

KEY PERSON INSURANCE. (THE IRREPLACEABLE).

BROKER SALES IDEA

CLIENT PROFILE.

Age: Pre-retirement
Status: Key employee
Concern: The loss of a key employee (top salesperson, partner, technical expert, etc.) can have a devastating impact on business

Situation:

- The business has identified a person or key people who provide the business with the ability to obtain capital, have specialized knowledge of product and operations, creativity for marketing, special client relationships, etc., that the business could not easily or quickly replace, leaving the company vulnerable to the competition.

Solution:

- The purchase of a permanent life insurance product for an amount that would cover the total economic loss to the business based on the key employee's premature death.

How it works:

- The firm first determines the key employee(s) and then determines the projected economic loss from each of the key persons.
 - The projected economic loss from the premature death of a key employee is determined two ways; the first valuation method uses the income of the employee as the estimate for the economic loss and the other method tries to actually estimate the economic impact loss of the employee.
 - The general rule of thumb for the income method is somewhere between 5 and 10 times the salary of the employee. Another income method involves using the net employee salary (i.e. Total salary minus taxes) and multiply that times the number of future employment years and discounts the cash flows based on the general interest rate at the time.
 - The estimated economic loss is more difficult to calculate, outside of loss of sales (i.e. projected sales loss from employee). Generally, a multiple of the employee's income is used to provide a general protection amount for the business.
- After the company defines the key person(s) and the loss protection needed for each person the business buys a life insurance policy on the life of each key person(s). The business is the owner and the beneficiary of the policy.
- The business pays the entire premium and will receive the entire death benefit.
- The key employee does not have any interest in the policy, nor does his family receive any benefit from it when death occurs.
- An Employer Owned Life Insurance Acknowledgement and Consent form needs to be signed by the employee before coverage goes into effect.

Benefits:

- The business benefits from having a source of income to cover the expenses that occur with the loss of an employee (training replacement, finding a replacement, lost sales, lost productivity, etc.)
- The business also benefits from assuring creditors of a smooth transition.
- The business will not receive any deductions for the life insurance premiums based on the beneficiary interest on the policy, however, they will receive the death benefit tax free.
- The business risk overall is managed, taxes minimized and the advisors receive an initial commission and renewals.



NEXT STEPS.

Review your client files for potential prospects. Take a look at the **CLIENT PROFILE** and find those who are a good fit (look at age, asset types, occupation, marital status, financial goals etc.) Review the Situation, Solutions and Benefits sections of this document to further gauge who might benefit from a life insurance recommendation. You can also use your annual portfolio reviews to identify opportunities.

Sure, you can take a full paper application, but with **APPASSIST** it's just a few clicks from the request for an interview, to an issued policy and full commissions. In total, the process takes roughly one hour of your client's time and 15 minutes of the advisor's.

Get a term or a UL quote from your BGA partner, your website, LGAmerica.com or MobileSuite. Then complete Legal & General America's **REQUEST FOR LIFE INSURANCE** Interview (RLI). It's part of AppAssist - our drop ticket tele-app program. You can complete the RLI for your client or ask for the help of your BGA back office, your point-of-sale partner, and/or internal office support.

The final step is managing the client's expectations. Prepare your client for the 25-35 minute phone interview during which the application is completed. The application can be approved by voice signature and a paramed exam will be scheduled. A one-page **WHAT TO EXPECT FROM YOUR LIFE INSURANCE INTERVIEW** makes it easy to explain the typically 30-day process. Legal & General America will fully underwrite the application and eDeliver the policy to the client. It's always good to touch base once the policy is issued and to communicate your availability for questions.

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Example: Guaranteed Universal Life

If John and Sally, key executives at a law firm, died, the business would suffer. The firm’s primary concern is to protect themselves during their employment, but they also want to provide lifetime death benefit protection for these key employees. The firm has taken out guaranteed universal life policies and pays the premiums for 20 years. At retirement, John and Sally will each have a paid up policy in the amount of the guaranteed death benefit. This transfer of ownership will be a taxable event. The sample policy premiums are shown below.

GUARANTEED UL ANNUAL PREMIUMS					
\$1,000,000 - Age 50, 20-Pay			\$2,000,000 - Age 50, 20-Pay		
	MALE	FEMALE		MALE	FEMALE
Preferred Plus	\$19,681	\$17,256	Preferred Plus	\$39,151	\$34,292
Preferred	\$21,948	\$17,826	Preferred	\$43,687	\$35,433
Standard Plus	\$23,425	\$19,176	Standard Plus	\$46,665	\$38,136

Example: Level 20 Year Term

If John and Sally, key executives at a law firm, died, the business would suffer. The firm’s primary concern is to protect themselves during their employment, so they purchase a 20 year renewable and convertible term policy on each. After 20 years John and Sally could convert their policies but would have to pay the premiums themselves. The sample policy premiums are shown below.

LEVEL TERM ANNUAL PREMIUMS					
\$1,000,000 - Age 50, OPTerm 20			\$2,000,000 - Age 50, OPTerm 20		
	MALE	FEMALE		MALE	FEMALE
Preferred Plus	\$1,715	\$1,250	Preferred Plus	\$3,370	\$2,440
Preferred	\$2,059	\$1,508	Preferred	\$4,058	\$2,955
Standard Plus	\$2,800	\$2,000	Standard Plus	\$5,540	\$3,940

Legal & General America life insurance products are underwritten and issued by Banner Life Insurance Company, Urbana, MD and William Penn Life Insurance Company of New York, Valley Stream, NY. Banner products are distributed in 49 states and in DC. William Penn products are available exclusively in New York; Banner does not solicit business there.

Banner OPTerm policy form # ICC12OPTN and state variations. In New York, William Penn OPTerm policy form # OPTN-NY. Premiums are guaranteed to stay level for the initial term period and increase annually thereafter. Premiums quoted include \$60 annual policy fee. Premiums based on underwriting classes shown. OPTerm rates as of 12.14.15

Life Step UL: Banner policy form # ICC12 UL13 and state variations. William Penn policy form # UL13S-NY. Life Step UL is a flexible premium universal life insurance plan. This product offers a coverage guarantee to maturity at age 121 if the appropriate premium according to policy terms is paid on time. The policy will not lapse if the coverage guarantee requirement is met. However, a policy loan balance that exceeds the cash surrender value will result in a lapse of coverage.

Fifth place ranking among U.S. companies determined by 2014 year end LIMRA report based on survey participants. Financial strength ratings as of 2015.

Two-year contestability and suicide provisions apply. Policy descriptions provided here are not a statement of contract. Please refer to the policy forms for full disclosure of all benefits and limitations.

A cost-free Accelerated Death Benefit Rider, policy form # ICC10 ADB and state variations, is included with all policies in states where approved.

Insurance policies contain exclusions, limitations, reductions of benefits and terms for keeping them in force. A licensed financial professional can provide costs and complete details. This piece has been designed to provide general information in regard to the subject matter covered. It should be used with the understanding that we are not rendering legal, accounting or tax advice. Such services should be provided by the client’s own advisors. Accordingly, any information in this document cannot be used by any taxpayer for purposes of avoiding penalties under the Internal Revenue Code. Securities and Insurance Products: Not Insured by FDIC or any federal government agency. May lose value. Not a deposit of or guaranteed by any bank or bank affiliate.

WHY SELL LGA?

FINANCIALS.

For overall financial strength, we are rated A+ (Superior) by A.M. Best and, because S&P considers us “core to our parent, we inherit its AA- (Very Strong) rating. Our COMDEX score of 94 gives us the triple win.

Our parent, Legal & General Group, Plc is the 7th largest insurance company in the world, as measured by 2014 assets under management, according to a 2015 study by A.M. Best. L&G’s history is more than 178 years strong.

We ranked #5 in the U.S. by issued face amount in 2014. With more than \$73 billion in coverage placed, we rank higher than companies with more familiar names.

BENEFITS.

Accelerated Death Benefit Rider included with all policies in approved states.

UNDERWRITING.

The guidelines have been reformatted and revamped. We’ve increased the jumbo limit to \$65 million for ages 20-75, eliminated physician exams and treadmill EKG requirements and expanded our guidelines for personal, trust and business concepts.

Rated non-tobacco cases are based on Standard Plus rates.

Stay-at-home spouses can qualify for \$1 million or more in coverage.

RETENTION.

Bigger isn’t always better. Our retention limit is \$2 million through Table 4. Our reinsurance is in excess of retention with a \$20 million automatic binding limit for most ages and underwriting classes. Other carriers are managing their reinsurance using first dollar quota share, meaning they are only retaining a percentage of coverage for each policy. If a carrier is using 90/10 first dollar quota share, it is only retaining \$1 million of a \$10 million dollar case. We will retain \$2 million of the same case.