

# IT'S YOUR LIFE

## Protecting Your Most Valuable Assets

As a business owner, you don't think twice about protecting physical assets critical to the business's operation, such as buildings, vehicles, and equipment. However, have you also considered protecting the most critical assets to your success: your key employees? The loss of a key employee could have a devastating, long-term impact on your business.

Think about which employees possess the management skills, technical know-how, experience, and customer relationships upon which you rely. How would your company handle the void left by the death or departure of a key employee?

There are different ways to look at the value your key employees bring to your business.

1. You could estimate the portion of the business profit for which the employee is responsible. If the employee dies, the most substantial impact will be in the first couple of years. Presumably, the employee will be replaced and loss to the business will decrease over time.

For example, let's say you have an employee whose efforts are directly responsible for 25 percent of your profit. If your annual profit is \$300,000, that's \$75,000 lost in the first year! The total impact to the business could be \$200,000 or more over a three- to four-year period. In addition, you will have the cost of finding and training a replacement, which is estimated today to cost one to three times the employee's salary.

2. The important tasks for which the employee is responsible could be assigned a dollar value. For example, you could say customer development and goodwill are worth \$125,000, experience and expertise are worth \$100,000, and project management is valued at \$25,000. When you total these up, you can see it is significant.
3. A final common method is to simply use a multiple of the employee's salary.

Once you have estimated a value, how can you mitigate the potential costs related to the loss of a key employee? A permanent life insurance policy on the key employee's life may be a cost-effective way to provide some financial support to your business.

Properly structured, the death benefit will be received by the business income tax-free if the employee dies. The death benefit can help:

- Keep the business operating and growing
- Assure employees and customers that the business will continue
- Assure creditors that their loans are safe
- Recruit, attract, and train a replacement
- Replace lost profits
- Provide a benefit to the deceased employee's family

The policy's cash value is considered a business asset and grows tax-deferred. If the key employee lives until retirement (which most do), the cash value may be used to informally fund employee benefits and incentives (golden handcuffs) for the employee.

Key person life insurance can be the difference between success and failure of a business in the event a key employee dies.

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