

KEY PERSON INSURANCE

Ask yourself...
Do you have a key person who is critical to your business' success?

Does your business have a key employee the loss of whose skill, talent, knowledge and expertise could result in serious financial consequences for the organization?

Would the loss of a key employee:

- Reduce your sales or business earnings?
- Create a loss of a specialized skill?
- Disrupt the everyday operation of your business?
- Create concern among customers about the loss of expertise?
- Negatively impact a special project such as an expansion program or sales campaign?
- Jeopardize business credit and financial security?

If your business is like most—there are one or more key employees who are critical to the overall success and profitability of your business, and you should consider Key Person Insurance for these critical employees.

Why is Key Person Insurance Important?

Key Person Insurance protects a business in the event the key employee dies. It can provide money to help:

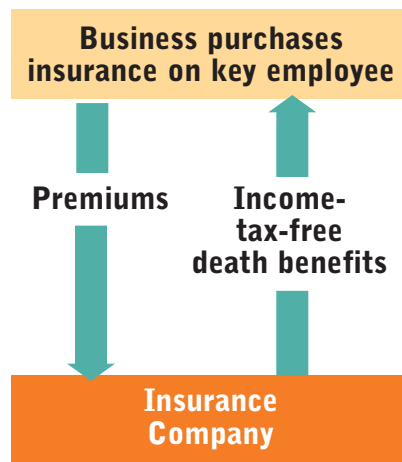
- Offset interrupted or lost cash flow from reduced sales or company earnings

- Hire a temporary substitute
- Offset the expense of attracting and hiring a qualified replacement
- Compensate for any losses due to financial instability and negatively impacted credit

How does it work?

Key Person Insurance is one of the easiest business continuation planning strategies to implement. The business simply purchases life insurance on the life of the key employee.

- The employer applies for, owns and is the beneficiary of the life insurance policy.
- If the key employee dies, the policy proceeds are paid to the employer to use as he/she wishes.



Advantages of Key Person Insurance

- **Simplicity** – Key Person Insurance Plans can be easy to implement and do not require IRS approval but will require annual reports to the IRS
- **Choice** – As the business owner, you can choose which key employees to include.
- **Tax Benefits** – The life insurance proceeds are generally paid to the business free of regular income tax.¹
- **Assurance** – Creditors and customers are assured that the business has a continuity plan.
- **Flexibility** – The business can use the policy cash values in a variety of ways.² For example, the cash values of permanent insurance could be used to offset business expenses during a period of disability of the key person.

TAX FACTS SUMMARY	
Key Person Insurance	
Policyowner	Business
Beneficiary	Business
Payor	Business
Premium payments	Not deductible
Death benefit	Received income-tax free ¹
Cash value accumulation	Tax deferred ¹ and available through tax-free loans and withdrawals ²

What about taxes?

There are some tax considerations to keep in mind with a Key Person Insurance Plan:

- Life insurance premiums paid by your business are not deductible.
- The business, as the owner and beneficiary of the life insurance policy, may receive the death benefits income-tax-free.¹
- The life insurance cash value will grow tax deferred.¹

Focus on what you do best

A Key Person Insurance Plan provides a potential solution to the unexpected loss of a vital employee, allowing business owners to focus their skills and talents on what they do best—running the business.

¹Death benefits and tax deferred cash accumulation may be subject to the corporate Alternative Minimum Tax (AMT). The Pension Protection Act of 2006 limits the death proceeds an employer can exclude from income when insured does not meet the definition of a highly-compensated employee or a of a highly-compensated individual. The Act also imposes specific requirements that the employer notify the individual about the insurance, secure his written consent and submit annual reports to the IRS.

²Surrenders from life policies are generally taxed as ordinary income to the extent the surrender proceeds exceed the policyowner’s investment in the contract, which is also called the “basis”. Loans are generally not taxable if taken from a life insurance policy that is not a modified endowment contract. Unpaid interest on loans is added to the loan principal, thereby increasing the total debt on the policy. The combination of an increasing loan balance, and deductions for contract charges and fees, may cause the policy to lapse, triggering ordinary income tax on the outstanding loan balance to the extent it exceeds the cost basis in the policy. If a policy is a modified endowment contract, loans, withdrawals and surrenders are treated as taxable distributions to the extent of the policy gain and may also be subject to an additional 10% penalty tax if made prior to the policyowner’s age 59 1/2. Note that there is no exception from the penalty tax when the policyowner is not an individual person. Loans, if not repaid, reduce the policy’s death benefit and cash surrender value.

Not FDIC, NCUA/NCUSIF insured	Not insured by any federal government agency	Not a deposit	No bank or credit union guarantee	May lose value
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