

Life



Business solutions

from North American Company for Life and Health Insurance®

Executive bonus plan

Reward and retain your talented employees





For the **life**
of your business

Executive bonus

Attracting, retaining and rewarding employees can be challenging. Certain employees are essential to the life of a business and keeping them committed is essential. With executive, owner, or key team member departures, your business could be affected by:

- poor employee morale
- loss of key accounts
- diminished earnings

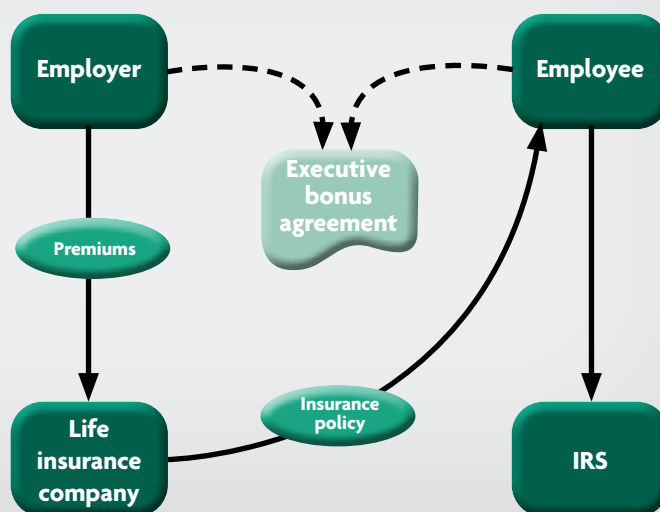
A unique benefit option to promote employee retention, that does not have to be offered to all team members, is an executive bonus plan. **Executive bonus plans** use life insurance to provide a combination of death benefit protection and potential cash value accumulation, for little or no cost to the employee.

This strategy is designed to reduce turnover by rewarding key employees with a unique and exclusive benefit that provides protection for their families during their employment, and later, a potential supplement to retirement income.¹

How it works

Executive bonus plan

1. The employer selects an employee and the amount of bonus to provide.
2. The employee applies for life insurance, which must be approved by the insurer before the executive bonus plan takes effect.
3. The employer pays the life insurance premium on the employee's behalf as a bonus.
4. Bonuses paid to the employee are generally tax-deductible to the employer and reportable as income to the employee. (The employer has the option to give the employee a double bonus to cover any taxes that may be due.).



Upon retirement

5. At retirement, policy loans and withdrawals may be used to help supplement the employee's retirement income.¹



Upon death

6. At the employee's death, the death benefit is usually income-tax-free to the beneficiary.



Details

| Feature | Description |
|-----------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Executive bonus plan | The employer gives the selected employee a bonus, which the employee uses to buy a life insurance policy. The employee is the insured and owner and names his or her own beneficiary. |
| Single vs. double bonus | In a single bonus arrangement, the employer pays the life insurance premium on the employee's behalf as a bonus. The employee is responsible for the income tax on the bonus. In a double bonus arrangement, the bonus amount pays the premium, the tax on the premium, and the additional tax created by the bonus to minimize the tax effects for the employee. |
| Premiums | The employer pays the life insurance premium on the employee's behalf. The employee is able to purchase life insurance at a lower out-of-pocket expense. For single bonus arrangements, the income tax on the bonus is generally the employee's only cost. |
| Federal income tax | The employee is responsible for income tax on the amount of the bonus. The employee's beneficiaries receive life insurance proceeds generally free of federal income tax. For the business, the bonus may be a tax-deductible business expense. |
| Alternative Minimum Tax | No corporate Alternative Minimum Tax (AMT) applies. The business does not own the policy, so proceeds are not subject to the corporate AMT. |
| Eligibility | The employer can be selective about which employees to cover. When considering an executive bonus plan for a business owner, the plan works best for businesses that are taxed separately from the person covered. For this reason, executive bonus does not work well for sole proprietors, partners in a partnership, stockholders in a Sub-S Corporation, or the members of some limited liability companies (LLCs). |
| Creditors | The policies (and their cash values) are not subject to claims of the business creditors. The policies are not owned by the business so they are not business assets. |
| Retirement of the employee | The employee could pay additional premium to help grow the policy's cash value and augment the cash value available to help supplement retirement income through withdrawals and policy loans. ¹ |

Retain your valuable workforce

Here's how to start:

1. Identify key employees or owners within your company
2. Work with a financial professional and your key employees to find the right plan for their needs
3. Determine if a single or double bonus structure is appropriate in each case
4. Meet with your attorney to draft an executive bonus agreement

Talk to your financial professional today!

Choose **North American** for your life insurance protection.

Strength and stability since 1886

With over 135 years of business under our belt, North American's continued and consistent financial strength is a result of our conservative and disciplined investment strategy, our private ownership structure, and doing what is right for our policyowners.

Privately owned and customer focused

As a privately owned company, North American is not subject to the short-term earnings pressures that publicly held companies often face. We are a company with plans to perpetuate itself for hundreds of years, not the next quarter or the next fiscal year. We focus on the long term. We focus on you.

High ratings for financial strength

Independent agency ratings provide a vital picture of an insurer's ability to keep its commitments to you, the customer. As a company, we've received A+ marks from A.M. Best, Fitch Ratings, and S&P Global Ratings.² These ratings are based on financial strength, operating performance, and the ability to meet our obligations to our policyowners and contract holders. Our consistently high ratings show that with North American, you aren't just buying a product. You're buying a commitment to you and your family.



Contact your **North American** financial professional **today**
to help you develop a plan that is tailored to your specific needs.

North American does not provide legal or tax advice. Please consult with a qualified legal or tax advisor before entering into or paying additional premiums with respect to such arrangements.

1. Tax consequences will result if withdrawals exceed premiums paid into the policy (the investment in the contract). Policy loans from life insurance policies are generally not subject to federal income tax, provided the policy is not a Modified Endowment Contract (MEC), as defined in section 7702A of the Internal Revenue Code, and provided that the policy does not terminate before the death of the insured. A withdrawal or loan from a MEC is taxable upon receipt until all gain (the excess of cash value over premiums paid) has been distributed, and the taxable amount is also subject to a 10% penalty tax (exceptions may apply in the case of individual owners). Withdrawals and policy loans will reduce death benefits and cash values. Policy loans are subject to interest charges. Death benefits and cash values may be subject to the Alternative Minimum Tax.

Income and growth on accumulated cash values is generally taxable only upon withdrawal. Adverse tax consequences may result if withdrawals exceed premiums paid into the policy. Withdrawals or surrenders made during a Surrender Charge period will be subject to surrender charges and may reduce the ultimate death benefit and cash value. Surrender charges vary by product, issue age, sex, underwriting class, and policy year.

2. A.M. Best is a large third-party independent reporting and rating company that rates an insurance company on the basis of the company's financial strength, operating performance, and ability to meet its obligations to contract holders. A+ (Superior) is the second highest rating out of 15 categories, and was affirmed for North American Company for Life and Health Insurance® as part of Sammons Financial Group on July 30, 2021.

S&P Global Ratings awarded its "A+" (Strong) rating for insurer financial strength on February 26, 2009 and affirmed on June 2, 2021, to North American Company for Life and Health Insurance® as part of Sammons Financial Group. The A+ (Strong) rating, which is the fifth highest out of twenty-two, reflects the financial strength of North American Company for Life and Health Insurance®, member of Sammons Financial Group.

A+ Stable Rated by Fitch Ratings. Fitch Ratings, a global leader in financial information services and credit ratings, on December 14, 2021, assigned an Insurer Financial Strength rating of A+ Stable for North American Company for Life and Health Insurance®. This rating is the fifth highest of 19 possible rating categories. The rating reflects the organization's strong business profile, low financial leverage, very strong statutory capitalization and strong operating profitability supported by strong investment performance. For more information, read the Fitch Ratings Report at <https://www.fitchratings.com/research/insurance/fitch-affirms-sammons-financial-group-ratings-outlook-stable-14-12-2021>.

The term financial professional is not intended to imply engagement in an advisory business in which compensation is not related to sales. Financial professionals that are insurance licensed will be paid a commission on the sale of an insurance product.

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Sammons Financial® is the marketing name for Sammons® Financial Group, Inc.'s member companies, including North American Company for Life and Health Insurance®. Annuities and life insurance are issued by, and product guarantees are solely the responsibility of, North American Company for Life and Health Insurance®.

