LIFE INSURANCE

Client Profile

Key Person Insurance

CLIENT PROFILE	
Age:	Pre-retirement
Status:	Valuable employee
Level of Compensation:	Highly compensated

PROBLEM:

- The employer is concerned that the loss of a valuable employee (top sales representative, partner, knowledgeable employee) will have a devastating effect on the business.
- It will take both money and time to bring the business back to the same level it was prior to the departure of the key employee.

SOLUTION:

Implement a key person arrangement using a John Hancock life insurance policy.

HERE IS HOW IT WORKS:

1) The corporation will purchase a life insurance policy on the life of the key employee.[1]

2) The face amount of the policy will be determined by a rule of thumb method. This method estimates that the cost of losing a key employee is generally five to ten times the employee's annual compensation.

3) The employer will be the owner and the beneficiary of the policy. Upon the death or departure of the employee, the employer can use the death benefit proceeds or take loans and withdrawals from the policy to retain and recruit a replacement.

4) The key person policy provides the company protection from the loss of a star employee. It provides the liquidity needed to maintain company operations, replace the loss of the employee and/or purchase additional human capital or assets necessary to keep the business running. The policy may also replace the decrease in profits as a result of the loss of a key person.

WHY LIFE INSURANCE?

Life insurance allows the employer the opportunity to:

- Keep the business operating
- Assure creditors of a smooth transition
- Assure customers of continued satisfaction with company products and services
- Cover the expense of finding and training a suitable replacement
- Protect good will and/or replace lost profits

To better understand how key person insurance works, let's look at an example.

CASE STUDY: LINDSEY WEBSTER

Facts: Lindsey Webster, age 45, works at Sawyer Builders, a construction company in Massachusetts. Sawyer Builders has a stellar reputation in commercial building, and Lindsey's expertise and contacts have contributed significantly to the company's business. James Sawyer, the owner of Sawyer Builders, knows that if something happened to Lindsey his business would be affected.

Key Person Coverage: James decided to purchase key person insurance on Lindsey by using the rule of thumb of 10 times annual compensation. Lindsey's total annual compensation is $500,000 a year. Sawyer Builders is going to purchase a John Hancock Accumulation UL policy on Lindsey, with a $52,153 annual premium for 20 years. By using the Accumulation UL policy, James will be able to access its potential cash values for business purposes or to fund supplemental retirement income for Lindsey.

When Lindsey retires in year 21, Sawyer Builders can transfer ownership of the policy to her, since it will no longer be needed as a key person policy. The chart below shows that the company will own the policy for 20 years and then will transfer the policy ownership to Lindsey in year 21, for supplemental retirement income and other liquidity needs. In year 21, the projected policy cash value will be $1,278,876, and the company will pay a bonus of $688,625 to Lindsey to cover the income tax due on the policy transfer, resulting in a total transfer to her of $1,967,501. The company will get a tax deduction of $1,967,501, which will offset the cost of the policy transfer.

Year	After-Tax Corporate Annual Outlay	Corporate Tax Deduction	Transfer to Employee at Retirement	Employee Outlay	Policy Death Benefit
1	$52,153	$0	$0	$0	$5,000,000
10	$52,153	$0	$0	$0	$5,000,000
20	$52,153	$0	$0	$0	$5,000,000
21	$1,278,876	$1,967,501	$1,967,501	$688,625	$5,000,000

This is a supplemental illustration. Benefits and values may not be guaranteed; the assumptions on which they are based are subject to change by the insurer. Actual results may be more or less favorable. Refer to the basic illustration for guaranteed elements and other important information. Based on Female, Preferred Non Smoker, age 45, twenty-pay policy, Massachusetts resident.

For more information on Key Person Insurance or our JH Solutions Key Person Insurance Module, please contact your local John Hancock Representative or call the Advanced Markets Group at (888) 266-7498, option 3.

This material does not constitute tax, legal or accounting advice and neither John Hancock nor any of its agents, employees or registered representatives are in the business of offering such advice. It was not intended or written for use and cannot be used by any taxpayer for the purpose of avoiding any IRS penalty. It was written to support the marketing of the transactions or topics it addresses. Comments on taxation are based on John Hancock's understanding of current tax law, which is subject to change. Anyone interested in these transactions or topics should seek advice based on his or her particular circumstances from independent professional advisors.

1. Potential for alternative minimum tax may arise in limited circumstances for C corporations. A full tax discussion is beyond the scope of this piece. This piece is intended to provide an overview of key person insurance only. For more information of the tax consequences, please contact your tax consultant.

For agent use only. This material may not be used with the public.

Insurance policies and/or associated riders and features may not be available in all states. Some riders may have additional fees and expenses associated with them.

Insurance products are issued by John Hancock Life Insurance Company (U.S.A.), Boston, MA 02116 (not licensed in New York) and John Hancock Life Insurance Company of New York, Valhalla, NY 10595.

MLINY0619078009 03/09

John Hancock
the future is yours