Life

MIDLAND NATIONAL®
A Sammons Financial Company

Midland National® Life Insurance Company

BUSINESS PLANNING

Key Person Insurance Valuation

CONCEPT APPLIED:

Placing a realistic monetary value on a key employee's contributions to the business can be difficult and inexact, but critical to the purchase of life insurance on a key employee designed to protect the business against potential financial loss.

HOW IT WORKS:

Here's how the two methods of valuation work:

The "contribution to earnings" method estimates the employee's annual contribution to earnings, multiplies it by the number of years the employee would have worked, then discounts this earnings stream to its present value.

The "cost to replace" method determines the amount the business would have to pay a new person(s) to do the same job. From that amount, subtract the key employee's compensation. Multiply the difference by the number of years it will take to train a new person—then add in hiring costs.

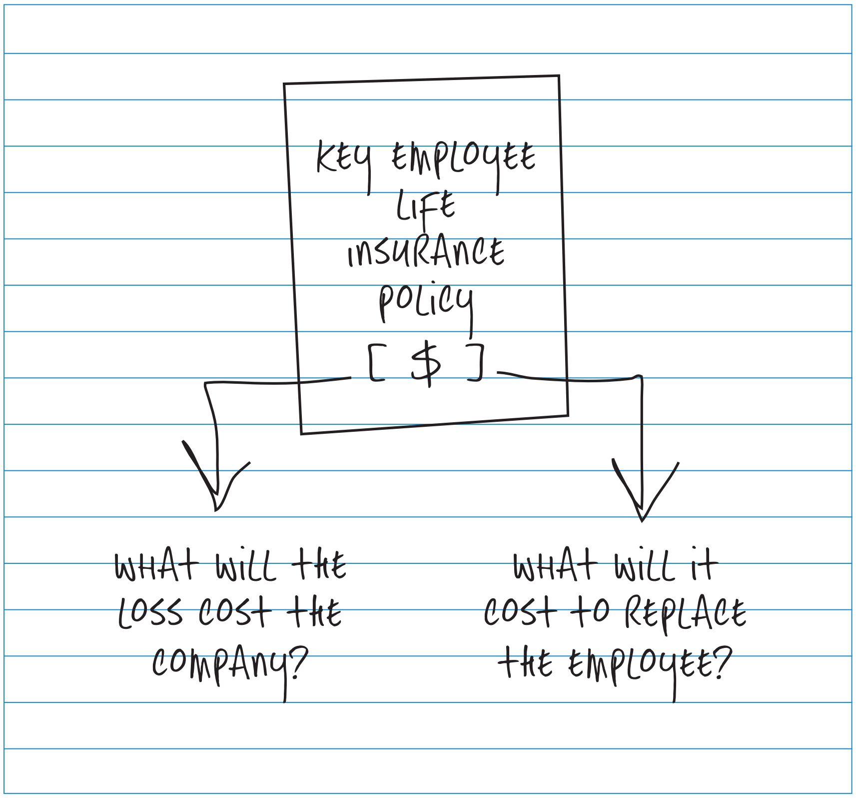
WHY IS IT USEFUL?

Because life insurance on a key person can be vital for continuing operations when a key employee dies, it's essential that the business have a reliable estimate of the money needed to deal with this potential loss.

50 WORDS OR LESS

An employer can determine the amount of life insurance to purchase on a key employee critical to the company's success and profitability by calculating:

- the employee's financial contribution to the business, or
- the cost of replacing the employee.



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