



## BUSINESS INSURANCE

# Key person life insurance

You know that your employees help make your business a successful, thriving enterprise. In fact, you may identify some employees as “key” to the organization’s ongoing success. These individuals possess unique skills, expertise, decision-making power and vision. Key person life insurance is an important protection strategy.

### What is key person life insurance?

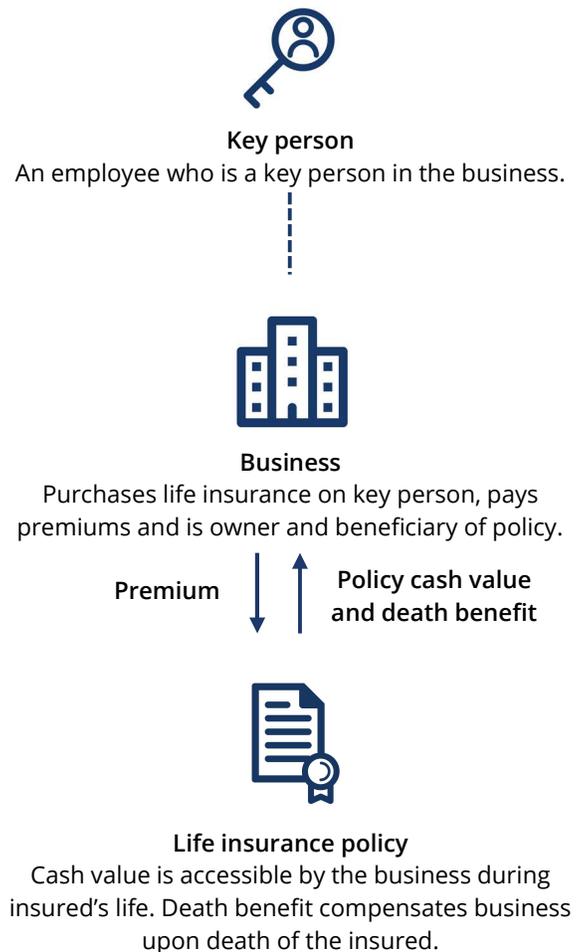
Key person insurance is a life insurance policy purchased by, owned by and payable to a business. A key person life insurance policy protects against business losses as a result of the death of a key person. When permanent life insurance is used, the business can access accumulated cash values in the policy as a source of capital to offset business expenses, take advantage of expansion opportunities, or to create fringe benefits for key employees.

If the insured employee passes away, the policy’s death benefit provides capital to help the company continue. Unlike other sources of capital – such as a sinking fund, a loan, or company earnings – life insurance provides liquidity precisely when the need arises: upon the death of a key person. Further, disability riders are available that can waive premium payments in the event of the insured’s qualifying disability.

### How it works

Your business pays the life insurance policy premiums and is typically the owner and beneficiary of the policy. As owner of the policy, the business may access cash values, typically via loans, during the key person’s lifetime. When the key person dies, life insurance proceeds, minus any loan amounts, are paid to the business and can be used to offset losses. Alternatively, upon the key person’s retirement, the company may decide to sell or bonus the policy to the insured, surrender the policy or simply keep it in force.

### How key person life insurance protects your company



### The benefits

- The business can receive an income tax-free death benefit upon death of the key person, thereby providing liquidity precisely when the need arises.
- When permanent life insurance is used, the business (as owner of the policy) has access to cash values during the life of the insured.
- Accumulated cash values in permanent life insurance can be used as a source of capital for business expenses, to create fringe benefits, and/or to provide a rainy-day fund for the business.
- Optional disability riders are available that waive premiums in the event of the insured's total disability.
- Accumulated earnings tax will not accrue if life insurance is purchased to reasonably compensate the business for a loss.

### Additional considerations

- The employee should be a key person in the business. This includes directors, executives, or employees with unique skills and talents.
- To help ensure that death benefits are received income tax-free, the business must obtain notice and consent from the insured employee, prior to issuance of the policy.
- The company should adopt a board resolution authorizing the policy and documenting the need for key person protection.
- Premiums paid for key person life insurance are not a deductible business expense.

Learn more about key person life insurance by requesting our informative guide, "Protect Your Business Against the Loss of a Key Person" (Form 2302LMP) from your financial professional.

This material provides general information that is designed to be educational in nature and is not intended as specific tax or legal advice to any particular individual nor the law of any particular state. Please seek the advice of a qualified tax or legal professional for your specific situation.

If tax-free loans are taken and the policy lapses, a taxable event may occur. Withdrawals (partial surrenders) and loans from life insurance policies classified as modified endowment contracts may be subject to tax at the time the withdrawal or loan is taken and, if taken prior to age 59½, an additional 10% federal tax may apply. Withdrawals and loans reduce the death benefit and cash surrender value.

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