

KEY PERSON LIFE INSURANCE

To minimize your risks in the event that one of your key employees dies, becomes disabled or leaves the business prematurely, consider key-person life insurance.

Key-person Life Insurance for Your Business

As a small business owner, you may employ at least one individual who is essential to your success. This person may be a partner or have a unique expertise that's unmatched. If this person's exit from the business is planned, you can prepare for the loss and take the necessary steps to minimize the impact. However, if the departure is unplanned then your business can be exposed to financial risks.

In this scenario, key person life insurance can protect your business. Here's how it works:

- You purchase a key-person policy on the key individual(s).
- You are the beneficiary of the policy, and apply for and own the policy. If the key employee dies prematurely, the policy pays out to you.
- In some cases, IRS guidelines allow for tax-free dollars from the policy to be put towards finding, hiring and training a replacement employee, compensation for lost business during the transition, and financing timely business transactions.
- Depending on the specific language in the policy, it can sometimes be transferred to a departing key employee as a retirement benefit.
- The policy can be used to buy out the key employee's shares or interest in the business.

Premiums for the policy are based on several factors, including the key employee's age, physical condition and medical history. The amount of coverage also affects the insurance rate.

Considerations

If losing one or more employees would have one of the following consequences, key person life insurance could be right for you:

- A reduction in your earning capabilities
- The loss of a specialized skill
- A disruption in everyday business operations

Be Prepared

Your business is probably like most: one or two of your employees are vital to the survival of the organization. Consider purchasing key person life insurance to reduce the backlash in the event that one of these key employees leaves prematurely.

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