



Columbus Life
Insurance Company

A member of Western & Southern Financial Group

ADVANCED MARKETS

BUSINESS CONTINUATION
PLANNING



Key Person Insurance

HELPING TO ENSURE THE
SUCCESS OF YOUR BUSINESS
WITH COLUMBUS LIFE

Key Person 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:

- › 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 lacks knowledge and experience, or is not motivated enough to make the business thrive.
- › The business may have to be sold to pay estate taxes.

Valuing a Key Employee

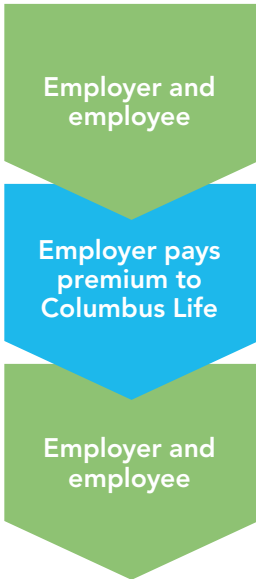
Determining the value of a key employee isn't an exact science. Business owners commonly use one of **three methods** to estimate an employee's value to their company.

- 1 Multiple of Compensation.** Annual compensation multiplied by a factor based on the time, cost, and difficulty of replacing them. Best suited when compensation closely reflects the employee's true contribution.
- 2 Contribution to Profits.** The company's total excess profit is multiplied by the percentage 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.

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.¹ If permanent type policies are used, there will also be a cash value build up over time, which can be available to the business in times of need or if needed.²

How Does it Work?



- ▶ Employer applies as owner and beneficiary for life insurance policy insuring key person.
 - ▶ Employer and employee complete the 101(j) requirements for Notice and Consent required for business-owned insurance. The business retains this signed notice in its business records and annually reports required information on Form 8925.²
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- ▶ The Columbus Life insurance policy is a business asset.
 - ▶ Key person coverage may be required by lenders for business credit needs.
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- ▶ Employer may receive death benefits or access to living benefits for business need.
 - ▶ Employer may use the death benefits to provide for employee survivor benefits.
 - ▶ Key person may purchase or receive a bonus of the valuable life insurance protection as part of future benefits package.

Want to further discuss key employee life insurance? Talk to your financial professional.

1 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.

2 Loans accrue interest. Loans and withdrawals may be subject to additional charges and fees. Loans and withdrawals will reduce the Death Benefit and Cash Surrender Value and may cause the policy to lapse.

3 Since the passage of the Pension Protection Act in August of 2006, employer-owned life insurance must comply with requirements under Section 101(j) of the Internal Revenue Code. The requirements include completion of Notice and Consent requirements to be retained in the employer's records as well as annual reporting requirements. Failure to comply with these regulations may subject the death proceeds to income taxation. For more complete information regarding these requirements, please contact your personal tax advisor.

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.

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Loans will accrue interest. Loans and withdrawals may generate an income tax liability, reduce the Account Value and the Death Benefit, and may cause the policy to lapse. The policy may be issued as a Modified Endowment Contract (MEC) for tax purposes. Any withdrawals or surrenders could result in a taxable event.

No bank guarantee. Not a deposit. May lose value. Not FDIC/NCUA insured. Not insured by any federal government agency.

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