

ABOUT COLUMBUS LIFE

Columbus Life is a highly rated life insurance company providing personal life, retirement and business planning solutions through a nationwide network of independent representatives. Financial strength is our enduring legacy and has been a cornerstone of our success since our 1906 founding as Columbus Mutual. Find out more about our financial strength and distinguished history at ColumbusLife.com.

Business-owned life insurance requirements

To ensure the generally income-tax-free nature of the death benefit for certain business-owned life insurance policies, it is necessary to comply with Internal Revenue Code Section 101(j) for policies issued after August 17, 2006. These rules require that the insured/employee receive notice of, and consent to, the life insurance policy prior to its issue where the business/employer is the owner and beneficiary of the policy and will continue to be the beneficiary after the insured leaves the business.

The information contained herein is general in nature, is provided for informational purposes only, and should not be construed as legal or tax advice. Columbus Life does not provide estate planning, legal, or tax advice. Columbus Life cannot guarantee that such information is accurate, complete, or timely. Laws of a particular state or laws that may be applicable to a particular situation may have an impact on the applicability, accuracy, or completeness of such information. Federal and state laws and regulations are complex and are subject to change. Changes in such laws and regulations may have a material impact on pre- and/or after-tax investment results. Columbus Life makes no warranties with regard to such information or results obtained by its use. Columbus Life disclaims any liability arising out of your use of, or any tax position taken in reliance on, such information. Consult an attorney or tax advisor regarding your specific legal or tax situation.

Payment of the benefits of Columbus Life Insurance Company life insurance products is backed by the full financial strength of Columbus Life Insurance Company, Cincinnati, Ohio. Guarantees are based on the claims-paying ability of the insurer. Withdrawals and surrenders are tax-free up to the cost basis, provided the policy is not a MEC. Withdrawals may be subject to charges. Neither Columbus Life nor its agents offer tax advice. Please contact your tax or legal advisor regarding your situation. Interest rates are declared by the insurance company at annual effective rates, taking into account daily compounding of interest.

Columbus Life Insurance Company, Cincinnati, Ohio, is licensed in the District of Columbia and all states except New York.

Life insurance products are not bank products, are not a deposit, are not insured by the FDIC, nor any other federal entity, have no bank guarantee and may lose value.

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ADVANCED MARKETS

**BUSINESS CONTINUATION
PLANNING**



Key Employee Insurance



Key Employee Insurance

Your key employees are valuable assets of your company. Like other assets, your business needs to be protected against the loss of their services due to an untimely death. What happens to the business if a key employee, or a business owner who is a key employee, is no longer able to contribute?

Resulting business losses might include:

- Time and dollars needed to find, hire and train a replacement.
- Reduced company productivity due to other employees being distracted.
- Lost business opportunities, suppliers or customers.

Additional problems may be encountered if the key employee was also an owner. These problems might include:

- Disagreement between heirs and surviving owners or key employees.
- Lack of cash to buy the interest of the deceased owner, requiring a sale of the business to an unknown "outside third party."
- Surviving owners may be forced to work with someone who is either not competent, or not motivated enough to make the business thrive.
- The business may have to be sold to pay estate taxes.

Valuing a Key Employee

There is not an easy method for determining the value of a key employee. Business owners customarily use one of **three methods** to estimate the worth of an employee to their company.

- 1 Multiple of Compensation.** Annual compensation multiplied by a selected factor determined in part by the difficulty the business will have in replacing the employee. (This method does not work well if the employee is an owner that is being paid only a small salary which does not accurately reflect his or her value to the business.)
- 2 Contribution to Profits.** The company's total excess profit is multiplied by the percentage of the company's profit attributable to the key employee which is then multiplied by the number of years needed to find and train a competent replacement.
- 3 Cost of Replacement.** Totals the direct, out-of-pocket costs involved in finding, hiring and training a replacement, as well as the estimated *loss of opportunity costs*.



Pre-Funding the Loss of a Key Employee

Most businesses do not have the necessary funds on hand to meet the unexpected costs related to the loss of a key employee. There are **three methods** commonly used to finance the potential loss of a key employee:

- 1 Sinking Fund.** Money can simply be accumulated in a savings vehicle. However, dollars accumulated for potential losses can also represent lost business opportunities.
- 2 Borrow.** This option assumes that the loss of a key employee or owner/key employee does not seriously damage the company's ability to borrow money. If money is borrowed, it also must be repaid with interest.
- 3 Life Insurance.** Many business owners choose life insurance to help protect themselves against the loss of a key employee. The premiums are typically small compared to the lump sum which would have to be quickly available when a death occurs.

Life Insurance as a Solution

The business is the owner and beneficiary of the life insurance policy on the employee. The business pays the premiums, and although life insurance policy premiums are not a deductible business expense, the proceeds at death are generally received income-tax-free by the company.* If permanent type policies are used, there will also be a cash value buildup, which can be available to the business in time of need. **Want to further discuss key employee life insurance? Talk to your financial professional.**

For more information on these rules and additional reporting requirements, contact your tax advisor or Advanced Markets at 800.677.9696, Option 8.

*Proceeds are included in "adjusted current earnings" to the extent that they exceed the policy's tax basis, for purposes of the Corporate Alternative Minimum Tax. Beginning in 1998, the Taxpayer Relief Act of 1997 repealed the AMT for "small" corporations. In general, a small corporation is one which has generated average gross receipts of \$5,000,000 or less for the three previous tax years.