

# KP Key Person

User Guide

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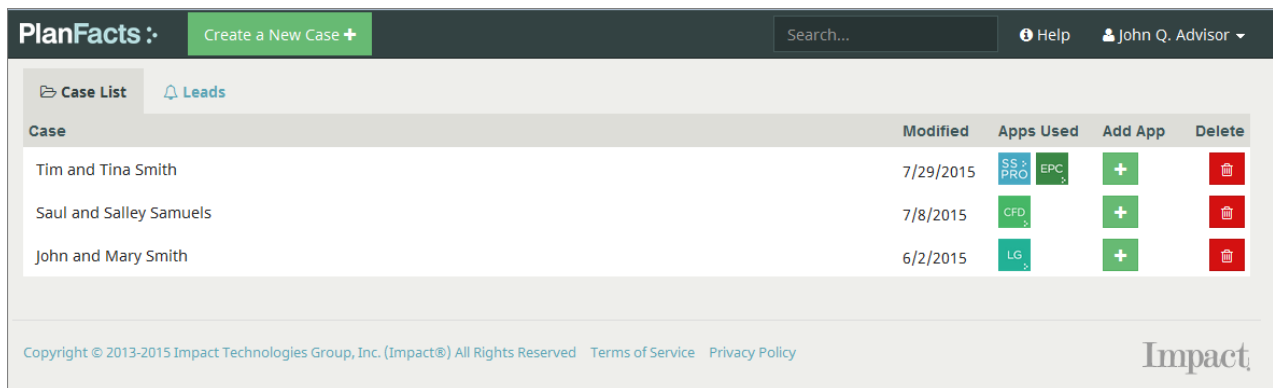
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## Introduction

Key Person is a part of the Business Continuation Program and the PlanFacts platform. Often any business continuation solution involves funding with life insurance. When that life insurance is owned by the business it is usually owned in a structure known as key person insurance. Funding of stock redemption, entity purchase solution, virtually all of the corporate owned or business owned policies are types of key person life insurance. This program is to help not only structure and see how those policies would work best within the business but also to help the business owner identify key persons and determine the monetary value of those key persons. One of the unique selling propositions of Key Person is that it helps employers to quantify the value of various key employees.

## Starting Key Person

Upon logging into PlanFacts, you will land on the Dashboard.




The screenshot shows the PlanFacts dashboard interface. At the top, there is a navigation bar with the PlanFacts logo, a 'Create a New Case +' button, a search bar, and user information for John Q. Advisor. Below the navigation bar, there are two tabs: 'Case List' (selected) and 'Leads'. The main content area displays a table with the following data:

Case	Modified	Apps Used	Add App	Delete
Tim and Tina Smith	7/29/2015	SS PRO, EPC	+	🗑️
Saul and Salley Samuels	7/8/2015	CFD	+	🗑️
John and Mary Smith	6/2/2015	LG	+	🗑️



At the bottom of the dashboard, there is a copyright notice: 'Copyright © 2013-2015 Impact Technologies Group, Inc. (Impact®) All Rights Reserved' and links for 'Terms of Service' and 'Privacy Policy'. The Impact logo is also present in the bottom right corner.












### New Case

To create a new case, click  and select Key Person from the list of available products.


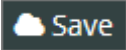
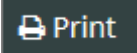
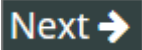
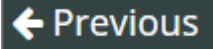
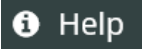




### Add to or Open Existing Case

To add Business Continuation to an existing case, click the  under “Add App” and select Key Person from MY APPS. To open an existing BC case, simply click the icon under  “Apps Used”.

Modified	Apps Used	Add App	Delete
2/9/2016	 		
2/9/2016	 		
6/3/2015			

## Navigating Key Person

	<p>Click to open the PlanFacts Navigation Menu. From here you can go Back to Dashboard, Duplicate this case, open the Success Center, or open another one of your available MY APPS.</p>
	<p>Click to save your case. You will be prompted to name the case upon saving for the first time. After saving, the button will appear inactive (greyed out) until a change is made in the case, and the button will become active again.</p>
	<p>Click to generate a printed presentation.</p>
	<p>Advance to the next screen.</p>
	<p>Return to the previous screen.</p>
	<p>Click to access general help for Key Person.</p>
	<p>Click to see helpful information regarding specific input prompts. Click again to hide.</p>
	<p>Click or hover over this icon to see information that may be helpful in determining the input of a specific field.</p>

## Sample Case

Key Person includes a sample case for you to review and is accessible in the Success Center.

To access the Success Center:

1. Expand the Navigation Menu drop down.
2. Select Success Center to open the page
3. View the Sample Presentation on your computer or save the PDF and drag and drop it onto your PlanFacts Dashboard to view the case inputs.

**Tip** If you want to modify the case, duplicate the case using the Navigation Menu drop down and save it under a different name. That way you will always have the original sample to refer to. You can also overwrite the case by dragging and dropping the PDF from the Success Center onto your Dashboard again.

## Entering Information

The program is made up of six tabs to enter the information on all of the key persons.

### Business Tab

The screenshot shows the 'Business' tab selected in the 'Key Person' software. The interface includes a top navigation bar with 'Key Person', 'Help', 'ABC, Inc.', 'Save', and 'Print'. Below this is a secondary navigation bar with tabs for 'Business', 'Key Persons', 'Impact', 'Value', 'Future Value', and 'Funding'. The main content area contains the following fields:

Name	<input type="text" value="ABC, Inc."/>
Nature	<input type="text" value="Finance, Insurance and Real Estate"/> [dropdown arrow] [help icon]
Form	<input type="text" value="C Corporation"/> [dropdown arrow] [help icon]
Corporate tax bracket	<input type="text" value="34%"/> [help icon]
Annual growth rate	<input type="text" value="8%"/> [help icon]
Annual sales	<input type="text" value="\$8,000,000"/>
Value	<input type="text" value="\$4,666,667"/>

The **name** of the business should be entered exactly as it should be printed on the presentation.

The **nature** of the business. There are general categories in the nature of the business to compare various industrial and commercial types of business. These match the SIC Codes, which are found in the Standard Industrial Classification manual. This is very helpful and needed for various types of business insurance quotes, such as group life and medical, property and casualty, workers compensation and other business related policies.

**Form** of business refers to how the business is organized for income tax purposes. The various pass-through organizations as well as the typical tax corporations. C corporations being the most common and S corporations being the next most common amongst small employers.

The **Corporate Tax Bracket**. Generally speaking, the corporate tax bracket would be illustrated at 35% but any amount can be entered. The corporate tax bracket for pass through business forms does not appear. Earnings are taxed to each of the owners in proportion to their ownership and are included in their personal taxes at their personal tax rate. The corporate tax brackets vary with approximately 35% being the average corporate tax bracket. The tax brackets are structured so that typically a marginal rate of 35% starts at a million dollar profit and continues until effectively it is 35% for all profits. This field may not be available for some tax forms since they either do not have tax or have a standard tax rate.

The **annual growth rate** of the business should represent the average annual earnings of the business. Keep in mind that usually the annual average earning rate is higher for the business than you could typically invest capital in. If this were not the case for many years, then the investors would be better investing their money outside of the business. For short periods the growth rate could be less than the going rate.

**Annual sales.** The annual sales is often one of the measures of the key people. The sales people who are responsible for the sales how personally are they involved in those sales. This will be one of the measures that we will use later to determine exactly what the value of a particular key person is.

**Note:** Annual Sales is not an input field in Business Continuation. If a case is created in Business Continuation, take care not to miss entering this value. It could be overlooked since all other fields import automatically since they are common fields between Business Continuation and Key Person.

**Value of the business.** The full Business Continuation app could be used to help determine the value of several different methods but for that purpose you can enter an approximate value here



or use the business valuation portion of the business continuation to get a better feel for the value of the business.

For this Business tab, if you've already completed the Business Continuation app for this client, any common fields on this screen will be transferred over automatically so that it does not have to be reentered. Annual sales is one of the areas that will have to be entered for Key Person.

### Key Persons Tab

Name	Title	Share	Birth date	Years to retirement	Cost basis	Tax bracket
Adam Anderson	President	40%	1/2/1966	15 years	\$150,000	30%
Betty Boston	Vice-President	35%	1/2/1961	10 years	\$100,000	30%
Carl Cannon	Treasurer	25%	1/2/1971	20 years	\$250,000	30%

If you've already run Business Continuation all of the owners are automatically transferred to Key Person so they don't have to be reentered. However, keep in mind that all owners are not necessarily key persons to the day-to-day operation of the business so you might not want to include those in the Key Person presentation. The entry information is the same for each of the key persons. The information for a key person is similar to the information used for a business owner, the names, date of birth, business title, or job, years to retirement, if they are an owner of

the business and the share that they own, the cost basis of those shares and their personal tax bracket.

As many key persons can be entered as desired.

## Impact Tab

**Key Persons**

- Adam Anderson
- Betty Boston
- Carl Cannon

**Portion of Profits** Value: 50%  
0% 25% 75% 100%

**Portion of Sales** Value: 50%  
0% 25% 75% 100%

**Unique Qualities**  
1 2 3 4 5 6 7 8 9 10  
Not a Factor Major Factor

**Employee Relationships**  
1 2 3 4 5 6 7 8 9 10  
Not a Factor Major Factor

**Business Continuation**  
1 2 3 4 5 6 7 8 9 10  
Not a Factor Major Factor

**Company Credit**  
1 2 3 4 5 6 7 8 9 10  
Not a Factor Major Factor

**Monies Owed Key Person**  
1 2 3 4 5 6 7 8 9 10  
None Significant Amount

**Documentation of Duties**  
1 2 3 4 5 6 7 8 9 10  
Completely Not Documented

**Survivor's Expectations**  
1 2 3 4 5 6 7 8 9 10  
None High Expectations

**Business Interest**  
Adam Anderson owns 40% of the business  
1 2 3 4 5 6 7 8 9 10  
Fully Funded Agreement No Plans

The Impact tab is to help evaluate the impact of each key person. The key persons that have been entered are listed on the left. Simply click or select the key person and fill out this short questionnaire for the relative value to the company.

**Portion of Profits.** The first measure is the portion of profits from one percent to a hundred percent. What portion of profits is this particular key person responsible for? This is a guess but, in a broad range, how important is this key person to the profits?

**Portion of sales.** Some key persons are directly involved in sales and have a tremendous impact on the sales of a business. They can have a tremendous impact on the sales without being "A sales person," in that they support the sales functions. Again, this is the business owner's best estimate of the value or the portion of sales that this key person provides.

**Note:** A response between zero and one hundred percent of the portion of profits and portion of sales are required fields; However, if the person does not have any impact on profits or sales, they are probably not a key person.

**Unique qualities.** Unique qualities are those things which make this individual a key person. This is a very subjective category; is this key person a major factor or not really a factor? Do their qualities don't make them unique to the business? If they are a major factor, you select ten; not a factor, select one. Or a relative value between one and ten.

**Employee relationships.** This is often an overlooked category because of the impact of certain key people that have a close relationship with the other employees. Their absence would have a tremendous overall effect on attitude and thus production and effectiveness of the business. For employees who have this unique relationship with the other employees, then this would be a major factor. If this is not one of their strong suits, you would use a lesser value.

**Business continuation.** Do the owners' business continuation plans involve this key person? Often a key person has an important role in any business continuation plan. This is the involvement of a key person in the continuation plan, not necessarily the person we're talking about. For example, an employee that is a top salesman might be very important to the continuation of the business even though they're not an owner themselves.

**The company credit.** Will creditors of the business call the loans if the key person dies? Without the key person, would the bank be less willing to loan money? Is this key person's presence necessary to collect large cash receivables? Often the business and entities owing the company

money have a unique relationship with one of the key people and without that relationship might be a reluctance to pay timely.

**Monies owed to key person.** Deferred compensation payments may be triggered in the event of the death, retirement or disability of a key person. Also, the key person executor will probably demand payment of any monies or loans due the key person. Should the key person leave, typically they demand immediate payment. If there a significant amount of money owed to the key person then this would be a major factor. If a smaller amount, you would use a lesser value.

**Documentation of duties.** Documentation of duties is a very good way to measure a key person. Are all their duties documented so that the replacement could quickly jump in and learn to do their job? Or, like many key persons, are they so involved in different things day-to-day that some of their roles are not documented well? If their important duties are not well documented, they may have a value of eight, nine, or ten. If duties are well documented, then that would be a low value assigned.

**Survivor's expectations.** This is a tricky subject. The greater the importance of a key person the more likely the key person's family will look to the business for continued support. To what degree is this support structured and funded? Will the survivors expect to continue to receive significant distributions from the business of the deceased owner? If the survivors have high expectations then a higher value should be selected.

**Business Interest.** If the key person owns a portion of the business, the business interest impact is shown.

**Note:** If the key person does not own any business interest this question is not prompted at all for this individual. Exactly what would happen to this owner's interest at their death; is there a plan, is it written, is it funded? Select one of the values, ten for no plan and no funding, to one or two for fully funded and all documented in an agreement. As mentioned

earlier, almost all business continuation solutions involve the use of key person insurance. That key person insurance becomes even more valuable depending on whether it's fully documented and the exact amounts can be readily determined through a written agreement.

At a glance, this screen gives you a rough idea of the value of a particular employee/key person. The further each of the impact characteristics are to the right, the more valuable that key person is. The further to the left, the less value. This gives an easy visual reference to the value of the key person. Answer these questions for each of the key persons by clicking on the next key person in the list on the left side of your screen. Once selected, proceed to answer these same questions for that person.

## Value Tab

**Key Person** | ABC, Inc. | Save | Print

Business | Key Persons | Impact | **Value** | Future Value | Funding

**Key Persons**

- Adam Anderson
- Betty Boston
- Carl Cannon

Annual salary: \$350,000 | Years to train replacement: 5

### Valuing Methods

Method	Value
Business Value	~\$2,000,000
Multiple of Salary	\$1,750,000
Sales Replacement	~\$10,000,000
Training Costs	~\$500,000
Business Life Value	~\$5,000,000

— Average Value

### Multiple of Salary Method

**\$1,750,000**

One of the most common methods for valuing a key person is to use a multiple of salary. Usually a multiple of 3 to 10 is used.

Calculation	
Annual salary	\$350,000
Times multiple	5

The value tab shows several different ways to measure the value of a particular key person. It needs a couple additional pieces of information. Across the top of the screen you see, annual salary and years to train replacement (Approximately how long would it take to replace the key person.) The help next to “Years to train replacement” shows you how many years until the key person retires. This is important especially for some owners who are actively involved in all phases of the business. It might take until their retirement to fully train someone to do all the things they do.

If you come down to the graph, you notice that as you mouse over any one of these five categories the value for the key person is displayed and over to the right, in the Calculation box, shows the calculations made.

**Business Value.** For business value we look at the portion of profits attributable to this key person and we look at the earnings that were entered based on the value of the business and the rate that you showed. With this we get a portion of the value of the business represented by this employee.

**Multiple of Salary.** By moving the cursor to the multiple of salary, we see the salary and typically you value an employee on how long it would take to fully train that person's replacement. Multiple of salary usually runs anywhere from three to ten as a common method but often just looking at salary can help determine the value of this key person.

**Sales Replacement.** The next bar represents sales replacement. Again this would not be applicable to those people not heavily involved in sales but, for the ones that are involved in sales this is a good measure. This looks at annual sales and what portion the key person is responsible for and then prorated. If three years were needed to replace them, after the first year a portion of at least a third of the business should be replaced, after two years two thirds should be replaced and by the end of the third year back to being fully replaced. This also uses the average annual earnings rate to discount these future values. Taking this into account, the sales due to this persons leaving can be prorated. This is an essential measure for a business that is vitally dependent upon their sales and an individual that might be responsible for a large portion of those sales.

**Training Costs.** Training costs are similar to sales replacement except now we're looking at sales as a percent of profits; lost earnings while a replacement is being trained. Earnings are calculated and use the average annual earnings rate, then amortized over the years to train the replacement, assuming that each year has less impact than the previous. The present value of the earnings are



determined using a discount rate equal to the average annual earnings rate. From this we get a value of the key person based on how long it will take to train him to be fully replaced.

**Business Life Value.** The business life value looks at the value over a longer period of time. This is true especially of small businesses where the key person is integrally involved in all aspects of the business. To be fully replaced, you have to look at the value over the entire working year and discount it accordingly. The business life value calculation is the value of the key person and the affects they would have over their projected lifetime with the business.

You'll notice in addition to these five methods, you also have an average line illustrating how the average of these range helping you can come up with an approximate value for the key person. You can then look at different combinations and different ways to put these values together for different key people based on which of the impacts characteristics would have the largest effect on the business.

## Future Value Tab

The screenshot displays the 'Future Value' tab of a software application. The interface includes a top navigation bar with 'Key Person', 'Business', 'Key Persons', 'Impact', 'Value', 'Future Value', and 'Funding' tabs. The 'Future Value' tab is active. The main content area shows the following information:

- Estimate the future value of ABC, Inc.
- Assuming an annual growth rate of 8%
- Years to project:
- Current Value: \$4,666,667 (Now)
- Future Value: \$10,074,984 (In 10 years)

The next tab talks in terms of future value of the business; comparing the value of the business now with the estimated future value. This is done using “Years to project” to calculate the future value.

## Funding Tab

The screenshot shows the 'Funding Tab' interface. At the top, there is a navigation bar with 'Key Person' selected and 'Funding' highlighted. The main content area is divided into several sections:

- Key Persons:** A list of key persons: Adam Anderson (highlighted), Betty Boston, and Carl Cannon.
- Policy Owner/Beneficiary:** ABC, Inc.
- Insured:** Adam Anderson
- Suggestion One:** \$3,700,865. Description: Use a combination or average of the **Business Value** and **Business Life Value** methods.
- Suggestion Two:** \$3,011,656. Description: Use a weighted value of all impacts and all methods.
- Entry Method:** Options include Basic, Schedule, and Illustration File.
- Select link file:** A button to upload a file.
- Table Header:** Columns include End of Year, Age, Premium, Net Death Benefit, Net Cash Value, Loan, and Withdrawal.

The funding tab lists each of the key persons on the left side of the screen. You should complete the funding for each key person.

The funding for each should allow you to enter a life insurance policy for each of the key persons. The amount of the life insurance is based on the estimated value or impact of the key person. The screen offers two suggestions but the print will use three if life insurance is entered. The print also includes whatever face amount is being illustrated. The logic for this is that if the business owners have an amount in mind for this key person, then that is one of the amounts that should be indicated as one of the choices. This amount can be entered here as the face amount of the recommended policy.

Suggestion one is usually a combination of several different methods for calculating the value. These various methods used are based on which of the impact characteristics have the highest

ratings. With that it then uses a combination to come up with a suggestion, such as a combination of the average of the business value and the multiple of salary methods. Again, this first suggestion looks at the various impact items to determine which of the methods are the best measures for that key person. Suggestion two is usually the weighted value of the impact characteristics. Again, the weighted value is based on the impact of the various characteristics and which ones had the highest ratings.

Three methods for entering a proposed policy are available. **Basic** allows you to enter the initial face amount, the initial annual premium, and how many years to pay it. This entry method shows no cash value and has a constant face amount and premium. This is a simplified way of entering the life insurance, especially term.

The second entry method is by using a **schedule**. Take the illustration for the policy being recommended and manually enter the premiums, net death benefit, and net cash values so that it can be shown over time, year-by-year for the solution.

The third entry method is to link an **illustration file**, if provided by your company. Using this option you could browse and select a saved valid link file on your computer and upload the recommended policy. In doing so the values are entered similar to a schedule in the table below for you. This is the best way to get the right premium for each year, the right death benefit for each year, and the right cash value for each year.

**Note:** Putting in permanent life insurance and the cash values is very attractive in a key person policy. Ledgers in the output show the balance sheet effect of buying the key person policy. When the business buys the policy and pays the premiums, surplus is reduced. The business shows the policy on the corporate books at its value for simplistic purposes. We just use the cash value versus the precise terminal reserves. Showing the cash value on the books in a single year, surplus decreased by the premiums paid but

increased by the increase in cash value for that year. Permanent life insurance moves on from year-to-year, the increase in cash value typically increases each year and, typically after a few years, the increase in cash value can offset almost all of the premium outlay. Look out a few more years, such as eight to ten, and the cumulative effect of premiums out and cash value in are a wash.

Permanent insurance for key person coverage is very attractive and can have almost a mutual affect. The print presentation attempts to illustrate this with each of the ledgers for the key person policies.

## Resource Pages

A valuable part of the presentation are the various resource pages available to help explain how different situations can be used and how different combinations affect this employee in the key person coverages.

Here are a few to draw your attention to:

**Alternative minimum tax.** The alternative minimum tax is applicable to key main policies when the death proceeds are paid. Death proceeds that exceed the profits for the year are subject to some alternative minimum tax. The maximum of which is 15% but never the less, it is an additional tax. Some advisors choose to automatically use 15% more face amount on the policy so that if any alternative minimum taxes are applicable there will be sufficient funds to pay it. Also, it's important to note that the insurance proceeds are received income tax free provided the key person was fully notified and properly documented on the fact that the business was buying key person insurance on their life. This documentation must be done prior to the purchase of the policy. This is very important for without meeting these requirements, the death proceeds are paid as if they were an investment and the amount of death proceeds above the cost basis would

be taxable income to the business. This is easily prevented by doing the proper paperwork ahead of time and making sure that the employee understands and knows that key person life insurance is being purchased on his or her life.

**Family attribution.** When you're dealing with closely held businesses and family head attribution, occasionally how the policies are set up or how the various business continuation plans set up ownership (not only by the business owner or shareholder, but also any family members that are involved in the business) must also be considered for various business combinations. Which of those relationships must be counted can be obtained from this family attribution resource.

**Transfer for Value.** Various business continuation solutions changing the ownership of the policy after one of the owners dies must be handled exactly according to regulation or there will be a transfer for value, causing adverse taxation of the insurance death proceeds.