Executive Compensation Strategies

Using Life Insurance

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Executive Compensation Plans:

- Executive Bonus
- Split Dollar
- Deferred Compensation

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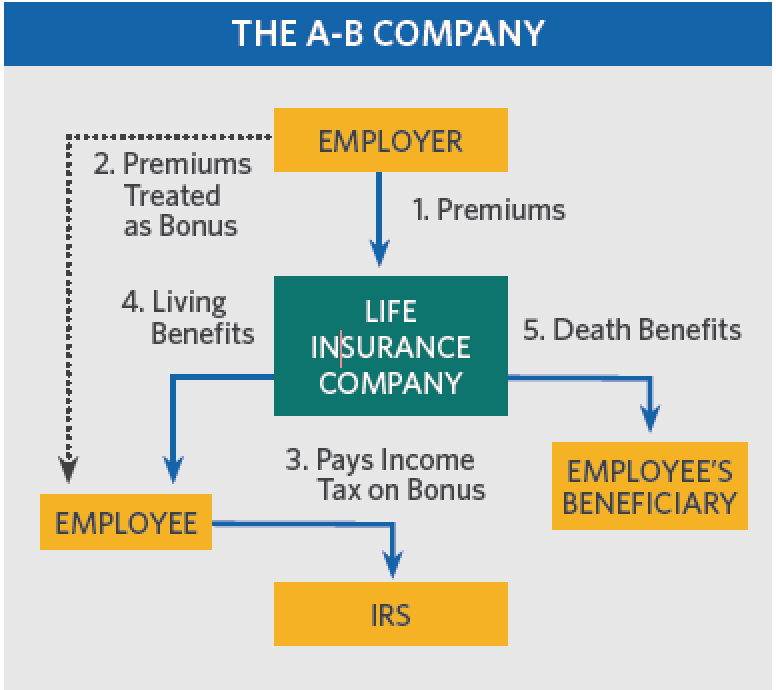
Executive Bonus Plan

- Employer pays the premiums
- Employee owns the policy
- Premiums are taxable to the employee
- Premiums are deductible to the business
- Employee has full rights to the policy



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Executive Bonus Plan - Considerations for the Employer

Advantages

- No IRS approval is required
- The arrangement requires minimal ongoing administration
- You choose who and how much benefit is given to a key employee
- Can be a key differentiator for your company when recruiting employees

Tax Considerations

- Premiums are deductible as taxable compensation to the employee
- If the bonus is paid to an owner of the business, the deductibility may vary based on how the business is organized
- A bonus is considered taxable wages for both FICA and FUTA purposes

Executive Bonus Plan - Considerations for the Employee

Advantages

- Employee has full control of the life insurance policy
- Employee names a beneficiary of the policy's proceeds
- Employee benefits from using the business' dollars to pay for personally-owned life insurance
- The employer can "gross up" the bonus to cover any income or FICA tax

Tax Considerations

- Life insurance cash values accumulate tax deferred
- The beneficiary receives life insurance death benefits income tax free
- The employee's cost is the income and FICA tax due on the "bonus"

What if the business wants more control?

REBA - Restrictive Executive Bonus Arrangements

- Executive Bonus Plan with additional features
- Has Restrictive Endorsements
- Limits the employee's ability to access cash values, take loans or withdrawals, or change ownership without written consent from employer

Executive Compensation Plans:

An agreement between a business and employee to share in the costs & benefits of a life insurance policy

Executive Bonus

Split Dollar

Deferred Compensation

Split-Dollar Arrangements

We’ll look at 3 split-dollar methods:

1. Endorsement
2. Collateral Assignment
3. Non-Equity Collateral Assignment

Today only discussing employer and employee

Endorsement Method

- Employer owns the policy
- Employer endorses a portion of the death benefit to the employee
- Now, if the employee dies while arrangement is in force, the employee's beneficiaries receive their endorsed portion. The remainder goes to the employer
- If the arrangement ends while employee is alive, the employer can keep the policy or transfer it to the employee
- Employee pays tax using the economic benefit regime

Provides a cost-effective death benefit to employer and employee

Economic Benefit Regime

What is the Economic Benefit Regime?

- Tax due by employee on their portion of the policy's death benefit
- Age, death benefit amount and Table 2001 determine the amount

Employee's Age	Endorsed Death Benefit	Table 2001 Rates (/$1k of DB)	Table 2001 Taxable Income
40	$1M	$1.10	$1,100
50	$1M	$2.30	$2,300
60	$1M	$6.51	$6,510
70	$1M	$20.62	$20,620

Collateral Assignment

- Employee owns the policy and names the beneficiary
- Premiums are treated as loans from the employer to the employee
- Employee is responsible for paying the interest on the loan
- A collateral assignment can be used to prevent the employee from borrowing, surrendering or transferring ownership without the employer's approval
- At termination of the agreement, the loan is repaid, and the remaining cash and death benefit is available to the employee

Access to cash accumulation, death benefit protection,
and ownership are important to the employee

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Non-Equity Collateral Assignment

- Employee owns the policy & names the beneficiary
- Employee agrees to repay the greater of the premiums paid or the policy's cash value
- Employee pays income tax on the economic benefit
- Collateral assignment can be used
- If employee dies while arrangement is in force, the employer receives the greater of the policy's cash value or premiums paid. Employee's beneficiary receives remainder of death benefit
- If the arrangement ends while employee is alive, the employer may receive the greater of the policy's cash value or premiums paid. They may also forgive the debt

Death benefit protection and ownership are important to the employee

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Split-Dollar Arrangements – Recap

Type of Split Dollar	Owner	Cost to Employee	Repayment of Premiums to Employer	Benefit to Employee
Endorsement / Economic Benefit	Business	Taxed on the economic benefit of the death benefit	NA - Policy is owned by business	**Death benefit** is primary concern of employee & employer
Collateral Assignment / Loan Regime	Employee	Interest bearing loans	Loan balance repaid to employer from policy's cash or death benefit	**Access to cash** in the policy and **ownership** are important to the employee
Non-Equity Collateral Assignment	Employee	Taxed on the economic benefit of the death benefit assigned to the employee	Business pays premiums with expectation of future repayment (greater of premiums paid or policy's cash value)	**Death benefit** and policy **ownership** are important to the employee

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Benefits of Split-Dollar Arrangements

Employer:

- Ability to share in benefits
- Effective method of attracting and retaining valuable key employees
- Flexibility to customize and choose who participates
- Employer typically retains the right to receive all their premium payments
- An easy-to-administer, cost-effective way to provide a valuable employee benefit
- Tax efficient way to get money out of the business

Employee:

- Unique benefit from employer
- Low-cost & tax free death benefit protection
- Potential access to policy accumulation values
- Selection of beneficiaries

Split-Dollar Arrangements - Considerations

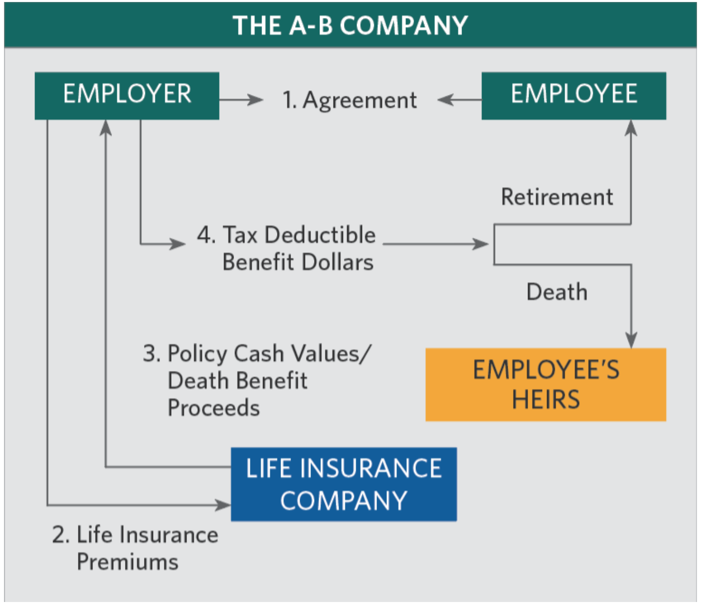
- Require formal, written agreements
- Employer must make sure it has the cash flow to pay premiums
- Should have a termination strategy

Executive Compensation Plans:

- Executive Bonus
- Split Dollar
- Deferred Compensation

Deferred Compensation Life Insurance

A nonqualified deferred compensation plan that can be set up as a salary deferral or salary continuation arrangement.



Deferred Compensation - Considerations for the Employer

Advantages

- The plan is selective and is reserved for top-hat employees or owner/employees of regular corporations
- Golden handcuffs
- No IRS approval is needed
- The plan helps recruit, retain and reward key employees
- The plan could be combined with a key employee need
- May improve the employer's balance sheet and provide a source of credit at guaranteed interest rates

Tax Considerations

- Life insurance proceeds are received income tax-free
- Policy cash values accumulate tax-deferred
- Funding dollars are not deductible when contributions are made
- Benefit payments are tax deductible when made by the employer and included in the employee's taxable income

Deferred Compensation - Considerations for the Employee

Advantages

- Tax deferral
- Retirement Income
- Death benefits
- The plan's benefits can be coordinated with the key employee's other fringe benefits

Tax Considerations

- There is no current income taxation of life insurance premiums
- Benefit payments are taxable when received
- The plan's benefits are included in the value of the employee's estate as income in respect of a decedent

Which Executive Compensation Plan is Right?

- Is an immediate tax deduction the most important consideration for the employer? How about simplicity of design?
  - Executive bonus may be the solution

- Does the employer want to recoup their outlay and have some flexibility in design?
  - Does the employer want to make interest-bearing loans to the employee so they can accumulate funds in the policy for retirement?
    Split dollar -- Loan regime

  - Does the employer want to provide a death benefit only?
    Split dollar -- Economic benefit regime (either endorsement or non-equity collateral assignment)

- Does the employer want maximum control? Are they willing to deal with the additional complexities of a deferred compensation plan? Are they willing to forgo the deduction until the compensation is paid to the employee?
  - Deferred compensation may be the solution

Winflex Illustrations

Income Advantage℠ IUL

United of Omaha Life Insurance Company
A Mutual of Omaha Company

Recruit, Retain and Reward Your Most Valued Employees

Executive Bonus, Male, Age 45, Preferred Non-Tobacco

Give Your Top Performers Incentives to Stay

A successful business strategy includes finding ways to make sure your most valuable employees want to remain loyal to your company.

An executive bonus plan using Income Advantage℠ IUL can be a smart- and simple – way to recruit, retain and reward your most valued employees. Here's how it works:

- The employee applies for a personal life insurance policy.
- Once approved, the employer pays the life insurance premiums directly to United of Omaha Life Insurance Company. The employer gets to deduct the premiums as an ordinary and reasonable business expense.
- The premium amount is treated as taxable income to the employee; however, the employer has the option to provide the employee with an additional bonus amount to compensate for the increased taxes.
- The employee retains full ownership rights to the policy, including the ability to manage it and change the beneficiary. The employee can also access the cash value at any time and for any reason.
- In the event of the employee's death, the death benefit is paid income-tax free to the employee's beneficiary.*

Policy Details	
Annualized Policy Premium	$36,000
Initial Death Benefit (includes an increasing death benefit feature)	$634,049
Annual Bonus paid by Employer (premium + compensation for additional taxes)	$55,385
Net cost to Employer after the deduction	$36,000
Non-Guaranteed Surrender Value at age 67	$1,577,679

The Benefits of Smart Business Planning

Benefits to the Employer:

- The plan is an incentive for most valued employees or incorporated business owners to stay with your company.

Benefits to the Employee:

- Receives the life insurance protection under the policy for their family at minimal cost to them.

Split Dollar Life Insurance Illu

Name: Split Dollar
Corporation Name: A_B Corp
Male Age : 45-Preferred Non-Tobacco Dat

Initial Death Benefit	Initial Payment	Non-Guar Interest
$2,000,000	$14,100	5.56

Corporation

Year	Age	Net Annual Outlay	Net Surrender Value	Net Death Benefit	Imputed Income	Annual Bonus	Annua Outla				
		15,163	0	14,100	3,038	4,675	3,03				
		15,253	0	28,200	3,293	5,066	3,29				
		15,354	0	42,300	3,583	5,512	3,58				
		15,447	0	56,400	3,848	5,921	3,84				
		15,538	15,349	70,500	4,110	6,323	4,11				
		76,755	15,349	70,500	17,872	27,496	17,87				
		15,642	32,567	84,600	4,405	6,778	4,40				
		15,777	50,397	98,700	4,791	7,371	4,79				
		15,956	70,891	112,800	5,303	8,159	5,30				
		16,198	90,122	126,900	5,994	9,221	5,99				
		16,475	110,173	141,000	6,785	10,439	6,78				
		156,803	110,173	141,000	45,151	69,463	45,15				
		16,780	129,028	155,100	7,656	11,779	7,65				
		17,099	152,693	169,200	8,568	13,182	8,56				
		17,406	175,347	183,300	9,447	14,534	9,44				
		17,671	199,142	197,400	10,203	15,696	10,203	5,494	0	0	1,802,600
		17,893	224,079	211,500	10,838	16,674	10,838	5,836	0	0	1,788,500
		243,652	224,079	211,500	91,863	141,328	91,863	49,465	0	0	1,788,500
16	61	18,143	246,089	225,600	11,551	17,771	11,551	6,220	0	0	1,774,400
17	62	18,481	269,039	239,700	12,516	19,255	12,516	6,739	0	0	1,760,300
18	63	18,965	292,960	253,800	13,900	21,384	13,900	7,484	0	0	1,746,200
19	64	19,605	317,913	267,900	15,727	22,569	14,100	8,469	0	0	1,732,100
20	65	20,360	343,965	282,000	17,884	23,730	14,100	9,630	0	0	1,718,000
T@	65	339,205	343,965	282,000	163,442	246,038	158,030	88,007	0	0	1,718,000

Advanced Salary Continuation with Life Insurance Illustration

Name: Deferred Comp
Male Age : 45-Preferred Non-Tobacco Date: 2/11/2025

Initial Death Benefit	Initial Payment	Non-Guaranteed Interest Rate	Employer's / Executive's Tax Bracket
$439,899	$25,000	6.33%	35% / 35%

Post-Retirement Benefit: $43,000 for 36 yrs beginning age 65.

		CORPORATE OUTLAY								IF EXEC LIVES		IF EXEC DIES	
Year	Age	Annual Premium	Annual Loan	Annual Interest	Net Cost of Ben	Annual Net Outlay	Cumul. Net Outlay	PV Of Benefit	Total Outlay	Net Cash Value	Ann Eff Surplus	Net Death Benefit	Gain At Death
26	71	0	32,311	4,361	27,950	0	394,000	810,550	1,204,550	1,149,316	41,240	1,355,849	151,299
27	72	0	33,060	5,110	27,950	0	394,000	782,600	1,176,600	1,193,597	44,280	1,383,461	206,861
28	73	0	33,847	5,897	27,950	0	394,000	754,650	1,148,650	1,240,908	47,311	1,411,309	262,659
29	74	0	34,673	6,723	27,950	0	394,000	726,700	1,120,700	1,291,510	50,602	1,439,385	318,685
30	75	0	35,540	7,590	27,950	0	394,000	698,750	1,092,750	1,345,708	54,198	1,467,703	374,953
T@	75	550,000	349,451	42,001	307,450	394,000	394,000	698,750	1,092,750	1,345,708	951,708	1,467,703	374,953
31	76	0	36,451	8,501	27,950	0	394,000	670,800	1,064,800	1,403,866	58,158	1,496,303	431,503
32	77	0	37,407	9,457	27,950	0	394,000	642,850	1,036,850	1,465,743	61,878	1,563,784	526,934
33	78	0	38,411	10,461	27,950	0	394,000	614,900	1,008,900	1,531,544	65,800	1,635,510	626,610
34	79	0	39,465	11,515	27,950	0	394,000	586,950	980,950	1,601,470	69,927	1,711,700	730,750
35	80	0	40,571	12,621	27,950	0	394,000	559,000	953,000	1,675,724	74,253	1,792,571	839,571
T@	80	550,000	541,755	94,555	447,200	394,000	394,000	559,000	953,000	1,675,724	1,281,724	1,792,571	839,571
36	81	0	41,734	13,784	27,950	0	394,000	531,050	925,050	1,754,496	78,772	1,878,333	953,283
37	82	0	42,954	15,004	27,950	0	394,000	503,100	897,100	1,837,977	83,481	1,969,191	1,072,091
38	83	0	44,235	16,285	27,950	0	394,000	475,150	869,150	1,926,347	88,370	2,065,343	1,196,193
39	84	0	45,580	17,630	27,950	0	394,000	447,200	841,200	2,019,760	93,412	2,166,957	1,325,757
40	85	0	46,993	19,043	27,950	0	394,000	419,250	813,250	2,118,338	98,579	2,274,173	1,460,923
T@	85	550,000	763,250	176,300	586,950	394,000	394,000	419,250	813,250	2,118,338	1,724,338	2,274,173	1,460,923
41	86	0	48,476	20,526	27,950	0	394,000	391,300	785,300	2,222,170	103,832	2,387,089	1,601,789
42	87	0	50,033	22,083	27,950	0	394,000	363,350	757,350	2,331,297	109,128	2,505,761	1,748,411
43	88	0	51,669	23,719	27,950	0	394,000	335,400	729,400	2,445,719	114,422	2,630,197	1,900,797
44	89	0	53,386	25,436	27,950	0	394,000	307,450	701,450	2,565,415	119,696	2,760,385	2,058,935
45	90	0	55,188	27,238	27,950	0	394,000	279,500	673,500	2,690,365	124,950	2,896,314	2,222,814
T@	90	550,000	1,022,002	295,302	726,700	394,000	394,000	279,500	673,500	2,690,365	2,296,365	2,896,314	2,222,814
46	91	0	57,081	29,131	27,950	0	394,000	251,550	645,550	2,820,558	130,193	3,037,986	2,392,436
47	92	0	59,069	31,119	27,950	0	394,000	223,600	617,600	2,960,963	140,405	3,144,696	2,527,096
48	93	0	61,156	33,206	27,950	0	394,000	195,650	589,650	3,113,500	152,537	3,259,162	2,669,512
49	94	0	63,347	35,397	27,950	0	394,000	167,700	561,700	3,280,433	166,933	3,383,181	2,821,481
50	95	0	65,648	37,698	27,950	0	394,000	139,750	533,750	3,464,375	183,943	3,518,797	2,985,047
T@	95	550,000	1,328,305	461,855	866,450	394,000	394,000	139,750	533,750	3,464,375	3,070,375	3,518,797	2,985,047

Questions?

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