



HOW DO YOU PROTECT YOUR BUSINESS AGAINST THE LOSS OF A KEY EMPLOYEE

Key people are vital to your business. The loss of one or more of your key employees can cause disastrous problems. Sales may be lost. Credit can become more difficult to obtain. Profits may shrink. Momentum may be lost. And, hiring and training a replacement will cost you time and money.

Life insurance on key employees can provide a business with a cushion to absorb the shock of such a loss. It makes up for lost sales and profit, lessens the need for credit and provides cash for hiring and training a replacement.

Most astute business owners insure physical assets from destruction. But when it comes to a business owner's most valuable assets—key employees—many forget to take the same precautions.

How Does Key Person Insurance Work?

Key person insurance is a plan of life insurance that protects a business when an essential employee dies. The employer pays premiums for an insurance policy on the key employee's life. The employer is the owner and beneficiary. At the key employee's death, the employer receives the policy's tax-free death benefit.*

What Benefits Does Key Person Insurance Provide?

During the life of the key employee, cash values accumulate tax-deferred every year. The cash values also generate an asset on the business' balance sheet that can be used to create a reserve fund for opportunities and emergencies. It can also form the basis of a deferred compensation or a split-dollar insurance program for the key employee. When the key employee retires, the benefit can be transferred to him or her.

After the key employee's death, the tax-free proceeds provide funds to hire and train a new key employee, replace lost sales and profits and provide a death benefit for the employee's family or stock redemption (both complete and partial)*. These funds also help assure customers and creditors of the business' solid financial position during this transitional time.

A business should protect itself against the loss of its most valuable asset: key employees. Key person insurance is a business' best means of protecting itself from the loss of these important people. Good management dictates that employers protect themselves from this risk. If you employ anyone whose sudden, unexpected loss would significantly affect your sales, profits and credit, then you should consider key person insurance.

*In some corporations, the death benefit may be subject to the corporate alternative minimum tax.

Note: All of these articles have been filed with the Minnesota Life/Securian Compliance department. If you make any content changes, you must refile the article for clearance, prior to use.



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