Guardian

Help protect your business with key person insurance

You've worked hard to build your business to the success that it is today. You've made a lot of sacrifices over the years — personally, professionally, and financially. There are others, too, who may have contributed along the way. In fact, if you're like many business owners, one or more of your "key" employees are major contributors to your company's ongoing success.

In many businesses, key employees are those individuals who drive sales and bring in the greatest number of clients, have unique management skills and/or talent, or have vast industry experience. Aside from you, they are the lifeblood of your business.

How would your business be affected by the death or disability of one of your key employees? It's a significant risk for your business, if you're not prepared. Fortunately, there's a solution: Key person insurance can help you financially protect your business from the loss of one of your valuable employees.

What is key person insurance?

Key person insurance is life or disability income insurance on a key employee in a business. Small or large, most businesses have several "key employees," including the owner[1] or partners, the founders and/or one or two employees who are top performers. Key person insurance provides the business with a source of funds when needed most — at the death or disability of a key employee.

How key person insurance works

Business owner determines that the business needs to purchase key person insurance in order to protect its financial interests.

The business is the owner of the policy, which means:

- for life insurance, the business has full access to the policy's cash value[2] for any purpose; and
- the cash value of the policy appears as an asset on the business's balance sheet.

Upon the key employee's retirement

The business may:

- take money from the policy's cash value to fund supplemental retirement income for the key employee;
- transfer the policy to the executive through a bonus; or
- retain the policy as a business asset.

Upon the key employee's death or disability

The insurer will pay the death or disability benefit to the employer as the named beneficiary.

The death or disability benefit can be used to:

- help meet the business's financial needs in the wake of the loss of the key employee; and/or
- provide a benefit for the key employee's surviving family members.

Business owner notifies — and obtains the written consent of — the key employee in order to purchase insurance on the employee.[3]

Once the policy has been approved, the business pays the initial premium to the insurance company and continues to make premium payments.

The business owner may set up an arrangement with the employee to share some of the death benefit with the key employee's beneficiaries.

The advantages of key person insurance

Key person insurance can be structured with flexible options. As a business owner, you may find this solution attractive for many reasons:

1. **It's simple.** Life and disability insurance policies provide an easy way to provide funds should anything happen to your key employee.
2. **It's cost effective.** Since your business owns the life insurance policy, its cash value is carried on your firm's books as an asset.[4]
3. **It's flexible.** At the retirement of your key employee, you may choose to give the policy to your employee. Your business may even give the policy to some employees, but not others.[5]
4. **It creates confidence.** Banks, creditors and valued partners can be assured that your business will continue uninterrupted in the event of the insured's death or disability.

Do you need key person insurance?

Important questions to ask yourself

- What's more important to my business — its tangible assets, such as buildings and equipment — or my top people who help make it successful?
- Do I have partners, executives, managers, or sales people who make substantial contributions to my business's bottom line? Is there at least one individual in my company without whom I couldn't imagine running my business?
- What would happen to my business should any of these key people (including myself) die or become disabled?
- If a key employee should die or become disabled, would my business have to hire and train a replacement? Would my business suffer productivity and revenue losses?

Learn how much protection your business would need

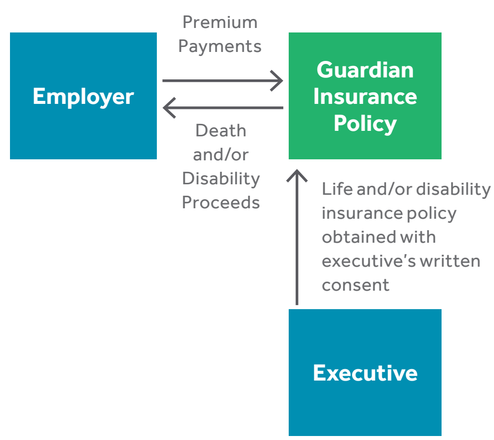
When it comes to the amount of key person insurance you'll need, there's no "one-size-fits-all" solution, because your protection needs are as unique as your business. Your Guardian Financial Professional can help you develop a strategy that helps to meet the needs of your company. The continued success of your business is contingent on your key people. So put a strategy in place to protect your firm's most valuable assets today.

Additional options give your business added flexibility

A key person plan can be flexible to suit the needs of your business. Additional variations include:

Providing a pre-retirement death benefit for the protection of your key employee's family via a split-dollar plan, which is an arrangement where the employer and the employee share the policy death benefit (and potentially the cost).

Bonusing the policy to your key employee at retirement, as an added employee benefit to provide post-retirement insurance and/or supplemental retirement income.[2]



The Guardian Life Insurance Company of America

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[1] Disability key person insurance is not available if the partner/owner has more than 5% ownership in the business.

[2] Policy benefits are reduced by any outstanding loan or loan interest and/or withdrawals. Dividends, if any, are affected by policy loans and loan interest. Withdrawals above the cost basis may result in taxable ordinary income. If the policy lapses, or is surrendered, any outstanding loans considered gain in the policy may be subject to ordinary income taxes. If the policy is a Modified Endowment Contract (MEC), loans are treated like withdrawals, but as gain first, subject to ordinary income taxes. If the policy owner is under 59½, any taxable withdrawal may also be subject to a 10% federal tax penalty.

[3] The Pension Protection Act of 2006 created certain reporting and notice-and-consent rules, and some other technical requirements, for all employer-owned life insurance. Failure to comply could subject part of the life insurance proceeds to income taxation.

[4] Some whole life polices do not have cash values in the first two years of the policy and don't pay a dividend until the policy's third year. Talk to your financial representative and refer to your individual whole life policy illustration for more information.

[5] Care should be taken not to create a promise, formal or informal, to give the policy to the executive at retirement. Doing so could inadvertently create a Non-Qualified Deferred Compensation plan which would then be subject to IRC 409A.