

Return of Premium Key Employee Term Life Insurance



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This could be the best solution for a key employee life insurance policy for your manager/key employee. If the employee dies during the term period, the death benefit is paid to the business. If the employee survives until the end of the guarantee period, the company receives a return of all the premiums paid. It's a win-win situation!

Our country is made of small businesses and generally speaking, all of those that have employees, have managers. And I think it's safe to say that a good manager is a very valuable asset. Which leads me to another generality. I believe that most business owners would agree that insuring the valuable assets of their business is a prudent idea. And lastly, the loss of a valuable asset can cause a substantial financial loss to the business if it isn't insured.

Why term insurance? The truth is that most businesses change too rapidly to make locking in even the longer terms or permanent insurance. A more prudent approach is to look at each aspect of your business and consider the proper term length. It may take more than one life insurance policy, but with term insurance being as affordable as it is, you should certainly be able to protect your business without significant impact on your budget.

The way key man insurance works is that a value is determined that represents the loss to a business if the key person should die. It can be done several ways, but for the sake of this example we will say that the life insurance policy, in this case, a return of premium term insurance policy, is two times and a half times the annual salary of the manager. If you pay your manager \$100,000, the policy will be for \$250,000.

This determination is based on that, it would take about two years to hire, train and bring up to speed a new manager. Because a manager is so integral in the success of a business, anticipate that there would be some turmoil caused by his/her untimely death. There might be customers lost, production slow downs, employees lost, etc. You might also need to anticipate paying a hiring bonus so you can hire as high up the food chain as possible to minimize the turmoil. Anyway, suffice it to say, you can certainly justify the key man policy.

Why look at a return of premium term policy to fund your key employee policy? Let's say that your manager has 15 years to go to retirement, and being the good employee that he/she is, he doesn't die but keeps on doing a stellar job right up to retirement day.

During those 15 years, you have insured a valuable asset of the business to protect the business. Your manager has made you tons of money and saved you tons of headaches, because that's what good managers do. So now it's time to give him a bonus.

Your return of premium term policy has cost the company \$4000 a year for the last 15 years and now, because your manager is still alive and you bought the right kind of life insurance policy, the company gets back all of the premium paid in. Well, that just freed up \$60,000 that you can hand your retiring manager at his going away party. A bonus for a job well done. That is a win-win situation.

Please feel free to contact me regarding key employee, or any other questions regarding the worth and effectiveness of your current insurance programs.

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