10/24

KEY PERSON LIFE INSURANCE

PROTECTING YOUR BUSINESS FROM THE UNEXPECTED

Many companies have an employee who is critical to their current success and plans for growth. These individuals may be owners, executives, or employees with unique skillsets within the organization. A loss of a key employee due to death or a critical illness can cause significant disruption to the business and hinder current growth initiatives.

IMPACT FROM LOSS OF KEY PERSON

Potential Loss of Revenue	• Disruption from loss of key accounts • Inability to implement growth initiatives
Raise Concerns with Business Continuity	• Potential impact to revenue may raise concerns about creditworthiness of business • May result in higher costs to fund future growth • Other employees may become concerned about viability of business after loss of key person
Time and Expense in Finding a Replacement	• The cost of replacing an individual employee can range from one-half to two times the employee's annual salary • Finding a suitable candidate for a key position could take several months

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THE BENEFITS OF KEY PERSON COVERAGE

- A death benefit free of income tax can help to cover financial losses that could occur after key employee's death and help to offset the cost of finding a suitable replacement
- Cash value is a business asset that enhances your business's creditworthiness[1]
- Flexibility to provide both business protection and serve as an employee retention tool, if desired

HOW KEY PERSON COVERAGE WORKS

- Identify key persons in the business and determine the financial impact of losing that individual(s).
- The key employee provides written consent for the business to purchase life insurance on their life.
- The business is the owner and beneficiary of the life insurance policy.
- The business pays the nondeductible premiums and, at the death of the key person, the business receives the death benefit proceeds, generally federal income tax-free.[2]

KEY PERSON LIFE INSURANCE – PLAN IN ACTION

Michael owns a small software engineering company with 20 employees that generates **$4 million** in annual revenue. The company relies heavily on Anna, their director of business development, for both new sales and licensing renewals. The accounts Anna has brought in represent **25%** of the company's annual revenue.

Michael is concerned about the financial impact of losing a key contributor like Anna and decides to establish a key employee coverage plan funded with life insurance. The company chooses to purchase a **$1 million** *Transamerica Financial Foundation IUL II®* (FFIUL II) policy on Anna's life with annual premiums of **$24,000** to her age 65 with an increasing death benefit option.[3] The increasing death benefit option will potentially enable the company to grow coverage on Anna's life as the size of her accounts increases over time.

If Anna were to leave for another employer or retire, Michael's company may access the policy's cash surrender values to partially recover their costs. There is no guarantee that the cash value will equal the premiums paid.

If something happened to Anna, the business would receive the death benefit proceeds, which are generally federal income tax-free. By purchasing Key Person coverage on Anna's life, Michael can continue to focus on growing his business without worrying about what would happen to it with the loss of a key contributor like Anna.

KEY PERSON COVERAGE ON ANNA

INSURED	RISK CLASS	FACE AMOUNT	ANNUAL PREMIUM	DEATH BENEFIT OPTION
Female, Age 45	Preferred Elite	**$1,000,000** ($500K Base + $500K BIR)	**$24,000** (To Age 65)	**Increasing** (Switch to Level at Age 66)

[1] Loans and withdrawals will lower the policy value and net cash value and will lower the death benefit or cause the policy to lapse. Withdrawals or distributions, and various other transactions may have adverse tax consequences, so please consult your tax professional. Loans and withdrawals from MECs are taxed to the extent of income in the contract. There is a 10% tax on the amount of income borrowed or withdrawn from a MEC if the taxpayer is below age 59½. A corporation is always considered to be "younger" than 59½, so the 10% penalty applies. The 10% tax also applies upon the gain on full surrender of the policy. Withdrawals, loans, and assignments are considered distributions.

[2] For federal income tax purposes, life insurance death benefits generally pay income tax-free to beneficiaries pursuant to IRC Sec. 101(a)(1). In certain situations, however, life insurance death benefits may be partially or wholly taxable. Situations include, but are not limited to: the transfer of a life insurance policy for valuable consideration unless the transfer qualifies for an exception under IRC Sec. 101(a)(2) (the transfer-for-value rule), arrangements that lack an insurable interest based on state law, and an employer-owned policy unless the policy qualifies for an exception under IRC Sec. 101(j).

[3] The Increasing Death Benefit Option will result in higher monthly deductions over the life of the policy than the level death benefit option.

KEY PERSON COVERAGE SUMMARY:

- The initial **$1 million** death benefit grows to **$1.8 million,** potentially keeping up with Anna's projected revenue to the company over time.
- Cash surrender value exceeds premiums paid starting in year six, allowing the business to recover the cost of the policy if Anna were to leave or retire.[4]

TRANSAMERICA FINANCIAL FOUNDATION IUL® II (NON-GUARANTEED VALUES)

YEAR	AGE	ANNUAL PREMIUM	CUMULATIVE OUTLAY	CASH SURRENDER VALUE	CASH SURRENDER VALUE IRR%[5]	FFIUL II DEATH BENEFIT
1	46	**$24,000**	**$24,000**	$10,123	-57.80%	**$1,022,543**
5	50	**$24,000**	**$120,000**	$117,333	-0.75%	**$1,126,896**
10	55	**$24,000**	**$240,000**	$293,092	3.60%	**$1,297,812**
15	60	**$24,000**	**$360,000**	$529,012	4.67%	**$1,529,012**
20	65	**$24,000**	**$480,000**	$847,788	5.15%	**$1,847,788**

ANNA'S PROJECTED REVENUE VS. FFIUL II DEATH BENEFIT

PROJECTED REVENUE	FFIUL II DEATH BENEFIT	% OF REVENUE COVERED BY DEATH BENEFIT
$1,030,000	**$1,022,543**	**99%**
$1,159,274	**$1,126,896**	**97%**
$1,343,916	**$1,297,812**	**97%**
$1,557,967	**$1,529,012**	**98%**
$1,806,111	**$1,847,788**	**102%**

This hypothetical example assumes a female, age 45, Preferred Elite risk class, $24,000 premium paid for 20 years, assuming 7.25% index growth rate fully allocated in the Global Index Account, $1,000,000 initial face amount, increasing death benefit option from years 1 to 20, and level from years 21 To Max.

The example shown is derived from a complete hypothetical illustration which assumes non-guaranteed elements will continue for all years. This is not likely to occur and actual results may be more or less favorable. All non-guaranteed elements are subject to change by the company. Keep in mind that the purpose of hypothetical illustrations is to show how a policy might work under different scenarios, including minimum interest rates at maximum guaranteed charges. Illustrations may not be used to predict or project future policy values. Prospective policy owners should refer to a complete, personalized hypothetical sales illustration for guaranteed elements and other important information as well as the consumer brochure for the *Transamerica Financial Foundation IUL® II*. At a 0% index growth rate and guaranteed charges, this policy lapses in year 35.

Values shown are based on the current rates and charges. In the case of nonpayment of premium or insufficient premium amounts, the monthly deductions will continue to be applied against the Policy Value and additional premiums may be required to keep the policy in force.

WHY FFIUL II FOR KEY PERSON COVERAGE?

PROTECTION

Permanent death benefit coverage on key person's life

GROWTH POTENTIAL

Four index accounts built for growth potential with protection against market declines[6]

TAX-FREE ACCESS

Tax-free access to policy cash values for business needs, subject to certain legal exceptions

[4] Loans, withdrawals, and death benefit accelerations will reduce the policy value and death benefit. Availability of favorable tax treatment for loans and withdrawals assumes that the life insurance policy is not a modified endowment contract ("MEC") for federal tax purposes. Classification as a MEC does not affect the exclusion of death benefits from gross income. However, loans, distributions, or other amounts received under a MEC are taxed to the extent of accumulated income in the policy and may be subject to a 10% federal income tax penalty. Contact a qualified tax adviser for additional information.

[5] The internal rate of return (IRR) is a calculation that is often used to measure and compare investments. For life insurance, the IRR is the annual interest rate which the cumulative premiums paid would have to earn from the date they are paid to produce the Cash Surrender Value in any particular year. A life insurance policy, being intended primarily to protect against the financial consequences of death, should not be purchased on the basis of its IRRs. This supplemental illustration is for comparison purposes only.

[6] Guarantees are based on the claims-paying ability of the issuing insurance company.

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10/24

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