EXECUTIVE BONUS PLAN

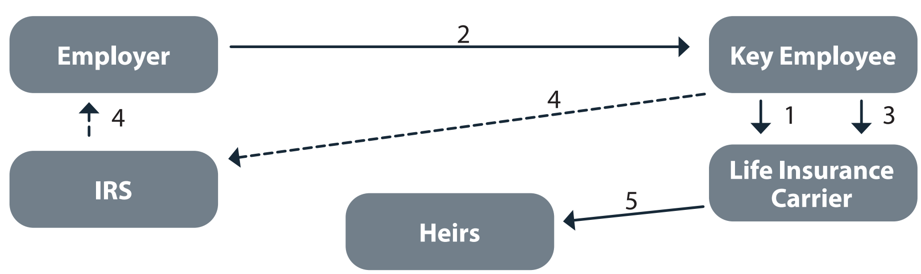
In today's increasingly competitive business environment, finding a cost-effective way to reward key employees can be challenging. Qualified plans have preferential tax treatment, but they also have strict administration requirements. They must include all employees and reward them to the same degree, regardless of the benefit those employees bring to the business. Nonqualified salary deferral plans and supplemental executive retirement plans (SERPs) allow a business owner to reward key employees in a discriminatory fashion, but they still require plan documents and ongoing administration — and must meet the requirements of Section 409A of the tax code. An executive bonus plan (EBP), on the other hand, may be a more attractive option for rewarding a business's most productive employees in a way that's flexible, cost effective and simple to administer.

AN EBP can provide significant death benefits and tax-advantaged cash value accumulation for key employees, allowing them to meet personal financial goals.

WHAT IS AN EBP?

An EBP is a nonqualified benefits program to recruit, reward and retain key talent. The employer pays all or part of the premium on a life insurance policy for a key employee under a "bonus" arrangement. The key employee is the insured and the owner of the policy. The plan offers the key employee immediate death benefit protection, tax-deferred growth of policy values and a potential source of tax-free retirement income in the future.

HOW DOES IT WORK?



1. Key employee applies for a life insurance policy on their life.
2. Employer bonuses an amount equal to the premium to the key employee.
3. Key employee pays the premium to the life insurance carrier.
4. Key employee recognizes income equal to premiums paid, and the employer gets a compensation deduction for the same amount under IRC §162.
5. At the employee's death, the life insurance death benefit proceeds may be paid to the employee's heirs income tax-free.*

BENEFITS TO KEY EMPLOYEE

- Employee owns a "portable" life insurance policy.
- Employer can "double bonus" employee to offset any tax liability.
- Pre-retirement, the employee enjoys cost-effective death benefit protection for their heirs.
- Policy cash value grows on a tax-deferred basis and can be accessed to supplement retirement or other income needs.

BENEFITS TO EMPLOYER

- The program provides a program to recruit, reward and retain key talent.
- The employer has the freedom to select participants.
- Bonuses are tax-deductible, as long as the employee's total compensation package is "reasonable."
- There's no impact on existing plans.
- IRS approval isn't required; this program avoids most of the cost and administrative requirements associated with establishing a qualified plan under ERISA.
- EBPs can be less expensive to set up and administer than nonqualified deferred compensation plans.
- The program provides an attractive employee benefits program for a pass-through business entity, where employee deferrals would be taxable to the business owners — or for a not-for-profit company, where deferral plans are limited under I.R.C. § 457.

CONSIDERATION FOR THE EMPLOYEE

- Unless additional planning is done, the death benefit of the life insurance policy will be included in the key employee's estate.

CONSIDERATION FOR THE EMPLOYER

- The employer bonuses should be discretionary. Any understanding to pay bonuses, either contractual or implied, could subject the arrangement to IRC § 409A, as a deferred compensation plan.

THE BOTTOM LINE

An EBP is an attractive option for rewarding a business's most productive employees in a way that's flexible, cost effective and simple to administer. An EBP can provide significant death benefits and tax-advantaged cash value accumulation for key employees, allowing them to meet their personal financial goals.