



# Key person life insurance

Preserving the enduring value of your Business Enterprise

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## Who is key to your business?

- Owners (including partners & shareholders)
- Senior management talent
- Top procurement and sales people
- Specialized technical staff

## Protecting against what?

- Disagreement
- Departure (retirement)
- Disability
- Death

## What are the risks in the wake of a loss of a key person?

- Management is disrupted
- Financial pressures mount
- Employees respond



## Solutions

### Fully-funded life insurance

Provides power and flexibility to:

- Replace lost business profits
- Fund the cost of a recruitment/replacement search program
- Assure confidence of lenders, employees and business contacts
- Fund payment to the affected individual and family
- Enable tax-advantaged receipt of necessary moneys
- Act as a catalyst for other business purposes if insured risks do not arise

### Reverse shared ownership arrangement

Creates a unique benefit for a key person, aligning key person's loyalty with the business interests. This strategy may allow the corporation to:

- Obtain a line of credit or protect the corporation for the economic loss of a key person
- Help executives accumulate investments on a tax-sheltered basis
- Enable corporation to pay shareholders tax-free dividends following the death of a key person

Reverse Shared Ownership is a useful arrangement where a corporation needs to insure one or more of its key executives and the corporation would like to provide those executives with an opportunity to accumulate their investments on a tax-sheltered basis.



## Key Person

We will usually consider 5 times income for the amount of key person coverage, but may allow up to 10 times income for best case scenarios. To justify higher amounts, complete Detailed Calculation section.

(Source: Empire Life Financial UW Guidelines 2023)

## Assessing the value of a risk

Category	Example	Actual
Lost executive's salary	\$100,000	\$
Total salary for management group	\$500,000	
Ratio of lost executive's salary to total management compensation	20%	%
Transition period (years)	2 years	

### Detailed Calculation

Replacement cost (Transition & training)		
Replaced executive's salary	\$150,000	\$
Lost executive's salary	\$100,000	
Additional salary	\$50,000	
Transition period (years)	x 2 years	x
Total additional salary	\$100,000	
Negotiated fee to executive recruiter (ex: 25%) ____ % of replacement salary	\$37,500	
<b>Total replacement cost</b>	<b>\$137,500</b>	<b>\$ (A)</b>
Potential Impact on Sales		
Anticipated sales during transition period	\$5,000,000	\$
Attribution to lost executive (presumed to be salary ratio)	20%	%
Dollar value of sales attributed to lost executive	\$1,000,000	
Retention capability of continuing organization and replacement executive (example – 50%)	50%	%
<b>Total sales potentially lost</b>	<b>\$500,000</b>	<b>\$ (B)</b>
Potential Impact on Credit Lines		
Line of credit	\$1,000,000	\$
Attribution to lost executive (presumed to be salary ratio)	20%	%
<b>Total credit line potentially lost</b>	<b>\$200,000</b>	<b>\$ (C)</b>
<b>Other Potential Impact</b> (Goodwill and indirect costs)	<b>\$</b>	<b>\$ (D)</b>
Total Key Executive Valuation		
<b>(A) + (B) + (C) + (D)</b>	<b>\$837,500</b>	<b>\$</b>

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**The Empire Life Insurance Company**

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INS-1367286-EN-11/23

