

# KEY PERSON EVALUATION

for the continued success of your business

**John Smith**

Vice President  
ABC Manufacturing

**Valued Advisor**

11433 Olde Cabin Road  
Suite 123  
St. Louis, MO 63141  
314-392-2841

## Who Are Your Key People?

Key people can't be easily replaced and their absence will reduce the financial performance of your company by increasing costs or losing profits. Key people have special skills that have a direct impact on your profits year after year.

Do any of your employees have these characteristics?

- Special Contacts or Connections
- Unique Sales Ability
- Financial Expertise
- Account Management Skills
- Product Design/Innovation
- Leadership Skills
- Computer/Technical Skills
- Ability to Get Things Done

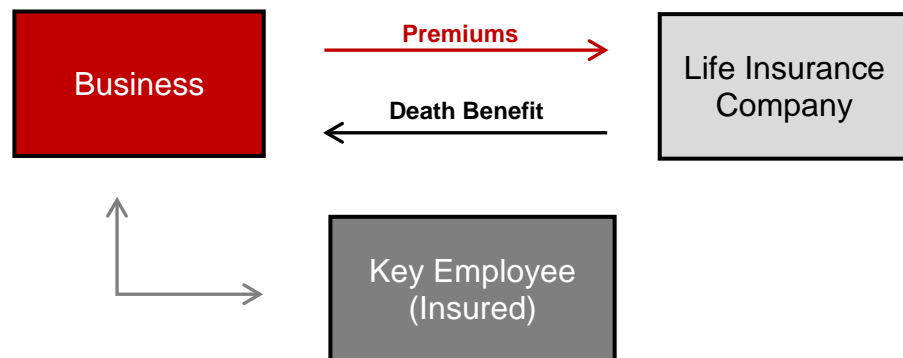
## What Happens When a Key Person Dies?

Replacing essential personnel of a company could cost significant time and money. Without sufficient planning, the loss of a key person may result in:

- Increased costs
- Customers moving their business to a competitor
- Employees becoming concerned and leaving the company
- Business owners assuming the key employee's duties
- Reduced revenue and/or profits

## What is Key Person Life Insurance?

Key person life insurance insures the life of an employee who is critical to the success and profitability of a business. The policy helps reimburse the business for economic loss when a key person dies. The business provides the employee notice that it intends to purchase life insurance on the employee's life and obtains the employee's written consent. The policy is owned by the company, with the premiums paid by the company, solely for the company's benefit. Should the key person pass away, the death benefit proceeds are received income tax free.



## What are the Benefits of Key Person Insurance?

Key person life insurance benefits a business in several important ways:

- Provides cash to indemnify the business for lost sales
- Assures creditors that business is financially sound
- Offers comfort to customers and employees that business will continue operations
- Allows business to recruit, hire and train a qualified replacement

## How is Key Person Life Insurance Taxed?

In most cases, the death benefit proceeds are paid to the business income tax-free as long as the business complies with IRC Section 101(j). In a C corporation, it is possible for the death benefit to trigger the alternative minimum tax.

## Key Person Information

Prepared for:  
John Smith  
Vice President  
ABC Manufacturing

### *What makes John Smith a key person?*

- Special contracts/connections
- Management ability
- Computer/technical skills
- Sales ability
- Product design/innovation
- Ability to get things done
- Financial expertise
- Leadership skills

## Key Person Valuation

### *General Information*

Number of years the key person is anticipated to be employed by the company	15
Estimated fair market value of the company	\$6,000,000
Key person's equity/ownership in the company	50%

### *Total Annual Compensation*

Salary, bonuses and other compensation	\$250,000
--	-----------

### *Potential Lost Profits*

Revenues attributable to key person	\$2,000,000
Profit margin percent on revenues	26.0%
Number of years to replace	3
<b>Total value of lost profits</b>	<b>\$1,560,000</b>

### *Additional Expenses to Consider*

Replacement's total compensation and benefits	\$250,000
Recruiting, advertising and placement costs	\$100,000
Training expenses	\$35,000
Increased interest cost on business loans	\$0
Other costs	\$15,000
<b>Total amount of additional expenses to consider</b>	<b>\$400,000</b>

<b>Estimated risk associated with the loss of John Smith</b>	<b>\$1,960,000</b>
--	--------------------

## Proposed Funding Solutions

Appropriate Amount of Coverage	\$1,960,000
Type of Coverage	15 Year Level Term
Policy Owner and Beneficiary	ABC Manufacturing
Estimated Annual Premium Amount*	\$5,325

\*Assumes a male age 52 who qualifies for standard non-nicotine rates. All calculations assume rates in effect at the time calculations were made.

# KEY PERSON EVALUATION | for the continued success of your business

Key Person Evaluation is an analysis designed to assist you in assessing the role and value of an employee who is critical to the success and profitability of a business, and the risk associated with the death of that employee. This material is for informational purposes only. Inclusion of any particular strategy within this analysis does not constitute a recommendation of a particular option over any other planning alternative. Other alternatives may be more appropriate for your particular situation. Neither Brokerage Unlimited, Inc. (BUI) nor your advisor guarantees or expresses an opinion regarding the accuracy of this output.

Numeric examples in this presentation illustrate various planning concepts, based on certain assumptions detailed in this analysis. The furnishing of accurate data by you will help ensure the value of this analysis. Calculations in this report are only estimates. This presentation does not attempt to illustrate the precise legal, tax, accounting, or investment consequences of a particular planning alternative. Actual results may vary substantially from the figures shown. The precise consequences of a particular planning alternative depend on many variables, some of which may not be accounted for or fully described in this presentation.

No attorney-client relationship is established between you and any attorney who prepared and/or presented this report. Your own legal and tax advisors should be consulted before you make any estate or business planning decisions to determine (1) the suitability of a particular planning alternative, and (2) the precise legal, tax, investment, and accounting consequences of that alternative. BUI and its agents, employees, and registered representatives do not give legal, tax, accounting, or investment advice. This presentation and any other oral or written communications shall not be construed as such.



**IRS CIRCULAR 230 NOTICE:** To ensure compliance with requirements imposed by the IRS, this notice is to inform you that any U. S. federal tax advice contained in this presentation is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding penalties under the Internal Revenue Code or (ii) promoting, marketing or recommending to another party any transaction or matter addressed in this presentation.