



# Attract. Retain. Succeed.

Executive Bonus Plans funded with whole life insurance



**Your success depends upon the efforts of your best people. That is why it is important to hire and retain talented, hard-working individuals who can help your business prosper and grow.**

**Offering a competitive compensation and benefit program is essential to attracting these professionals and keeping them for the future success of the business.**

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The decision to purchase life insurance should be based on long-term financial goals and the need for a death benefit. Life insurance is not an appropriate vehicle for short term savings or short-term investment strategies. While the policy allows for loans, you should know that there may be little to no cash value available for loans in the policy's early years.

The information provided is not written or intended as specific tax or legal advice. Individuals are encouraged to seek advice from their own tax or legal counsel.

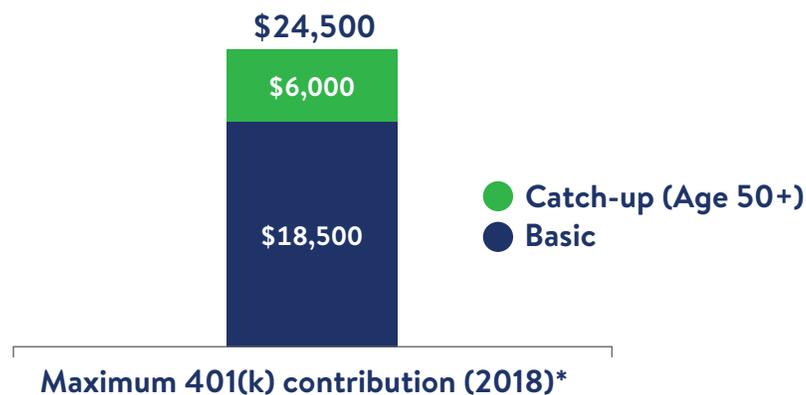
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# Addressing the Needs of Businesses and Their Executives

Retirement savings programs are one of the most valuable benefits a company can provide. However, few small- to mid-sized businesses offer retirement savings programs specifically for executives.

Higher-earning employees may find limitations in the amount they are allowed to defer to a defined contribution plan, such as a 401(k). In addition, Social Security replaces a lower percentage of your pre-retirement income as you earn more. The charts below illustrate the maximum contribution limits to a 401(k) plan in 2018 and projected Social Security benefits at various levels of income.

## RETIREMENT PLAN CONTRIBUTION LIMITS



\*Source: IRS Notice 2017-64

## PROJECTED SOCIAL SECURITY RETIREMENT BENEFITS BASED ON PRE-RETIREMENT INCOME LEVEL



Estimated Social Security retirement income benefit calculated on 2/1/2018 using the Social Security Quick Calculator at [www.ssa.gov](http://www.ssa.gov). Percentages are based on projected benefits for an individual currently age 45 retiring at age 67.



There is an easy and effective way to provide executives with the benefits they want. It is called an Executive Bonus Plan. An Executive Bonus Plan is a fringe benefit, funded with life insurance, offered to a select group of key employees and/or business owners. In addition to providing protection for the executive's family during their working years, an Executive Bonus Plan can provide tax-advantaged supplemental retirement income.<sup>1</sup>

Executive Bonus Plans are relatively simple to set up and administer, and can accommodate almost any budget. They give small- to mid-sized companies the ability to attract and retain the best people by providing the additional benefits they want.

<sup>1</sup> Distributions under the policy (including cash dividends and partial/full surrenders) are not subject to taxation up to the amount paid into the policy (cost basis). If the policy is a Modified Endowment Contract, policy loans and/or distributions are taxable to the extent of gain and are subject to a 10% tax penalty if the policyowner is under age 59½.

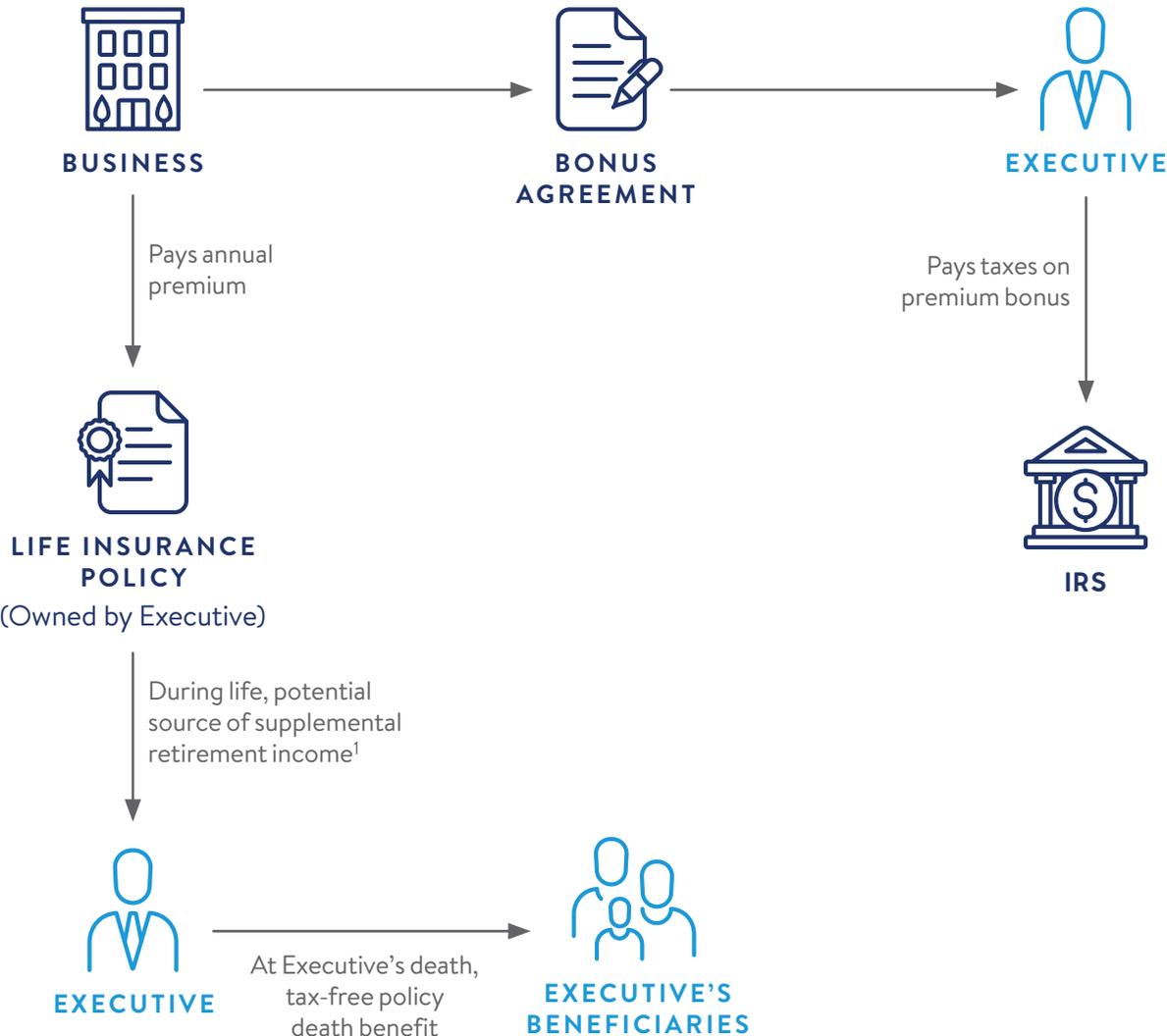
Access to cash values through borrowing or partial surrenders will reduce the policy's cash value and death benefit, increase the chance the policy will lapse, and may result in a tax liability if the policy terminates before the death of the insured.

# How the Plan Works

Under an Executive Bonus Plan, the business enters into an agreement with an executive to pay all or part of the premiums for a life insurance policy owned by the executive. This is considered a bonus. The policy provides permanent life insurance protection for the executive and will build cash value over time.

The business selectively chooses which executives will receive this valuable benefit. The bonus amount is tax deductible to the business and is taxed as ordinary income to the executive. Plans may be designed to reduce or eliminate the after-tax expense to the executive. The following diagram illustrates how the plan works.

## EXECUTIVE BONUS PLAN



# Benefits of an Executive Bonus Plan

## Benefits to the Business

- An Executive Bonus Plan can be an effective recruiting and retention tool that provides benefits over and above a standard compensation package.
- The company may offer the benefit on a selective basis and can vary the insurance coverage and premium bonus by employee.
- There are minimal implementation and administrative expenses. A basic plan does not require IRS approval, and there are no required ERISA filings.
- The bonus payments provide an immediate income tax deduction, subject to reasonable compensation limits.
- The plans are flexible and have the potential to include incentives for executives to achieve specific tenure or performance requirements.

## Benefits to the Executive

- The executive owns the life insurance policy and designates the beneficiaries.
- The life insurance death benefit will generally be paid income tax free to the executive's beneficiaries.
- The policy's cash value accrues tax deferred and may be accessed during retirement on a tax-advantaged basis to supplement the executive's retirement income.<sup>1</sup>
- Since the executive owns the policy, the benefits are not subject to claims of the business's creditors.

# Why Whole Life

## Why Whole Life

Participating whole life insurance offers a combination of features and benefits that may make it ideal as a funding vehicle for an executive bonus plan:

**Permanent Life Insurance:** The policy provides lifetime coverage with guaranteed level premiums and premium payment periods.

**Cash Value Accumulation:** The policy builds cash value over time which is guaranteed to increase each year and will never decline in value due to market conditions.

**Policy Dividends:** Policyowners are eligible to receive dividends, which are not guaranteed. The executive may receive dividends in cash or use them to increase his or her life insurance protection and cash value.

**Income Tax Advantages:** Whole life insurance offers valuable income tax advantages that include:

- A death benefit that is generally received income tax free.
- Tax-deferred cash value accumulation.
- Tax-advantaged access to cash values.<sup>1</sup>

