KEY PERSON LIFE INSURANCE

Protecting a Business Against the Sudden Death of a Key Executive

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Pacific Life Insurance Company

No bank guarantee • Not a deposit • May lose value
Not FDIC/NCUA insured • Not insured by any federal government agency

The Value of a Key Executive

The success of a business may hinge on the ideas and leadership provided by a key executive. The sudden death of that key executive may have a severe economic impact on the business due to the loss of that key executive's unique skills and abilities. Additionally, the business may have to spend substantial amounts of cash to recruit and train a replacement executive. A prudent strategy that may assist a business during the transition period following the death of a key executive is key person life insurance.

The Damage Caused by Failing to Plan

The sudden death of a key executive can have a crippling financial impact on any business. The loss of the key executive's skills and experience may result in:

- A disruption or slowdown in sales or business production.
- Significant expenses associated with recruiting and training a replacement.
- A weakening of the company's credit rating.

Protecting the Business Against a Loss of a Key Executive

The business purchases a life insurance policy on the life of a key executive.[1,2] The business, prior to issuance of the life insurance policy, must provide written notice to the executive that it intends to be the owner and beneficiary of a life insurance policy on the executive's life and may choose to continue the coverage beyond the executive's employment. The business must also notify the executive as to the maximum amount of life insurance that could be placed on the executive's life. The executive must give written consent to such life insurance coverage.[3] The business pays all of the premiums and retains all ownership rights to the policy. If cash value life insurance is utilized, the cash value of the policy will accumulate in a tax-advantaged manner. If the key executive dies while the life insurance policy is in-force, the business will receive the policy death benefit income tax-free.[4] The business may use the death benefit to sustain operations following the death of the key executive.

[1]In order to preserve the tax treatment of the life insurance death benefit, the key executive should be a shareholder who owns more than 5% of the shares, a director, or a highly compensated employee as defined in IRC Sec. 101(j)(2)(A)(ii).

[2]Please note that life insurance purchased by a business on one of its executives will reduce the executive's total life insurance capacity. This reduction in total insurance capacity may reduce or eliminate the executive's ability to purchase additional life insurance for the executive's personal needs.

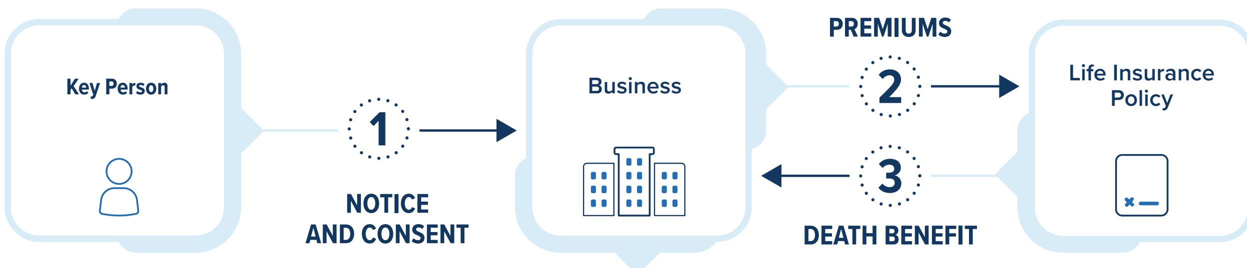
[3]IRC Sec. 101(j)(4).

[4]For federal income tax purposes, life insurance death benefits generally pay income tax-free to beneficiaries pursuant to IRC Sec. 101(a)(1). In certain situations, however, life insurance death benefits may be partially or wholly taxable. Situations include, but are not limited to: the transfer of a life insurance policy for valuable consideration unless the transfer qualifies for an exception under IRC Sec. 101(a)(2) (i.e., the "transfer-for-value rule"); arrangements that lack an insurable interest based on state law; and an employer-owned policy unless the policy qualifies for an exception under IRC Sec. 101(j).

Keeping the Business Afloat

A key person life insurance policy may provide the business with the following benefits:

- Financial protection against the sudden death of a key executive.
- The liquidity needed at the death of a key executive to recruit and train a suitable replacement.
- Potentially makes it easier to obtain business financing from a 3rd party lender, as the lender will often require life insurance coverage as collateral for such financing.
- If cash value life insurance is utilized,
  - The cash value of that policy will grow on a tax-deferred basis.
  - The business may book the cash value of the policy as an asset on its balance sheet.
  - The business may access any available cash value for emergencies or other financial needs.
- A cash value key person life insurance policy is often utilized as the informal funding vehicle for a nonqualified deferred compensation plan.



Notice and Consent	The business provides written notice to the key executive that it intends to buy and be the beneficiary of life insurance on the key executive's life and may choose to continue the coverage beyond the executive's employment. The business must also notify the key executive as to the maximum amount of life insurance that could be placed on the key executive's life. The key executive then provides the business with written consent to purchase the life insurance.[3]
Premiums	The business buys life insurance on the key executive's life and retains all ownership rights. The business pays the life insurance policy premiums and is the beneficiary of the policy's death benefit.
Death Benefit	At the executive's death, the business will receive the life insurance death benefit income tax-free.[4]

Speak to your financial professional, or visit our website to learn more.

PacificLife.com.

Fact Finder

This fact finder is provided to help you and your life insurance producer better understand your goals and objectives. Please return the information to your life insurance producer and not to Pacific Life Insurance Company, as we cannot and do not provide financial, legal or tax advice.

Vital Information

Employer Information

Name of Business: ____________________

Business Address: ____________________

City: ____________________ State: ____________________

Nature of Business or Profession: ____________________ Year Organized: ____________________

Key Employee Information

Name: ____________________ Date of Birth: ____________________

Risk Status: ☐ Select ☐ NS ☐ S

Gender: __________ Annual Salary: ____________________ Contribution to Company's Profit: ____________________ %

Years Needed to Train Replacement to Achieve Similar Levels of Productivity: ____________________

Life Insurance Currently In-Force: ____________________

Key Employee Costs

Cost to Attract Replacement: $____________________

Cost to Hire Replacement: $____________________

Cost to Train Replacement: $ ____________________

Opportunity Cost Associated with Attracting, Hiring, and Training Replacement: $____________________

Please Note: The suitability of any estimate is to be confirmed by the client and the client's advisors.

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