



## Advanced Markets

# *Personal key-person solution*

### A small business owner's protection, succession and supplemental-income solution

As a small business owner, the value of your business is linked to the skills and know-how you provide. Not only are you a “key person” to your company, you are also key to your family’s current and future financial security. For small business owners like yourself, conversations about business-succession planning are about ensuring the prosperity of your family and business when you are no longer involved in the business or in the event of your disability or death.

#### **What are the risks?**

Consider how your business, and by extension, your family, might be impacted if:

##### **You passed away:**

- Could your heirs sell the business and receive its full value?
- Do your heirs have the skill set and expertise to continue to run the business successfully?
- Do you have a successor or succession plan in place?

##### **You suffer a serious illness or become disabled:**

- How would your inability to work impact your family’s finances?
- How might it affect the success of your business?
- How might it affect your retirement savings?
- How would you pay for your care?

## Retirement planning challenges

While many business owners expect the business to provide some, or all, of their retirement income via a sale of the business, there are a multitude of factors that influence whether or not the business will sell for what you feel is its full fair market value. As you plan for your retirement, consider the following:

- **Will there be a willing buyer** when you are ready to retire?
- **Will the sales proceeds provide** you with adequate income for your lifetime?
- **If the new owners** are not as successful in running the business as you were, how will that impact your retirement income, especially if you sold the business on an installment basis?

Timing is important when it comes to selling a business, and it is often difficult to predict what type of market you will face when (or if) you decide to sell your business. Ideally, you will be able to time your sale with a booming economy so that you receive top dollar. Unfortunately, there is no way to predict what the market for your business will look like when you retire or whether you will receive enough to secure your retirement future.

With all of this uncertainty, it is important that you put a plan in place today that lets you decide how long you want to stay active in the business, while at the same time protecting you, your business and your family from life's many unknowns.

## The “personal key-person” solution

A personal key-person solution insures against the loss of your business's most essential person — **you**. Through the purchase of an **individually owned** permanent life insurance policy, you can secure:



**Income tax-free death benefit**  
to financially protect your loved ones



**Access to tax-free income**  
from potential cash value that accumulates inside the policy



**Potential long-term care protection**  
when an optional long-term care rider is added to the policy



**Waiver of premiums**  
in the event of a total disability when optional rider is added

### Rewards for Healthy Living

A personal key-person life insurance policy can be enhanced with the John Hancock Vitality Program. As you aspire to live a long, healthy life, Vitality PLUS can be used to earn valuable rewards and discounts, in addition to reducing your policy's premium or enhancing the cash value potential.

## How it works

Permanent life insurance, at its core, is a protection vehicle. No matter what stage you are at in life, your policy provides an income-tax free death benefit, making it an excellent way to ensure your family's financial security. And, when that life insurance policy is designed as part of a personal key-person solution, you also have the ability to access the policy's cash value to help offset a number of the risks often faced by small business owners. Here's how the protection works:



### Phase 1: Working years

During the years when you are actively working in your business, the personal key-person life insurance policy provides income tax-free death benefit protection to your family from day one to:

- **Replace your income** if something were to happen to you;
- **Help cover over a shortfall** in the business' value should your family not be able to sell it for as much as they expected;
- **Serve as an inheritance** for your family or equalize an inheritance between family members who work in the business and those that do not; and/or
- **Cover long-term care expenses** for you should you become chronically ill (if the optional long-term care rider is added to the policy), providing additional protection if your ability to work and produce income is halted.

Additionally, depending on state law, life insurance proceeds receive favorable protection from creditors, including bankruptcy protection. Particularly if your business is in a higher-liability field, this solution can help provide a level of asset protection during working years.



### Phase 2: Retirement years

Once you decide it is time to step away from the business, the potential cash value build-up within your personal key-person policy can be used to help supplement your income via tax-free withdrawals or loans. This access to cash value provides additional flexibility and protection to help address common issues, such as:

- **Extended period of time** before appropriate buyer can be found;
- **Reduced business value** due to down market, slow economy, or having to sell quickly; or
- **Periods where your income from the sale** is lower than anticipated (possibly due to cash flow challenges related to the new owner).

Unlike qualified plans which require distributions starting at age 72 and are subject to income tax, withdrawals from the life insurance policy are purely discretionary and received income tax-free. You have ultimate control to take withdrawals or loans if you need them or retain the cash value in the policy — and increase the death benefit to heirs — if you do not.



### Phase 3: Later retirement years, beyond life expectancy

Lastly, your life insurance policy's potential cash value also can be used to provide additional supplemental income in the event you outlive or have insufficient other primary assets to draw from. If the cash value is not needed, the death benefit is preserved and can provide a source of funds for a surviving spouse and/or enhance the legacy you leave to your loved ones.

## How much coverage do I need?

The amount of death benefit to purchase will depend on your unique needs and goals for your family. As a starting place, consider:

- **The amount of income your heirs stand to lose** in the event of your premature death
- **The estimated full market value of your business**, and if a family member will take over, how much is needed to equalize your estate
- **Particularly for service-oriented businesses**, the value of your business may be significantly linked to your personal experience, specific skill set and goodwill. The shortfall between how much your heirs could potentially sell the business for after you are gone should be considered.
- **Your desire to save for retirement in tax-advantaged ways.** If this is the case, the policy can be designed with a focus on cash value accumulation. This type of design may be attractive to small business owners who either do not have access to traditional qualified plans or when the strict qualified plan contribution limitations prohibit the owner from adequately saving for retirement.

### Putting it all together

The personal key-person solution can help address some of the financial-planning challenges you and your business may face. Focusing on what makes your business unique, the plan can be designed with your specific needs in mind and can offer protection in many ways. Talk to your financial professional about creating and funding a permanent

Talk to your financial professional about creating and funding a *personal key person solution* to help protect you and your business in the event something should happen to you.

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Some riders may have additional fees and expenses associated with them.

Life insurance death benefit proceeds are generally excludable from the beneficiary's gross income for income tax purposes. There are few exceptions such as when a life insurance policy has been transferred for valuable consideration.

Vitality is the provider of the John Hancock Vitality Program in connection with your life insurance policy.

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