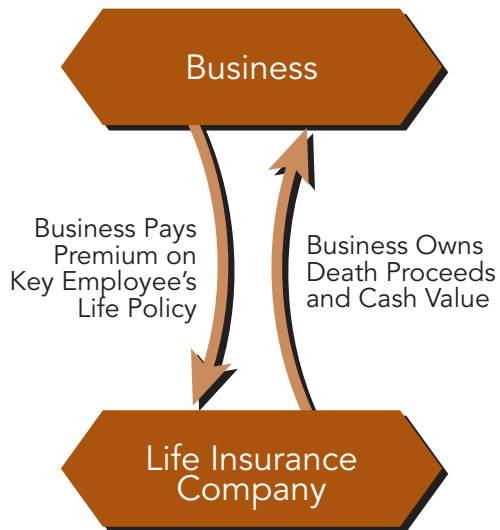


Business collects the policy proceeds and may use them as they see fit

Key Employee Life Insurance Arrangement



Next Steps

Chances are that there are one or more key employees in your business. The first step is to identify those individuals. Then, consider this: what will the business lose in the event of their premature death? Once these questions have been answered, consult with the insurance professional who provided this brochure to you.

You should always consult with your tax advisor before establishing a key employee plan to determine how it affects your personal or corporate tax situation.

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Business Planning Solutions



Key Employee

Protecting a Valuable Asset
Using Life Insurance





Financial protection for enterprises with key employees who drive sales and profits

In most closely held enterprises, there are one or more key employees—sales persons, managers, or technical specialists—who drive sales and profits. They are the higher paid individuals responsible for management decisions, have a significant impact on sales, and may have special rapport with customers, suppliers or creditors. If one of these individuals were to die prematurely, the enterprise would suffer a substantial loss.

What Happens when a Key Employee Dies?

When a key employee dies, your business may suffer economically in four ways:

- Loss of business experience and management skill. This may have an immediate impact upon the ability of the business to effectively move forward.
- A disruption in sales or production
- Creditors may be reluctant to extend credit or the business may have difficulty in making payments
- Real and substantial expenses associated with the hiring and training of a competent replacement for the key employee

Financial Protection Against the Loss of a Key Employee

Key employee life insurance offers critical financial protection for the business against the premature death of a key employee. Generally, insurance death benefits may be made income tax exempt* and if the employee does not die before terminating employment, policy cash value is an asset of the employer and available for a variety of employer uses.

Creditors invariably are appreciative of key employee life insurance protection because it demonstrates good risk planning and financial stability. Furthermore, if the key employee is also a business owner, then policy proceeds may be used to buy back the deceased owner's business interest, thus providing needed cash to his/her estate and family and ensuring a smooth management transition.

How Does it Work?

First, key employees are identified and an amount of insurance is determined. A variety of methods may be used to determine an appropriate insurance amount. One method is to determine the amount

*C corporations subject to corporate alternative minimum tax may need to include a portion of death benefits in their AMT calculation.

which the key employee contributes to earnings. Another is to determine the cost of replacing the key employee. A simple method of determining insurance amount is to consider a multiple of the employee's compensation, for example, 10 times annual compensation. Amounts will vary with individual circumstances.

Next, the policy is applied for** with the business as the applicant and beneficiary of the policy insuring the key employee's life. Upon the death of the insured key employee, the business collects the policy proceeds and may use the proceeds as management sees fit. Premiums are paid by the business and are generally not income tax deductible. However, as previously stated, policy death benefits are typically exempt from income tax.

Many forms of life insurance, including term insurance and universal life, may be used for key employee protection. Your choice of product may be influenced by such factors as the length of the risk, whether receiving cash or premiums back is important to you, and whether building lifetime cash value within the business is important.

**Notice, consent, and status requirements of the Pension Protection Act, effective August 17, 2006, must be met by the employer prior to the issue of the insurance contract. Generally, these require that the key employee be notified of the insurance, and provided other information regarding insurance, give consent to being insured, and fall within a certain status with the employer, as defined by the Act.