

# Funding an executive bonus arrangement with life insurance

## Case study

### Problem

Your client owns a tech support company and is concerned about how dependent he is on his dynamic VP of Sales. His VP of Sales is well known in the industry for his success and is frequently approached by recruiters from competitors.

The company wants to provide an extra incentive to ensure that the sales executive remains with the company until his planned retirement in 20 years.

### A solution

Your client decides to offer the VP of Sales an executive bonus using life insurance. With this solution, the employee receives death benefit protection, tax-deferred cash value accumulation potential, and a generally tax-free income stream.<sup>1</sup>

A double bonus arrangement is used so the employee doesn't have out-of-pocket costs. This means the company pays for both the life insurance premium and an extra amount to help cover income tax that would ordinarily be paid by the employee in a single bonus arrangement.

#### ***Benefits for business owners:***

- Incentivizes employee retention with an attractive benefit
- Premiums paid by the business are tax-deductible
- Can be offered to select employees
- No IRS approval required
- Easy to implement and administer

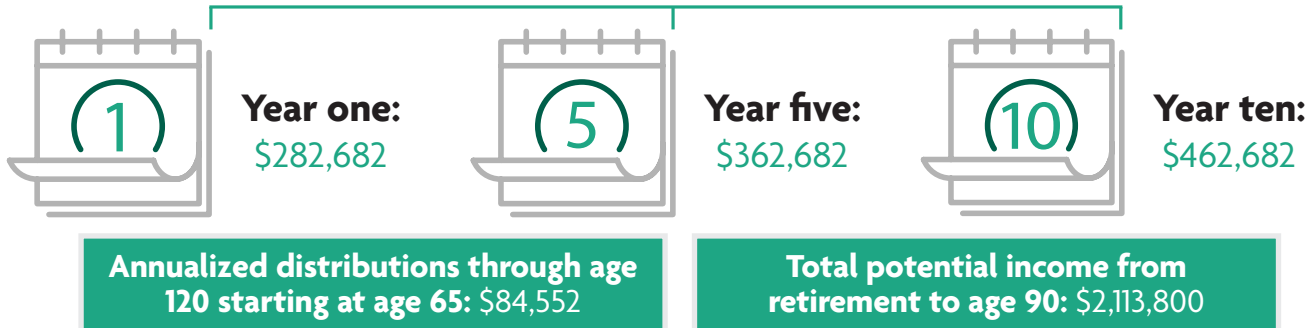
#### ***Benefits for employees:***

- Death benefit protection
- Attractive compensation package
- Cash value of the policy is tax-deferred<sup>2</sup>
- Build a generally tax-free retirement income stream
- Employee retains control of the policy as the owner

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The company pays a \$20,000 premium (a 5% bonus) through age 65 (20 years) on an indexed universal life (IUL) insurance policy.

### Death benefit protection



The information presented is hypothetical and not intended to project or predict investment results. Illustrations are not complete unless all pages are included. (November 11, 2022, North American Web-Based Illustrations). Male, 45, preferred non-tobacco, Builder Plus IUL® 3 with its default index, return of premium death benefit option<sup>3</sup>, non-guaranteed assumed, illustrated at 5.97%. Builder Plus IUL 3 was chosen in this example for its potential long-term cash value accumulation. North American offers several indexed universal life insurance products.

## Case design tips

Be sure the specified amount is enough to meet the client's pre-retirement life insurance needs.

A minimum death benefit solve with Return of Premium death benefit option<sup>3</sup> can help control policy charges which can reduce the cash value of the policy.

For cases with a short period until distributions begin, **consider taking loans rather than withdrawals<sup>1</sup>** during the surrender charge period to avoid a surrender charge.

Combining a term and IUL policy may be a more affordable way to reach total death benefit needs.

Be sure to discuss with clients that performance is not guaranteed and depending on funding, life insurance may not guarantee avoiding the loss of premium.

### NEXT STEPS

1. Make a list of clients that own businesses or hold leadership positions within their organization
2. Reach out to them to see if they are looking for ideas to help with employee retention
3. Share how executive bonus arrangements funded by life insurance offer a unique way to reward and retain key employees

1. In some situations loans and withdrawals may be subject to federal taxes. North American does not give tax or legal advice. Clients should be instructed to consult with and rely on their own tax advisor or attorney for advice on their specific situation. 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 withdrawal charges, processing fees, or 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. The tax-deferred feature of the indexed universal life policy is not necessary for a tax-qualified plan. In such instances, your client should consider whether other features, such as the death benefit and optional riders make the policy appropriate for their needs. Before purchasing this policy, your client should obtain competent tax advice both as to the tax treatment of the policy and the suitability of the product. North American and its agents do not give tax advice. Please advise your customers to consult with and rely on a qualified legal or tax advisor before entering into or paying additional premiums with respect to such arrangements.

3. Return of premium death benefit option is subject to eligibility requirements

Indexed universal life insurance products are not an investment in the "market" or in the applicable index and are subject to all policy fees and charges normally associated with most universal life insurance.

Builder Plus IUL 3 is issued on policy form series LS191, or state variation, including all applicable endorsements and riders, by North American Company for Life and Health Insurance®, West Des Moines, IA. Products, features, riders, endorsements, or issues ages may not be available in all jurisdictions. Limitations or restrictions may apply.

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