LINQS+

A product of Compensation Advisors

A LIFETIME Benefit for an Executive at a Reduced Cost for the Bank.

Similar to the bank purchasing a corporate bond, the bank purchases an insurance company guarantee to make the lifetime benefit payments. The Insurance Company takes the longevity, investment and interest rate risk. The Bank carries the asset as an investment on the balance sheet and earns interest at the current rates as periodically adjusted for market trends. The cost of the guarantee is amortized over the remaining working years and the early years of the officer's retirement.

Example: An executive is to receive $100K for 15 years under a traditional SERP; the cost of the plan is $1,500,000 (100K x 15). If LINQS+ is used, the carrier may require an investment of $800K for a lifetime benefit stream of the same $100K annually. The financial impact is a positive savings of $700K for the bank, and the executive receives an enhanced *LIFETIME* benefit, which would equal $2,100,000 based on expected mortality.

How is this different from BOLI?

LINQS+ is NOT Bank Owned Life Insurance (BOLI), however, if structured properly, LINQS+ and BOLI are a complement to each other. BOLI policies provide earnings to offset the cost of the benefit plans and protect against premature death through the insurance aspect of the policy. LINQS+ protects executives, and banks, from longevity risk. As described above, LINQS+ actually reduces the cost of the benefits as the design specifically addresses the liability expense.

If the bank owns the annuity, then who receives the payments?

The bank owns the annuity and retains full rights to it. Under the LINQS+ structure, the bank is effectively the conduit between the executive and the insurance company. The bank receives the benefits from the annuity and in turn, distributes those payments to the executive.

What happens in the event of death?

Any remaining value in the asset is returned to the bank.

Continues...

Daniel Barbaree | President | 267.291.2130 | dbarbaree@bfsmcgroup.com
bfsmcgroup.com | compensationadvisors.com

BFS-MC GROUP

What is the history of LINQS+?

LINQS+ was initially designed to address executive compensation expense pressures during the Great Recession. Ancillary to this was the concern many executives had over outliving their retirement income. After spending two years in the development stages, LINQS+ was launched in 2011 and continues to be implemented from coast to coast.

What is the regulator's response?

LINQS+ is a non-qualified deferred compensation arrangement, which the bank has the authority to implement as long as it is "reasonable." However, some banks prior to purchase have requested approval from their primary regulators with "non-objections" provided in response (not to be construed as approval).
How can a LIFETIME benefit cost LESS than a 10 – 15 year benefit?
Accounting guidance (ASC 710 and ASC 715) requires the bank to expense the cost of the benefit payments ($100k for 15 years) OR the cost of an annuity to provide those payments.

What are the key benefits of LINQS+?

There are number of key benefits to LINQS+ to include: reduced benefit plan expense, increased retention due to lifetime payouts, the benefit plan expense is fixed at implementation (no additional expenses will be required), benefit payments are not contingent upon investment performance, LINQS+ works in concert with other informal funding arrangements, such as BOLI, the benefit payments have a dollar for dollar liquidity match, there is no medical underwriting required, joint payout options are available and off-balance sheet structures can be designed with ease.

How long does LINQS+ implementation take?

Although there are number of steps, the process itself is very simple. Once LINQS+ is approved by the board, to include the design structure, the implementation can be completed in roughly 30 days.

Continues

Daniel Barbaree | President | 267.291.2130 | dbarbaree@bfsmcgroup.com
bfsmcgroup.com | compensationadvisors.com

How does the initial implementation affect the bank's financial statements?

The bank purchases the guarantee for a single lump sum and books the guarantee as an asset:

Debit: Cash Value Asset *Credit: Cash*

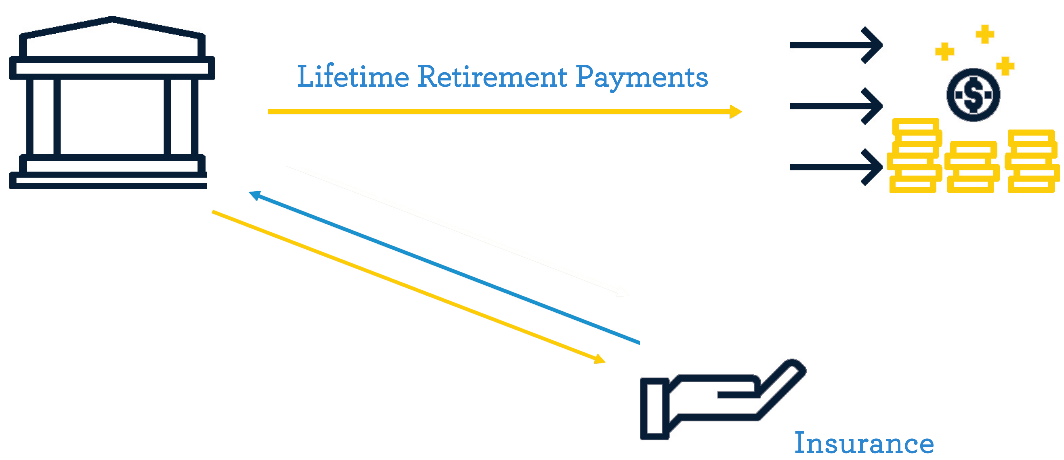
How does payment of the BENEFIT affect the bank's financial statements?

The bank receives the benefit payment from the insurance carrier when the bank instructs the carrier to begin payments:

Debit: Cash *Credit: Cash Value Asset*

The bank then pays the benefit amount to the executive. The executive pays income tax on the benefit amount, the bank does not.

Debit: Employee Benefit Liability *Credit: Cash*



Daniel Barbaree | President | 267.291.2130 | dbarbaree@bfsmcgroup.com
bfsmcgroup.com | compensationadvisors.com