Section 162

Executive Bonus Plan

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SECTION 162 EXECUTIVE BONUS PLAN

Key employee retention and reward programs are an essential part of successful businesses. Finding the right program for the employer and employee, however, requires careful planning and knowledge of the options available.

Qualified plans allow for preferential tax treatment for both the employer and employee, but there is no degree of selectivity, meaning the employer must offer the plan to all employees. Qualified plans also bring with them cost and administrative requirements.

Non-Qualified plans allow an employer to reach the same goal of rewarding key employees without the strict administrative requirements and opt for participant selectivity.

An **Executive Bonus Plan** is one type of non-qualified plan that can alleviate the administrative burden on the employer, and provide an incentive to the key employee or executive.

Characteristics	Qualified Plan	Non-Qualified Plan
Selectivity?	No, plan may not discriminate.	Yes, plan may discriminate.
Compensation Limit?	Yes	No
Benefit Limits?	Yes	No
Early Withdrawal Penalty?	Yes, if not a qualified distribution.	No, unless the plan violates AJCA (Section 409A)
Taxes on Distributions?	Yes	No, unless the plan violates AJCA (Section 409A)
Vesting Requirements?	Yes	No
Participation Requirements?	Yes	No
ERISA Requirements?	Yes	Exempt from most ERISA requirements.

Benefits to Company
Simple to Install
Selective Participation
Tax Deduction for Bonus
ERISA Avoidance

Benefits to Executive
Immediate Vesting
Tax-Free Retirement Income
Tax-Free Death Benefit
Control of Policy

An Executive Bonus Plan is an arrangement between the company and the executive, in which the company bonuses the annual premium for a cash accumulating life insurance policy.

The executive will be the owner of the policy, having the right to determine his or her beneficiaries. The executive will own any cash value and have a right to access the policy's cash value (in the form of tax-favorable policy loans) subject to any vesting requirements or restrictions determined by the company.

The information provided here is for informational purposes only. Consult your tax or legal advisor in any and all considerations.

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The executive bonus plan works as follows:

1) The company provides the key executive with a bonus that is taxable as income to the executive. The bonus is generally a deductible business expense for the company.

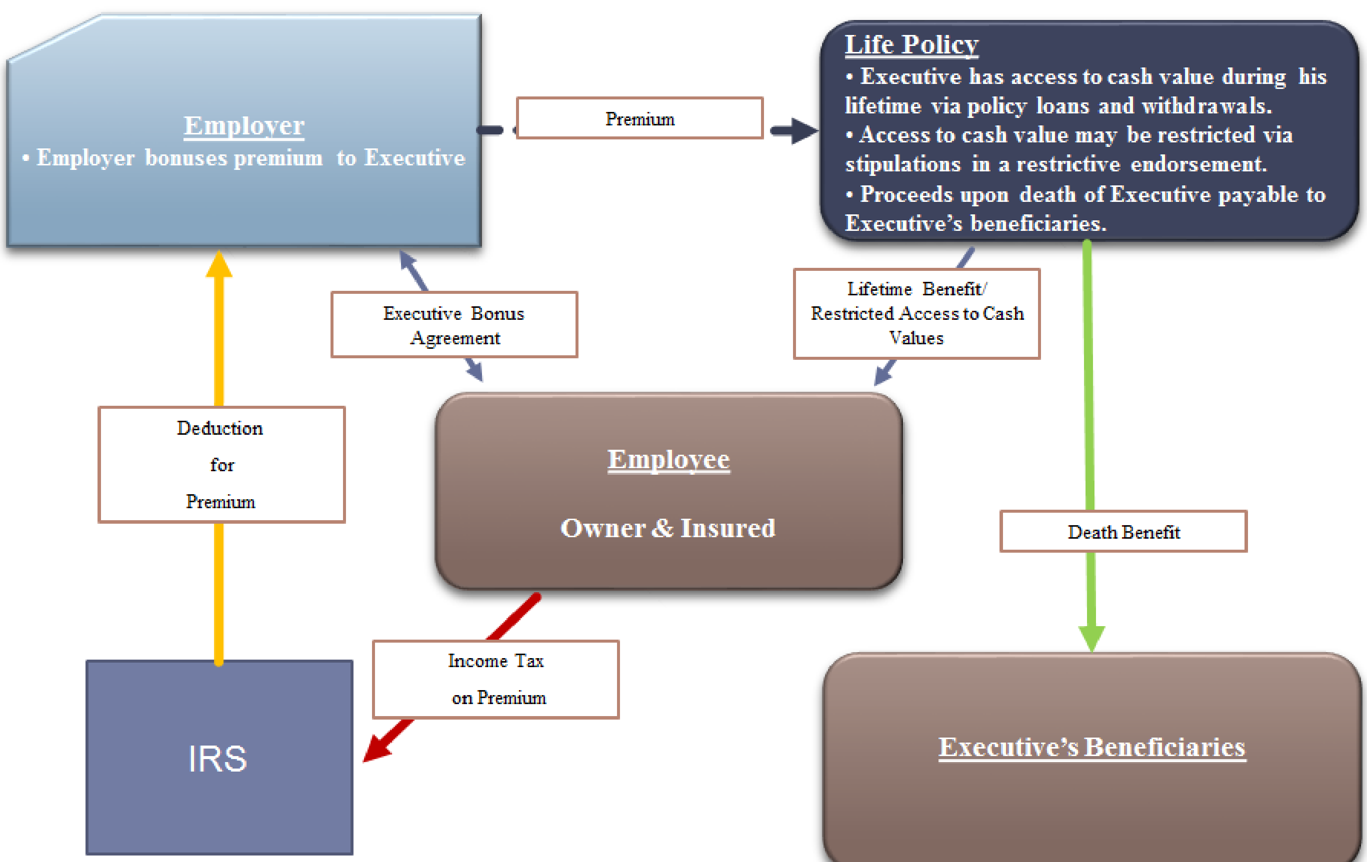
2) The key executive chooses a cash accumulating life policy (e.g. whole life, indexed universal life, variable).

3) The life insurance policy, if properly structured, may provide an attractive benefit to the executive in the form of cash value growth. Any cash value accumulation will grow tax deferred and may be accessed by the employee income tax-free through withdrawals and policy loans. The policy's cash value can be used to supplement retirement income, college funding or any other financial need.

4) If the key executive dies, his or her named beneficiaries will receive the death benefit tax free.

<u>Variations</u>

One downside for the employer is the lack of control over the plan. Using a restrictive endorsement, the company and key executive can enter into an agreement which may include a vesting schedule on the policy's cash value. As a form of "Golden Handcuffs", the company can limit the access to the policy's cash value until terms of the agreement are fulfilled, granting the company some control and incentivizing the key executive to fulfill his or her obligations to the company.



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DISCLOSURE

Distributions from a life insurance policy through withdrawals of certain policy values (up to cost basis) and loans are generally not taxed as income provided certain premium limits are followed which prevent a policy from becoming a modified endowment contract (MEC). Distributions taken during the first fifteen years may be subject to tax. Loans and withdrawals will generally reduce the cash value available and death benefit payable. If policy loans are taken, there may be income tax consequences if one permits the policy to lapse or if the policy is surrendered or exchanged. If the policy has not performed as expected and to avoid a policy lapse, distributions may need to be reduced, stopped and/or premium payments may need to be resumed.

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