- "resume" type information about their backgrounds and successes in the same area of the business they are starting up. If they have been highly successful in the past and have figures to support that, an explanation of why they left and decided to do a start-up, plan for development/growth, etc. Another factor could be if they have put any of their own personal funds into the business, thereby having some equity despite being a start-up
4. Each situation will be different. I summarize the situation, send it to the insurance companies to see why they can offer in every particular situation.

# Required Steps to Obtain Key Person Insurance

1. Life Insurance Questionnaire I email the insured.
2. Once the above information is received, I would verify with the insurance companies they will be able to offer the amount needed. Underwriting can vary greatly on both the medical and financial side with information provided to them.
3. Once the term and face amount are decided we would submit a formal application and exam. The exam is paid for by the insurance company.

Typically underwriting takes 4-8 weeks. The reason for this is if they request medical records they are at the mercy of the doctor or facility to send them in a timely manner.

# Buy-Sell Insurance

1. Life insurance funds the buy sell agreement normally after a buy sell agreement is drawn up by an attorney.
2. Business purchases life insurance on the owners to redeem deceased owners' business interest.
3. Insurance proceeds used to buy business interest from deceased owner's estate.
4. Keeps ownership of business from heirs or outsiders.



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