Attracting and Retaining Top Talent With Executive Bonus Plans

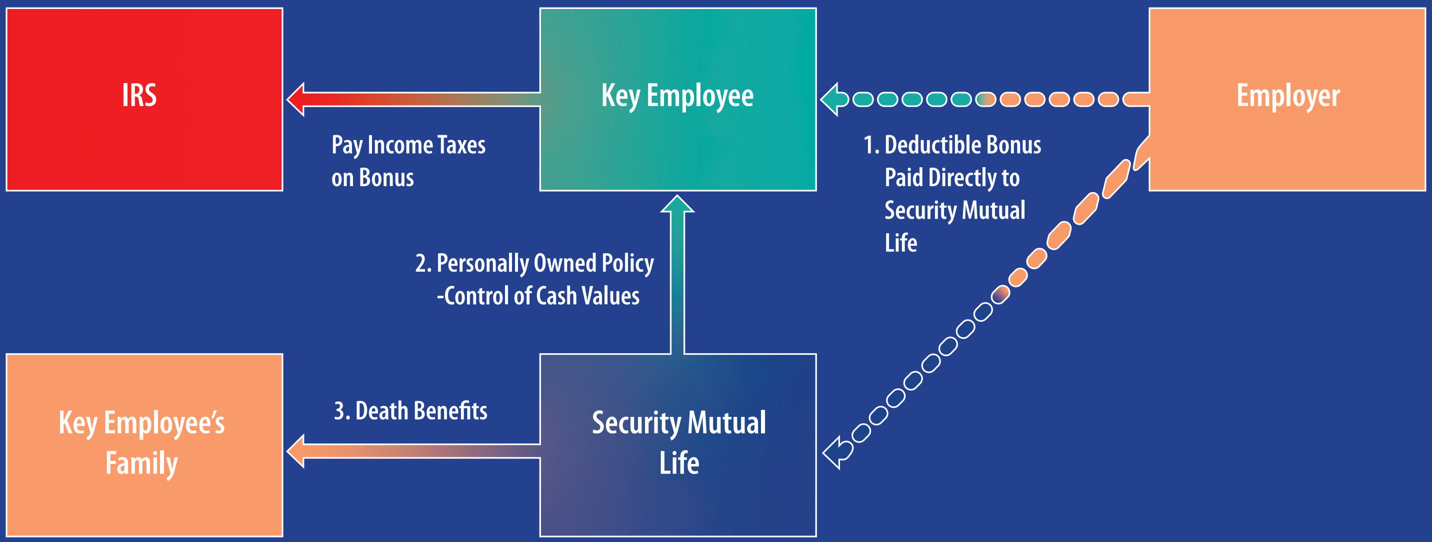
As a business owner, you already know that attracting and retaining top talent is one of the biggest challenges to your business. Despite competitive salaries, total compensation and benefits packages, it never seems enough. The international risk management consulting firm, Arthur J. Gallagher & Co., in its annual *Benefits Strategy and Benchmarking Survey for 2019*, stated: "Employers must holistically address all elements of well-being — including financial security — to compete on culture." It went on to state: "Securing the right talent requires a focus on creating a richer employee experience — not pricier total compensation." The survey noted that elements of financial security included preparing employees for retirement and protecting employees' families with life insurance beyond employer-sponsored benefits packages.

Although you already offer a robust benefits package, you can provide your top employees a unique benefit to help with their retirement and to protect their families in a cost-effective manner. This strategy is called an Executive Bonus Plan.

An Executive Bonus Plan helps your key employee to protect his or her family, and to build up supplemental savings for a large purchase, college education or retirement. Each year, provided that the employee meets the high-performance standards expected, the employer provides an additional compensation bonus in the form of a premium payment for a whole life insurance policy owned by the employee. The employee can even agree to contribute additional money into the policy on a regular and consistent basis when premiums are due, to build up cash values more quickly thereby increasing savings. This variation is sometimes known as a Wealth Accumulation Executive Bonus Plan. The death benefit from the insurance will help protect the employee's family from the premature death of the employee while the cash value accumulation can be used for supplemental retirement savings, all of which are goals for most successful employees.

Example

Here's how it might look for a 45-year old male key employee planning to work to age 65:



Attained Age	Year	Yearly Bonus (1)	Cumulative Bonuses	Surrender Value (2)	Death Benefit (3)
50	5	$10,000	$50,000	$72,911	$448,729
55	10	$10,000	$100,000	$140,994	$517,425
60	15	$10,000	$150,000	$213,948	$592,183
65	20	$10,000	$200,000	$300,048	$680,971
Retirement-66	21	$0	$200,000	$298,885	$680,217
70	25	$0	$200,000	$302,372	$685,326

* This example assumes that dividends are used to purchase paid-up additional insurance for 20 years, and thereafter, premiums will be paid by dividends, the surrender of paid-up additional insurance, or policy loans, rather than cash. This premium payment technique is often referred to as a non-guaranteed Premium Offset. Non-guaranteed surrender values and death benefits may be greater than guaranteed values.

Note that the above example is hypothetical and is not intended to serve as a projection of any specific life insurance policy. The material presented should not be interpreted as a recommendation.

There Are Numerous Advantages to You as the Business Owner

1. Your top-performing employees will know you value them and have an incentive to stay with you.
2. Your business will be entitled to a tax deduction for the bonus given to the employee provided the bonus is reasonable.
3. You can pick and choose which of your key employees is entitled to this benefit. This is not for everyone nor should it be.
4. The plan is simple to set up and maintain, and there is minimal administration. There are no ERISA reporting nor IRS qualifications.

The Key Employee Will Receive

1. Knowledge and satisfaction that the employer values her services and contributions.
2. Ownership and control over a life insurance policy to protect her family.
3. Cash value accumulation on a tax-deferred basis to supplement her retirement funds or for other lifetime uses. In general, cash values can be accessed through policy loans or withdrawals to basis in a tax-free manner.
4. A valuable benefit at low cost. The only out-of-pocket expense is the income tax due on the bonus.

There are also variations of this strategy that can be employed based upon your unique circumstances and objectives. For instance:

- **A Double Bonus Plan** would have the employer also bonusing the income tax burden to the employee so that the employee has no out-of-pocket expense for this benefit.
- **A Restrictive Executive Bonus Plan** would include an agreement that the employee cannot access cash values without the employer's consent as an inducement for continued bonuses.
- **A Wealth Accumulation Executive Bonus Plan** which we described earlier, where the employee also commits to contributing amounts towards premium each year to build up cash values more quickly.
- **A Lump Sum Executive Bonus Plan** can be used for a large one-time bonus made to the employee for an exceptional job well-done or to share in a lucrative project or contract. That lump sum bonus is deposited into Security Mutual's Premiums Paid in Advance Account to prepay several years of premiums for that insurance policy.

As you can see, there are numerous benefits to you as a business owner, to implement a unique strategy to attract and retain your best employees. The Executive Bonus Plan is a very flexible strategy to provide benefits to your key employees and build the needed loyalty and bond to your company to keep the employee there for a long time, in a cost-effective manner.

For more information and to discuss the appropriate strategy or variation for your unique circumstances, please contact your local Security Mutual life insurance advisor.

The hypothetical example shown within is for illustrative purposes only and does not guarantee or predict the results of any particular product. In preparing the example, we did not take into account the investment objectives, financial situation or particular needs of a specific person. The depicted strategy may not be suitable or appropriate to your individual circumstances. Accordingly, it does not constitute a personal recommendation to you.

The payment of dividends is not guaranteed, and the amount credited, if any, may rise and fall depending on experience factors such as investment income, taxes, mortality and expenses.

Tax laws are complex and subject to change. The information presented is based on current interpretation of the laws. Neither Security Mutual nor its agents are permitted to provide tax or legal advice.

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Premiums Paid in Advance (PPIA) account is refundable upon the death of the named insured or upon termination of the PPIA agreement. The prepayment of premiums generates taxable income each year.

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