Executive Bonus Plans for Business Owners

Attract and Retain Top Talent with Life Insurance Benefits

An executive bonus plan is a powerful strategy to help your business compete for top talent. By providing company-paid life insurance as a bonus to key executives, you create a valuable benefit that protects their families while giving your company tax advantages and flexibility.

Attract Talent

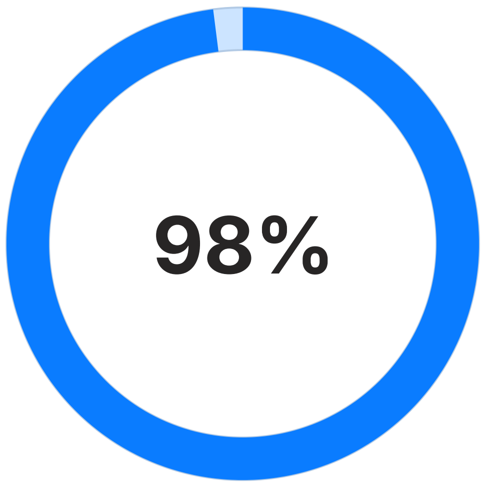
Retain Executives

Tax Benefits

Flexible Design

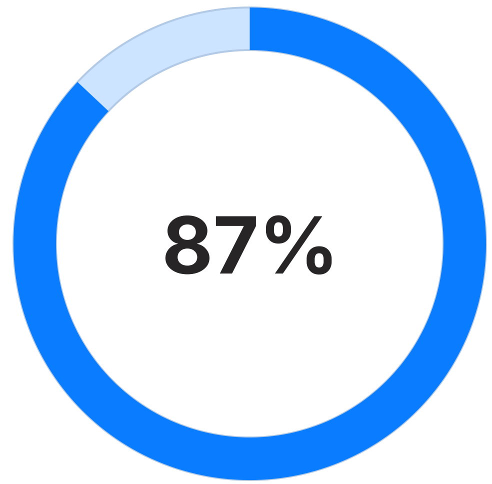
Why Executive Benefits Matter Now

In today's competitive landscape, attracting and retaining top-tier executive talent is paramount for sustained business growth and success. Strategic executive benefits plans are no longer just perks, but critical tools for securing leadership and driving performance.



Talent Retention

Of business leaders say retaining top talent is crucial for their organization's future.



Key Executive Value

Of companies state they cannot afford to lose their key executives due to competitive pressures.

Beyond retention, executive compensation trends are evolving to align with long-term strategic objectives:

- Companies are increasingly tying performance-based compensation to long-term goals, fostering commitment and ownership.
- Environmental, Social, and Governance (ESG) metrics are being incorporated into executive compensation plans, reflecting a growing focus on sustainable and responsible business practices.

What is an Executive Bonus Plan?

An executive bonus plan (also called a Section 162 plan) is a company-paid life insurance policy for key employees. The employer pays premiums as a taxable bonus to the executive, who owns the policy and names the beneficiaries. This simple arrangement provides life insurance protection for executives while offering tax deductions for the company.

Employer Pays Premiums

Company pays life insurance premiums as a bonus to the executive

Executive Owns Policy

Executive has full ownership rights and names beneficiaries

Tax-Deductible Benefit

Employer deducts bonus as compensation; executive reports as income

How an Executive Bonus Plan Works

The executive bonus plan is straightforward to implement and administer.

Employer Notifies Executive

Company informs the executive of its intention to provide a life insurance policy as a bonus.

Premiums Paid as Bonus

Employer pays premiums directly to insurance company or as cash bonus to executive, reported as taxable compensation.

Executive Owns Benefits

Executive owns the policy, accesses cash value for retirement income, and beneficiaries receive death benefit tax-free.

Executive Bonus Plan vs. Traditional Retirement Plans

Understanding the distinctions between executive bonus plans and traditional retirement plans is crucial for strategic talent management.

Flexibility	Employer selects specific key executives to participate.	Must include all eligible employees, limited selection.
Administration	Simple setup, no complex ERISA compliance requirements.	Subject to strict ERISA regulations and extensive reporting.
Tax Treatment	Premiums deductible by employer, taxable income for executive.	Employer contributions tax-deductible, subject to contribution limits.
Vesting Control	Customizable vesting schedules using a Restricted Executive Bonus Arrangement (REBA).	Standardized vesting schedules, less adaptable.
Cost	Targeted investment in specific high-value individuals.	Broad-based expense, impacting all eligible employees.

Executive bonus plans offer a specialized approach to reward and retain top talent with greater control and flexibility compared to broad-based traditional plans.

Benefits for Business Owners

Executive bonus plans offer significant advantages for employers looking to attract and retain key talent without the complexity of traditional retirement plans.

Flexibility

Choose who participates and customize benefits.

Simplicity

Easy to administer with no ERISA requirements.

Tax Deductible

Premiums are deductible as employee compensation.

Golden Handcuff Option

Add vesting schedules with a REBA to encourage retention.

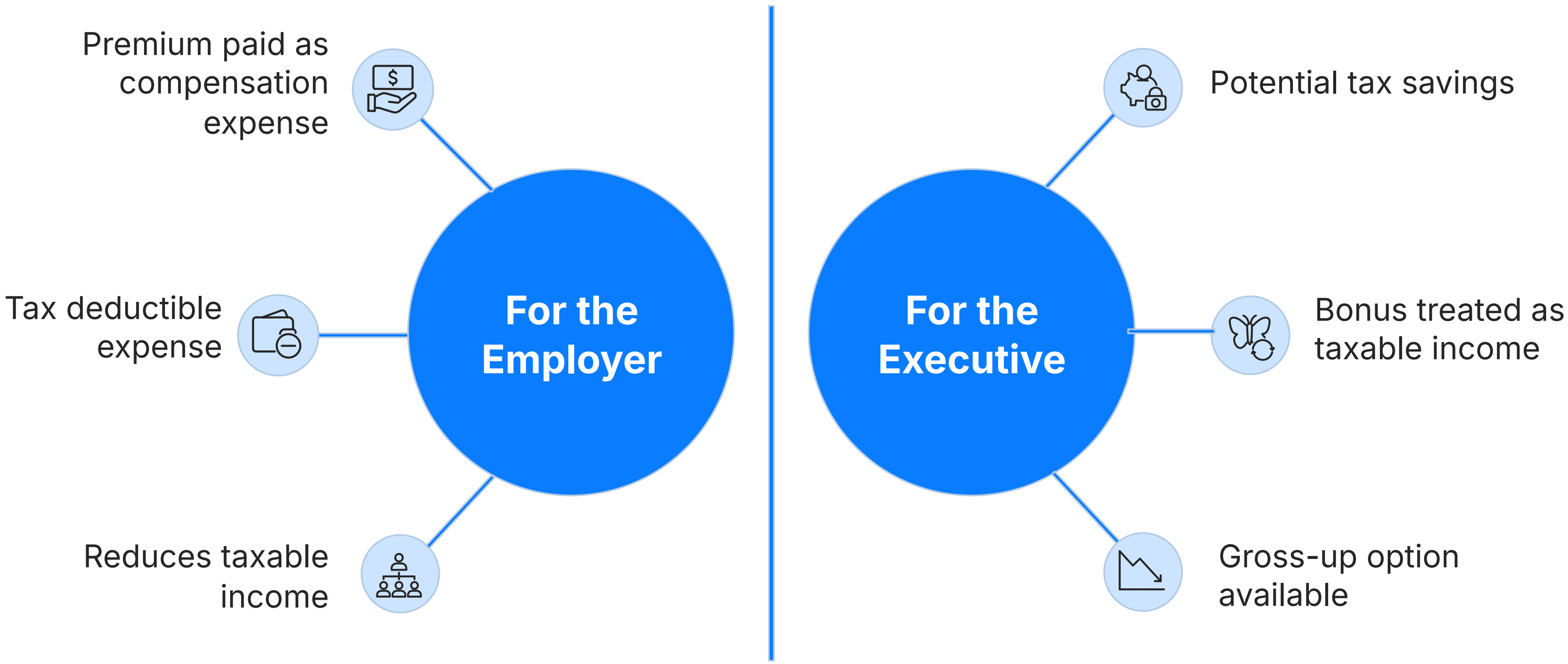
Benefits for Executives

Executives receive valuable benefits that go beyond traditional compensation, providing both protection and financial flexibility.

- **Life Insurance Protection** - Death benefit for beneficiaries, generally income tax-free
- **Tax-Deferred Growth** - Policy cash value accumulates tax-deferred
- **Supplemental Retirement Income** - Access policy value through tax-advantaged loans and withdrawals
- **Policy Ownership** - Executive owns the policy even if they leave the company
- **No RMD Requirements** - No required minimum distributions like qualified retirement plans

Tax Advantages Explained

Executive bonus plans offer distinct tax benefits for both the business owner and the executive, making them a mutually advantageous financial strategy.



This structure ensures that businesses can strategically deduct costs while providing valuable, tax-efficient benefits to their key talent.

Restrictive Executive Bonus Arrangements (REBAs)

Creating a 'Golden Handcuff' for Key Talent

Business owners seeking more control and stronger retention incentives can implement a Restrictive Executive Bonus Arrangement (REBA), which adds features to the basic executive bonus plan.

Restrictive Endorsement

Limits executive's access to policy values, surrenders, and ownership changes during vesting period

Vesting Schedule

Requires repayment of bonuses if executive leaves before schedule completes

A REBA provides powerful incentives for executives to remain with your company while still offering valuable life insurance protection.

Implementation Timeline

Implementing an executive bonus plan involves several key stages, typically completed within an 8-week timeframe, followed by ongoing management.

1 Week 1-2

Initial Assessment: Identify key executives and determine appropriate benefit levels based on company objectives and individual value.

2 Week 2-3

Advisory & Design: Consult with legal and tax advisors to design a compliant and effective plan structure.

3 Week 3-4

Documentation & Quotes: Draft necessary agreements and obtain competitive life insurance policy quotes tailored to the plan design.

4 Week 4-6

Executive Presentation: Present the proposed plan to participating executives and facilitate the underwriting process for policies.

5 Week 6-8

Finalization: Execute all legal agreements and ensure the successful issuance of life insurance policies.

6 Ongoing

Review & Adjustment: Conduct annual reviews to ensure the plan continues to meet company and executive needs, making adjustments as necessary.

This structured approach ensures a smooth and efficient implementation process, maximizing the benefits for both the company and its executives.

Key Considerations

Important factors to understand before implementing

Key considerations:

- **Taxable Bonus** - Premiums are taxable income to the executive (employer can 'gross up' to cover taxes)
- **Ongoing Premiums** - If executive leaves, they must continue premium payments or policy may lapse
- **REBA Restrictions** - During REBA period, executive has limited access to policy values
- **No Cost Recovery** - Employer doesn't receive death benefit reimbursement for bonus costs

Standard Executive Bonus

Full executive ownership and access from day one

REBA Strategy

Restricted access with vesting schedule for stronger retention

Real-World Applications

Executive bonus plans are versatile tools for various business objectives, from attracting top talent to retaining seasoned leaders. Here are some scenarios where they prove most effective:

Attracting Top Talent

A burgeoning tech startup entices a seasoned CFO from a larger company, using an executive bonus plan as a powerful incentive to join and grow with the venture.

Securing Succession

A family-owned business ensures long-term commitment and smooth leadership transition to the next generation through executive bonus plans, safeguarding its future.

Retaining Key Producers

A professional services firm offers bonus plans to retain "rainmaker" partners who bring in significant business, preventing them from being lured away by rivals.

Preventing Early Retirement

A manufacturing company incentivizes a critical operations executive, nearing retirement, to stay longer, ensuring continued efficiency and valuable knowledge transfer.

Common Questions About Executive Bonus Plans

Understanding the nuances of Executive Bonus Plans can help clarify their value and how they fit into your overall compensation strategy.

1

How much does an executive bonus plan cost?

The cost varies based on the executive's age, health, the chosen life insurance policy, and the desired death benefit. The company funds the premiums, which are generally tax-deductible as compensation. The exact cost is determined during the plan design phase.

2

Can we change participants over time?

Yes, a significant advantage of executive bonus plans is their flexibility. Unlike qualified retirement plans, you can add or remove participants, or adjust benefits, as your business needs and executive roster evolve, without extensive administrative hurdles.

3

What happens if an executive leaves the company?

Since the executive typically owns the policy, they can choose to continue paying premiums themselves and retain all policy benefits. If a Restrictive Executive Bonus Arrangement (REBA) is in place, the executive may be required to repay a portion of past bonuses if they leave before the vesting schedule is complete.

4

How does this compare to a deferred compensation plan?

Unlike deferred compensation plans, which are non-qualified and rely on the company's promise to pay later, executive bonus plans involve an immediate bonus that funds a personally-owned life insurance policy. This provides instant ownership for the executive and leverages the tax advantages of life insurance, like tax-deferred growth and tax-free access to cash value.

5

What types of life insurance work best?

Permanent life insurance policies, such as Whole Life or Universal Life, are typically used. These policies offer a death benefit, guaranteed cash value growth (in whole life) or market-sensitive growth (in universal life), and the ability to access funds for supplemental retirement income, making them ideal for the plan's objectives.

6

Is this only for large companies?

Absolutely not. Executive bonus plans are highly flexible and can be implemented by businesses of all sizes, from small family-owned operations to large corporations. They are particularly effective for companies looking to reward and retain key employees without the complexities of broad-based retirement plans.

Is an Executive Bonus Plan Right for Your Business?

Let's Explore Your Options

An executive bonus plan may be ideal for your business if you want to attract and retain top talent, have key executives who need life insurance protection, and want flexibility to customize who participates without the complexity of traditional retirement plans.

Flexible Design

Customize benefits and choose which executives participate

Simple Administration

Easy to implement with no ERISA requirements or administrative burden

Expert Guidance

We'll help you design the right plan for your business and key employees

Ready to create a competitive advantage in attracting and retaining your most valuable employees? Let's discuss how an executive bonus plan can work for your business.

Important Disclosures

1. Life insurance products are issued by licensed insurance companies. Guarantees are subject to the claims-paying ability of the issuing insurance company.
2. This presentation does not constitute tax or legal advice. Consult with your attorney or tax advisor for guidance specific to your situation.
3. Policy loans and withdrawals reduce death benefit and cash value and may cause the policy to lapse. Distributions may be taxable.
4. The deductibility of executive bonuses is subject to reasonable compensation limits under Internal Revenue Code Section 162(a).
5. A Restrictive Executive Bonus Arrangement (REBA) should be drafted by legal counsel and executed by both employer and executive.
6. This material is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of any financial instrument or insurance product.

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