

MONEY**HAVE YOU INSURED YOUR MOST VALUABLE ASSET?**

By Terrence R. Johnson

Many business owners today are familiar with keyperson life insurance. They know that if a keyperson is insured and dies, then the company receives the tax-free proceeds from the policy. Who is a keyperson? Someone whose death would have an adverse economic impact on a business. The owner(s) is typically the most important keyperson. But few people understand how keyperson life insurance can sometimes spell the difference between life and death for a small or medium-sized firm, especially if the owner dies suddenly. This article is designed to help you see the value of keyperson coverage in appropriate situations and to provide some information about valuation techniques that can help you determine how much coverage your company may need.

WHY BUY KEYPERSON LIFE INSURANCE?

Keyperson insurance can help a company survive - with a minimal drain on its assets - the organizational and fiscal strains that follow the death of a key

employee by helping to assure that:

1. Business loans can be repaid. When a keyperson dies (especially an owner), a lender may have the right to call the loan. The insurance proceeds can pay off that loan.

2. Credit can be maintained. At the death of a keyperson, lenders may become reluctant to lend new money to the business or refinance outstanding loans. The insurance allows the firm to maintain its credit rating by paying its bills in a timely manner in spite of the death. It also demonstrates to the lender that the firm is well-managed.

3. A replacement can be recruited and trained. Months may pass before a qualified candidate can be found. Then it may take time to train him/her to the point where the replacement is as competent as the predecessor. There may also be a recruiter's fee to pay. So the insurance proceeds, in effect, buy time for the business.

4. The business is indemnified for lost sales and profits. Some keypeople (e.g.,



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the owner, the lending sales professional) may be extremely difficult to replace. Insurance proceeds can help offset the future loss in revenue that will probably occur at their death.

5. Stock can be repurchased. If the business is a corporation, any common stock owned by the key employee can be repurchased with the insurance proceeds.

HOW MUCH INSURANCE?

There are a number of valuation techniques that have been developed to determine how much keyperson insurance is needed. Several of the more popular techniques are described below. Remember that no one method is best; a business owner may want to use

a combination of these methods. Only the owner can really evaluate the potential loss and effects of a key employer's death.

Method #1: Multiple of salary valuation. The key employee's value is estimated based on a multiple of current compensation. Frequently, a multiple of three to five times his/her salary is utilized. If the keyperson's salary is \$75,000, the amount of insurance might be \$225,000 (\$75,000 x 3).

Method #2: Replacement Cost. First, figure out how much additional salary is being paid to the executive above the pay for the routine duties of the position. For example, if his/her salary is \$80,000 but the routine part of the job amounts to \$25,000, the additional skills are worth \$55,000. Second, estimate how many years it would take to fully train a replacement to handle these extra duties. Assume two years. Third, multiply the above factor (\$55,000 x 2 years = \$110,000 of life insurance).

Some of the other valuation techniques are more complicated and can't be adequately addressed in this article. Because it is simple and sensible, some business owners simply insure one year's profits.

If you buy a keyperson life insurance policy and the keyperson lives, you may have made a small mistake. If you don't buy a keyperson policy and a keyperson dies, you have probably made a big mistake. Your company can absorb small mistakes; big mistakes can absorb your company.

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BUSINESS**Real Estate Perspective**

By Loretta A. Hall

**IN SEARCH OF NEW HOME**

Are you so weary of old-house problems that you've vowed to make your next home a newly built one? Then take the advice of experts and bring along a new-home specialist on your future model-home tours. The reality is that most real estate agents spend the majority of their time selling used properties on what's called the "resale" market.

But a select few have special expertise in the new-home market. They know local developments, builders' reputations and perhaps most important, they know how to negotiate for a good price and terms. There are agents who specialize in new-home sales. They can tell you about construction techniques and they know much more than what's in the glossy sales brochures.

Most people don't take an agent with them when they scout new developments. Rather, they rely on salespeople who work at the model homes, who are typically employees or paid representatives of the home builder. Granted, those who work for home construction companies can be very knowledgeable. Still, an experienced outside agent can also provide important insights and can help you choose the right model, locate the best lot and select options.

What's most important of all is the specialty agent may be able to help you get a better deal on your new home. For decades, Americans have shopped for new homes the way they shop for new cars, relying totally on the guidance of showroom salespeople. In the past, builders set the prices and terms, and you could take it or leave it. I'm not sure it would have made a whole lot of difference if you had brought an agent with you. However, profits are harder to come by these days. While a new home's base price is still firm for some builders, many have become more flexible in setting prices for options, as well as terms of the deal.

Since builders have had to become more flexible, a good agent specializing in new-home sales can often negotiate a better deal for you. This service is usually free to the prospective buyer, with builder paying a small percentage to the agent if there's a sale.

As always, please contact a professional for all your real estate needs or write to me c/o REAL ESTATE PERSPECTIVE, Las Vegas Sentinel-Voice Newspaper, 1201 South Eastern Avenue, Las Vegas, Nevada 89104.

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