



Solutions For Your  
Business

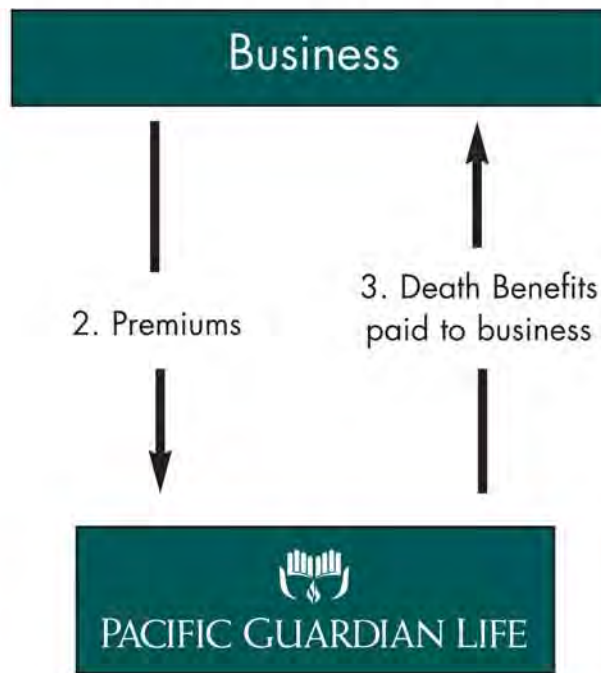
Key Person

# Key Person Insurance

Key person insurance is life insurance coverage on a select employee or owner to protect the continuation of the business.

## How Key Person Insurance Works

1. Business purchases policy on the key person



1. The Business buys a policy on the key person and is the owner and beneficiary.
2. Business pays the premiums.
3. At the death of the key person, the Business receives the death benefit proceeds, generally income tax free.\*

*\*Under current federal income tax law. IRC Sec. 101 (a)*

---

*The purpose of this material is to illustrate a concept.*

*Neither Pacific Guardian Life nor its producers offer tax or legal advice.*

*Specific tax or legal questions or concerns should be directed to a professional advisor or legal counsel.*

---



## Advantages to the Business

- Death benefit proceeds help to offset the unexpected cost of replacing a valued employee.
- Life insurance provides a cushion against financial loss of profits due to the death of the key person.
- Cash values can provide a surplus of reserves that may be borrowed or pledged as collateral, to meet unexpected cash flow needs.
- Provides a continuance of the business for the owners.
- Can be selective on which key employee to cover.

## Tax Considerations to the Business

- Cash value increases are currently tax deferred.
- Premiums paid are non-deductible.
- Death benefit proceeds received by the Business, as beneficiary, are generally income tax free.\*
- Death benefit proceeds and annual cash value increases, minus premiums paid, are included in computation for Corporate Alternative Minimum Tax (AMT).\*\*

*\*Under current federal income tax law. IRC Sec. 101(a)*

*\*\*AMT repealed for Small Corporations after 1997. IRC Secs. 55(e), 448(c)(3)*

## Potential Uses for the Proceeds

- Purchasing stock from the deceased key person's estate.
- Honoring salary continuation arrangements to the surviving spouse.
- Finding, recruiting and training a new employee.
- Strengthening the business' credit position.
- Paying any necessary bills, and debts owed to creditors.
- Funding expansion of the business.



## PACIFIC GUARDIAN LIFE

Pacific Guardian Tower • 1440 Kapiolani Boulevard • Honolulu, Hawaii 96814  
On Oahu: (808) 955-2236 • Neighbor Islands, U.S. Mainland, Guam and Saipan: (800) 367-5354  
PACIFIC GUARDIAN LIFE INSURANCE COMPANY, LIMITED