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**Key Person Life Insurance**

Protect your business by insuring its MVPs
Life.

Strive to live your dreams. Discover the flexibility of life insurance — protect, accumulate and transfer wealth now and in the future. Be free to live life, your way.
KEY PERSON INSURANCE

You didn’t build your business overnight – success takes time and typically the help of a few critical people. Recovering from the loss of one of these key people will take time, and is often the case, time is money. Can you afford the wait? Replacing a key person could lead to significant costs including: recruiting and training a new employee, lost business productivity, weakened relationships and potentially even a lowered credit rating. Key person life insurance is designed to help your business prepare for these costs and reduce the potential for financial disruption to your business.

A key person life insurance policy may provide immediate liquidity in the event of a key employee’s unexpected death. The policy may also be able to provide your business with tax advantaged access to policy cash values in times of need, such as if a key employee resigns or becomes disabled.

WHO IS A KEY PERSON?
- Corporate officer
- Senior manager
- Sales leader
- Technical expert
- Credentialed specialist

With a key person life insurance policy, your business can get the financial help it needs during the period of transition.

DOES THE FINANCIAL SUCCESS OF YOUR BUSINESS DEPEND ON A FEW KEY EMPLOYEES?

WHAT IF A KEY EMPLOYEE SHOULD DIE, BECOME DISABLED OR RESIGN? WOULD YOUR BUSINESS SUFFER FINANCIALLY?

DO YOU KNOW HOW TO HELP PROTECT YOUR BUSINESS AGAINST THIS RISK?

A NOTE ABOUT LIFE INSURANCE DISTRIBUTIONS:
Loans and withdrawals will decrease the cash value and death benefit. If the policy does not perform as expected it may be necessary to reduce or stop distributions, and/or premium payments may need to be resumed to avoid a policy lapse. There may be tax consequences if the policy lapses or is surrendered prior to the death of the insured.

Distributions are generally treated first as tax free recovery of basis and then as taxable income, assuming the policy is not a Modified Endowment Contract (MEC). However, different rules apply in the first fifteen policy years, when distributions accompanied by benefit reductions may be taxable prior to basis recovery. Non-MEC loans are generally not subject to tax but may be taxable when the policy lapses, is surrendered, exchanged or otherwise terminated. In the case of a MEC, loans and withdrawals are taxable to the extent of policy gain and an additional 10% tax may apply if taken prior to age 59½. Always confirm the status of a particular loan or withdrawal with a qualified tax advisor. Cash value accumulation may not be guaranteed depending on the type of product selected.
Using the key person life insurance strategy, the gallery is able to prepare for the financial challenges which would result if Bethany were to die, become disabled or resign. For a manageable annual premium, Brad is able to immediately secure the financial stability of his business. Plus, he is able to provide a substantial incentive for Bethany to continue working at his gallery. Bethany is very happy her contributions have been recognized and that her employer is willing to provide her a generous income stream in retirement.

With the help of his financial professional and other advisors, Brad decides to purchase an Equity Advantage Variable Universal Life (VUL) policy on Bethany’s life with a $1.5 million death benefit to provide for the key person coverage and supplemental benefits. In the event of her death, the policy’s death benefit would be paid to the gallery to use for the costs associated with recruiting, hiring and training a replacement as well as provide a survivor benefit to Bethany’s beneficiary. Prior to Bethany’s death, the business may also access the policy’s cash value to help meet the financial needs of the gallery.

The premiums are typically moderate compared to the total amount of money that would have to be quickly raised if a death did occur. Life insurance premiums paid on a key employee do not qualify as a deductible business expense but the death benefit proceeds are generally received income tax free by the company. In addition, permanent life insurance has a cash value component. Over time the cash value may grow so that it can be accessed through withdrawals and loans to provide income in the event the employee resigns or becomes disabled.

Life insurance proceeds are generally received income tax free (though larger corporations subject to Alternative Minimum Tax (AMT) may realize some additional AMT). The income tax free status of life insurance death benefit proceeds is very valuable. To ensure that the death proceeds of an employer-owned policy can retain this benefit, it is essential to comply with the requirements of Internal Revenue Code Section 101(j).

Variable Universal Life insurance does not provide cash value accumulation on a guaranteed basis. Investments in variable life insurance are subject to market risk, including loss of principal.

Brad owns a successful art gallery. Most of the company’s success is due to Bethany. She has many valuable connections among local art collectors and her annual sales routinely exceed $750,000.

**CASE STUDY: BRAD’S GALLERY**

**THE CONCERN**

If something happened to Bethany, Brad is concerned that his business might not survive. Bethany often generates at least 50 percent of the gallery’s sales and is critical to the gallery’s continued success. In addition to this possibility, Brad recognizes he needs to reward her performance so that she is not tempted to leave his gallery to work for a competitor. He does not currently offer a retirement plan for his employees, but he would like to provide Bethany with a supplemental income stream — if she stays with the gallery until retirement. Bethany is currently 40 years old and in very good health.

**THE SOLUTION**

One possible solution is key person life insurance. Brad estimates it would take two years for Bethany’s replacement to be trained and cultivate the necessary sales contacts. To address Brad’s need to reward and retain Bethany, the gallery’s legal, tax and financial advisors also draft a formal business agreement for supplemental benefits. If Bethany stays employed at the gallery until age 62, Brad promises to provide her with supplemental income in retirement. If Bethany should die before receiving any retirement income, the business promises to pay a $500,000 survivor benefit to her beneficiary.

**THE BENEFIT**

Using the key person life insurance strategy, the gallery is able to prepare for the financial challenges which would result if Bethany were to die, become disabled or resign. For a manageable annual premium, Brad is able to immediately secure the financial stability of his business. Plus, he is able to provide a substantial incentive for Bethany to continue working at his gallery. Bethany is very happy her contributions have been recognized and that her employer is willing to provide her a generous income stream in retirement.
There are concepts that focus on helping you or your business:

• Create financial protection for your family
• Grow equity to help preserve your lifestyle, and
• Leave a legacy to the ones you love

Life insurance is a flexible product that offers death benefit protection and may also offer an opportunity to save for your own future. Evaluating all available financial opportunities may help you reach your financial goals. Life insurance is one of those opportunities — providing protection for today and helping prepare for tomorrow.

This material is part of a series of financial strategies using life insurance named Core Stories for Life. These materials are designed to aid you and your financial professional in understanding the benefits of life insurance as a key financial asset within your overall portfolio.
Protect your business by insuring its MVPs

Key Person Life Insurance

Life insurance products are issued by:

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First MetLife Investors Insurance Company
5 Park Plaza, Suite 1900
Irvine, CA 92614
metlife.com
1212-4152
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Insurance Products:

• Not A Deposit  •  Not FDIC-Insured  •  Not Insured By Any Federal Government Agency
•  Not Guaranteed By Any Bank Or Credit Union  •  May Go Down In Value

Please work with your financial professional to learn more about MetLife's Core Stories for Life.

MetLife
Key Person Life Insurance

Protect your business by insuring its MVPs