you protect your building, you protect your equipment, you protect against theft…are you protecting against the loss of a key person?

One of your most important business assets is just down the hall from you.

It's the person who handles your books. It's the person who generates your largest sales and has the closest contact with your best customers. It's the person who manages your key department and the relationship with your best employees. It's the person who holds that specialized skill critical to your business, or maybe the one whose skills drive one of your key business lines.

Have you considered the impact to your business if you unexpectedly lost such a person as a result of a premature death? Would it be:

- Disruptions in management?
- Loss of earnings and customers?
- Delayed product launches?
- Credit issues?

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A unique type of reserve fund is required for this purpose, because no one knows exactly when it will be needed. There is only one way to produce the cash needed at the moment it is needed: a Key Person life insurance policy.

Instead of draining the firm's surplus or working capital or straining its credit to provide the needed cash after the death of a Key Person, life insurance provides the cash, tax-free.

Benefits:

• The life insurance policy is an asset of your business. The cash surrender value becomes part of your balance sheet.

• The policy's loan value is generally available without publicity, irrespective of business conditions, the money market or credit restrictions. The life insurance company cannot deny you a loan as long as there is loan value in the policy, unless you have pledged the policy as collateral or it has become subject to a creditor's lien.

• Policy cash values can be used as collateral for bank loans, making cash available in the event of default.

• Annual increases of the policy's cash values are not currently taxable to the business.

• Ownership of Key Person life insurance can help to assure banks and other creditors that the firm's debts will be paid in the event of the Key Person's premature death.

Classic Cases

Acme, Inc. and Cogswell Cogs were two successful manufacturing firms. Both had long-term track records, loyal clients, widely regarded products and were dependent on a successful key sales representative. Peter worked at Acme for over 10 years and increased sales each year with the firm. Paul worked at Cogswell for nearly as long and had an equally successful record.

Ironically, both firms lost their Key Persons due to premature deaths. Three years later, Acme is still struggling from the loss, while Cogswell is doing as well as ever. Why did one firm falter while the other succeeded?

Acme, Inc.

Acme was caught off guard when the company lost it's key salesperson, Peter. He had strong relationships with many of Acme's key accounts, and other company sales reps were not skilled in handling larger high-volume accounts. Moreover, Acme did not have funds on hand to recruit and hire a replacement. Instead, it was forced to struggle with existing sales staff, who were not prepared to handle Peter's former accounts. As a result, Acme found there was reduced attention to both Peter's former key accounts as well as their regular accounts. Profits fell.

Acme was ready to introduce a new product line and counted on Peter's relationship with his accounts to help meet sales numbers. Although the accounts stayed with Acme, reduced attention not only cost sales from its existing lines, but from the new lines as well. Acme needed Peter's close, focused attention on the launch and follow-up training. Without him, the sales figures from the new products were a fraction of what Acme hoped to receive from these accounts.

As profits fell, Acme was faced with some difficult issues. Creditors became skeptical of future sales. One credit line was called and the rate increased for another. In the face of reduced revenue, Acme struggled to meet its day-to-day expenses. It was forced to cut some staff and drop a planned expansion.

Three years after unexpectedly losing Peter, Acme is still coping with the loss.

Cogswell Cogs

Cogswell also suffered when it lost Paul. He had recently signed one of their largest accounts. The relationship was still new when Paul died, and Cogswell was concerned it soon would be lost. Paul also worked with two additional accounts that brought in 15% of the company's other revenue.

However, Cogswell had a critical advantage over Acme. It held a $1,000,000 Key Person policy on Paul's life. The death benefit from that policy provided Cogswell with the funds it needed at a critical time. The life insurance death benefit was allocated in a manner that tided the business over and helped it expand.

- $125,000 was used to recruit, offer a significant sign-on bonus to, and relocate a new sales representative, Jeff. He was highly regarded by both the new account and one of Paul's existing accounts. This allowed Cogswell to maintain its critical accounts.
- $50,000 was allocated to special training and marketing to help Jeff get up to speed more quickly than an average new recruit. This included training and meetings with Cogswell's key accounts.
- $200,000 was posted as collateral to help keep one of its creditors from raising the interest on a credit line.
- $250,000 was paid to Paul's widow as a special bonus for his years of service.
- Cogswell held the balance in reserve as a cushion against any possible dips in revenue.

Three years after its unexpected loss, Cogswell is as strong as ever.