

# What is a Key Person Plan?

One of the integral factors to the success of any business is its key employee(s). Many times, particularly in a small business, this key contributor wears many hats. This key person may be the small business owner, a sales manager or another key position.

## Key Person Insurance

What happens to the business in the future if one of these key contributors becomes disabled or dies suddenly? The loss to any business can be devastating, particularly in a small business.

How long can the business sustain that loss before a replacement is hired, trained and equally productive? Can the business even replace that key contributor? Key person insurance could be part of the solution.

A Lafayette Life insurance policy owned by and benefiting the business may provide access to needed funds during a difficult time. Insurance could be a cost-efficient method of providing these benefits.

## How Does This Work?

The employer and key person apply for the Lafayette Life insurance policy. The business is the owner and beneficiary of the policy, while the key person employee is insured. The business pays the premium, and the value of the policy is an asset of the business. This means the life insurance may be subject to the creditors of the business.

It can be used to fund survivor benefits for the key person's beneficiary. In addition, the key person may be given the opportunity to purchase or receive a bonus of the valuable life insurance protection as part of a future benefits package.

Employer and employee

- › Employer applies as owner and beneficiary for life insurance policy insuring key person.
- › Employer and key person 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.<sup>1</sup>

Employer pays premium to Lafayette Life

- › The Lafayette Life insurance policy is a business asset.
- › Key person coverage may be required by lenders for business credit needs.

Employer and employee

- › Employer may receive death benefits or access to living benefits for business need.
- › Employer may use the death benefits to provide for key person employee survivor benefits.
- › Key person may purchase or receive a bonus of the valuable life insurance protection as part of future benefits package.

<sup>1</sup> 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.

Prior to issuance of the policy, the business needs to complete the Notice and Consent requirements as stipulated in IRC 101(j). The failure to comply with these regulations may subject the death proceeds to income taxation when paid to the beneficiary business.

## Markets

- › Any business regardless of tax entity.

## Employer Perspective

- › Funds to hire, train and replace key person.
- › May be more cost-efficient than self-funding the need.
- › Asset of the business.
- › Permanent life insurance with possible access to living benefits.
- › Business can use to provide a survivor benefit for the employee family if desired.
- › Design can be very flexible—may be tied to business profits.
- › Waiver of premium rider and other rider benefits provide additional design flexibility.
- › Key person life insurance subject to the creditors of the business.

- › Must comply with Notice and Consent Requirements under IRC 101(j). Since the passage of the Pension Protection Act in August 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, the client should consult their personal tax advisor.

- › No income tax deduction for the premium as the business is the beneficiary.

## Employee Perspective

- › Valuable part of an overall incentive package.
- › Employee may be offered the opportunity to purchase key person coverage in the future.
- › Small business owner protection for personal credit liability.

For more information, contact Lafayette Life Advanced Markets at 877.238.6587, Option 3, or [advancedmarketsteam@lafayettelife.com](mailto:advancedmarketsteam@lafayettelife.com).

Loans, withdrawals and advances will reduce the death benefit and cash surrender value and may cause the policy to lapse. The lapse or surrender of a policy with an outstanding loan may result in taxable income.

The Lafayette Life Insurance Company does not provide legal or tax advice. The information herein is general and educational in nature and should not be considered legal or tax advice. Tax laws and regulations are complex and subject to change, which can materially impact investment results. Lafayette Life cannot guarantee that the information herein is accurate, complete or timely. Lafayette Life makes no warranties with regard to such information or results obtained by its use, and disclaims any liability arising out of your use of, or any tax position taken in reliance on, such information. Please advise your customers to consult an attorney or tax professional regarding their specific situation.

The Lafayette Life Insurance Company, Cincinnati, Ohio, operates in D.C. and all states except New York. Life insurance products are issued and guaranteed by The Lafayette Life Insurance Company. Guarantees are based on the claim-paying ability of the company.

**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.**

© 2017-2024 The Lafayette Life Insurance Company. All rights reserved.



**Lafayette Life  
Insurance Company**

A member of Western & Southern Financial Group

400 Broadway  
Cincinnati, OH 45202-3341  
866.937.5542  
LafayetteLife.com