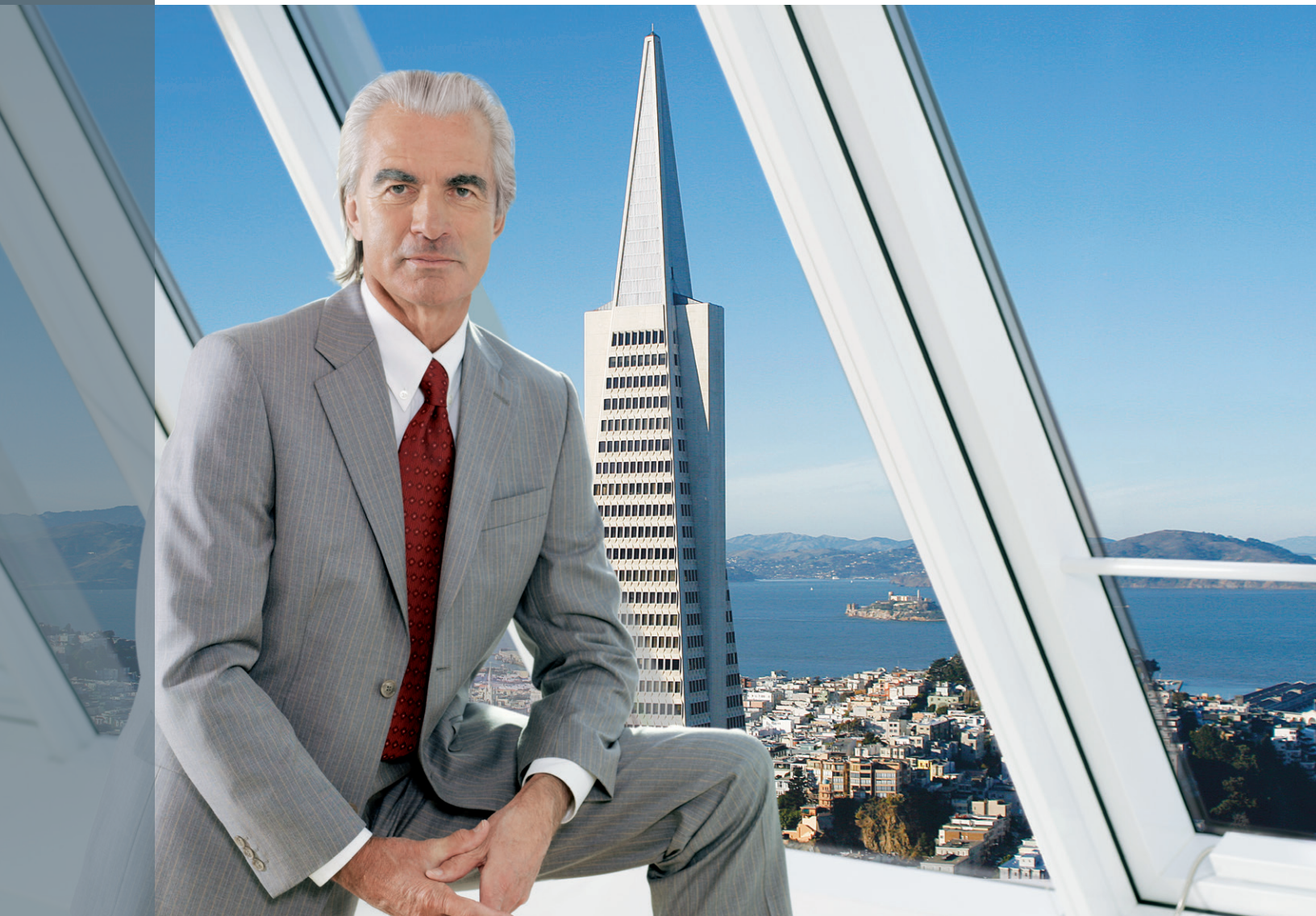




# EXECUTIVE BONUS PLAN

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**Program Highlights & Fact Finder**



# A Rewarding Way to Retain Key Executives

Executive Bonus Plans can be an effective way to reward selected employees or owners while providing tax deductions for employers. Using an Executive Bonus Plan, companies can provide their key executives or owners growing cash values in the form of company-paid cash-value accumulation insurance policies.

Implementing this strategy is simple, since the plan is easy to administer and exempt from annual reporting and ERISA requirements.

## **The Benefits of an Executive Bonus Plan**

### **The employer...**

- Distinguishes its compensation package
- Provides selected employees with attractive pre- and post-retirement benefits
- Generally receives income tax deduction for executive bonus payments
- Maintains a plan that is easy to administer and to explain to employees

### **The executive...**

- Enjoys tax-deferred growth of life insurance policy cash value
- Provides income tax-free death benefit protection for named beneficiaries
- Owns the policy and has access to an additional source of income to help meet financial goals\*
- Can save more for retirement, since the plan is not subject to limitations set forth by statute on qualified plans.

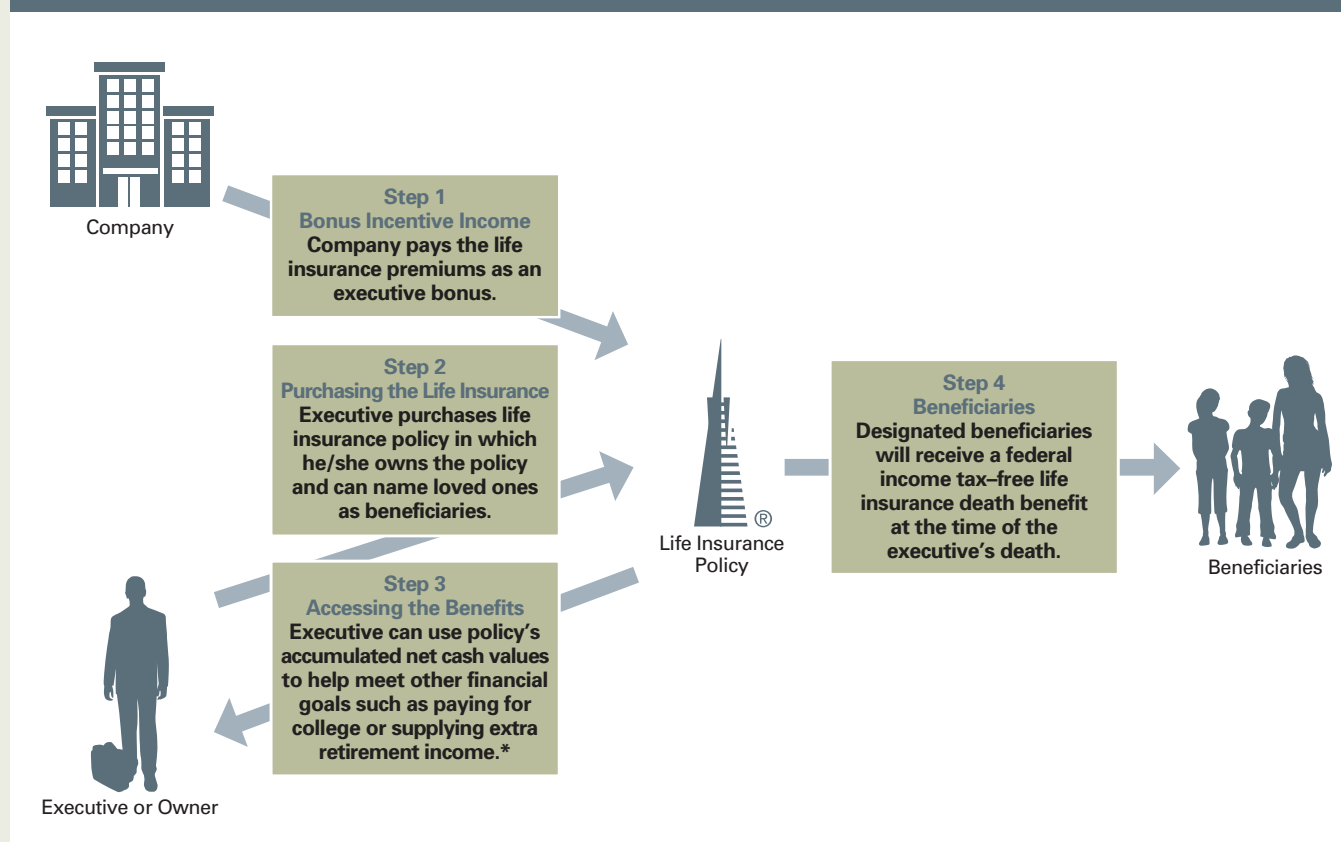
Most business owners want to take advantage of this Executive Bonus Plan for themselves. To be most effective for owners, the business should be an entity taxed as a C Corporation where the corporation is in a higher tax bracket than the owner.

This strategy may have less advantageous tax effects for sole proprietorships, or other forms of business such as partnerships and S Corps. The form of entity involves various tax and legal considerations. Those considerations must be weighed in addition to the ability to obtain tax benefits from the Executive Bonus Plan.

### **Executive Bonus Plans using life insurance are ideally suited for:**

- Small to midsize companies
- Companies that want to recruit and retain key employees
- Companies that don't offer qualified retirement plans
- Companies that want to offer benefits in excess of those offered by their qualified retirement plans
- Companies that want to provide these benefits exclusively to owners

## Here's How It Works



An Executive Bonus Plan is an essential part of a comprehensive executive compensation package. Employers can recruit and retain key associates by offering a truly valuable financial perk—death benefit protection and the tax-advantaged cash value of life insurance.

### Step 1. Bonus Incentive Income

- The life insurance policy premiums are paid by the employer as a taxable bonus to the executive.
- For the company, the bonus paid under the executive bonus plan is generally income tax-deductible as reasonable compensation pursuant to Internal Revenue Code section 162.

### Step 2. Purchasing Life Insurance

- After considering risk tolerance, time horizon, and financial goals, the executive purchases an appropriate life insurance policy.
- The executive is the policy owner and can name his or her spouse or family as beneficiaries.

### Step 3. Accessing the Benefits

- The executive can use the policy's accumulated net cash values to help meet other financial goals, such as paying for college or supplementing retirement benefits.\*

### Step 4. Beneficiaries

- In the event of the executive's death, named beneficiaries will receive an income tax-free life insurance death benefit.

\*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 may have adverse tax consequences, so please consult your tax advisor.

If the policy is considered a Modified Endowment Contract (MEC), distributions are treated first as taxable distributions of earnings in the policy. Withdrawals, loans, and assignments are considered distributions. Taxable distributions from a MEC prior to age 59½ may also be subject to a 10% federal income tax penalty.

## DOUBLE BONUS

A “double bonus” occurs when the employer pays the premiums on the executive’s insurance policy via a bonus, and then increases the bonus to include the estimated income tax impact that will be owed on the entire bonus. The “double bonus” essentially covers both the cost of the permanent life insurance policy and the income taxes due on the bonus. A “double bonus” is a widely used and accepted practice for lessening the tax impact to executives who are chosen to participate in an Executive Bonus Plan. Employers may choose not to offer a “double bonus” (known as a “single bonus”) or to limit the total bonus to an amount that only covers a portion of the taxes. To determine the amount that needs to be paid as a double bonus, divide the amount of the premium by 1 minus the top marginal tax rate. The tax rate should include the federal income tax as well as any applicable FICA, state, and local taxes. For example, if the premium is \$10,000 and the tax rate is 40%, the calculation would be \$15,000 divided by .60 (1-.40). This produces a double bonus amount of \$25,000.

### Implementation of Plan

Implementing an Executive Bonus Plan is not a complex matter. A simple document is required, which details the benefits, participation requirements, restrictions and general provisions. In addition, applications and associated paperwork to obtain the insurance policies will also be required. Administration is minimal.

### In Summary

An Executive Bonus Plan can be an effective yet simple tool, which successful business owners can use to recruit, reward and retain exceptional executives. By implementing a strategic solution that provides incentive rewards to those executives who stay with the business; business owners can reduce the likelihood that a key executive will leave, potentially impacting the business negatively.

# Executive Bonus Plan Fact Finder

By completing this fact finder, we can develop a customized Executive Bonus Plan proposal showing an executive incentive bonus strategy.

## Employee

Name \_\_\_\_\_

Annual Compensation \$ \_\_\_\_\_ Federal Tax Bracket \_\_\_\_\_ State Tax Bracket \_\_\_\_\_

Company Ownership (if any) \_\_\_\_\_ %

## Employer

Name \_\_\_\_\_

Address \_\_\_\_\_

Entity Type: ☐ C Corporation ☐ S Corporation ☐ Partnership ☐ LLC

Federal Tax Bracket \_\_\_\_\_ State Tax Bracket \_\_\_\_\_

Total Number of Employees \_\_\_\_\_

## Illustration

Product to Illustrate \_\_\_\_\_

Policy Assumptions: Current \_\_\_\_\_ Guaranteed \_\_\_\_\_

Insured's DOB \_\_\_\_\_ State of Policy Issue \_\_\_\_\_

Gender: ☐ Male ☐ Female

☐ Smoker ☐ Nonsmoker

Assumed Risk Classification: ☐ Select ☐ Preferred ☐ Standard

Desired: Death benefit \$ \_\_\_\_\_ or minimum so as not to create a MEC \_\_\_\_\_

Death benefit option: ☐ Level ☐ Increasing with cash value ☐ Increasing switching to level

Plus-premium \_\_\_\_\_

Annual insurance premium \$ \_\_\_\_\_

Years to pay premium \_\_\_\_\_ or to age \_\_\_\_\_

Maximize income from policy at insured's age \_\_\_\_\_ for \_\_\_\_\_ number of years

If premium is not known, indicate desired cash flow \_\_\_\_\_

Policy cash value at age 100 equal to:

Endowment at initial face \_\_\_\_\_ or keep in force until age 100 \_\_\_\_\_ or cash value equal to \$ \_\_\_\_\_

## Executive Bonus Plan Fact Finder (page 2)

### Plan Design

Bonus Amount:      Single \_\_\_\_\_ Double \_\_\_\_\_ Specified \$ \_\_\_\_\_

Pay Bonus Until:      Retirement \_\_\_\_\_ Specified \$ \_\_\_\_\_

### Producer Information

Producer Name \_\_\_\_\_

Broker/Dealer Affiliation (required for variable life proposal) \_\_\_\_\_

Phone No. \_\_\_\_\_

E-mail Address \_\_\_\_\_

Date \_\_\_\_\_





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