

# Restricted Bonus Plan

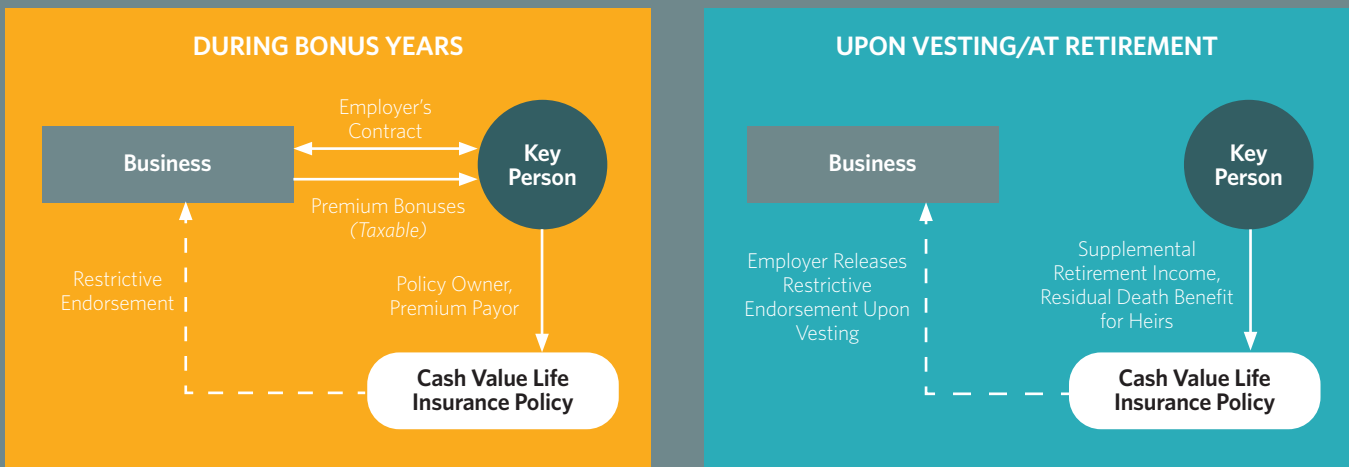
## INCENTIVE PLANNING FOR NON-OWNER EMPLOYEES

A Restricted Bonus Plan is a combination of three planning tools:



The combination of these three elements creates a very attractive benefit for key employees while providing the employer with control. **Benefits provided by this arrangement include:**

- Tax deduction for the employer
- Tax-free death benefit coverage for the employee
- Cash values that the employee may use to supplement their retirement benefits
- No administrative costs for the employer
- No ERISA involvement, reporting or disclosure requirements
- Protection of employee benefits from corporate bankruptcy and merger/acquisitions
- Employee control of the financial investment
- Creation of financial “handcuffs” as a means of retaining key employees



## THE BONUS AGREEMENT

The employer agrees to make annual contributions to a cash value life insurance policy owned by the employee. Contributions are deductible for the employer, and the employee incurs an income tax liability on the amount of the bonus. The employer typically reserves the right to discontinue the program at any time. Unlike qualified retirement plans, the employer may discriminate in favor of highly compensated employees. To increase the true benefit of the agreement, the employer may bonus the employee an amount sufficient to pay the tax liability.

## RESTRICTIVE ENDORSEMENT

Part of the agreement requires the employee to execute a restrictive endorsement. The endorsement's role is to limit the employee's rights to surrender the policy, take policy loans, withdraw cash value, assign the policy as collateral, etc. The employee retains the sole right to change the beneficiary, but before the employee can exercise any other rights, they must obtain the written consent of the employer. The endorsement typically has a stated expiration date, such as retirement and/or a specific number of service years.

## EMPLOYMENT CONTRACT

The employment contract is a separate agreement between the employer and employee that grants the employer the right to recover contributions should the employee violate the terms of the employment contract. The restrictive endorsement does not give the employer any rights in the policy's cash value. Therefore, to recover contributions in the event of the employee's early termination, the employer must enforce the employment contract. The best way to structure this contract is with a vesting schedule. **Below is what a common vesting schedule looks like:**

YEARS FROM AGREEMENT DATE	REPAYMENT PERCENTAGE
Within Year 1	100%
Within Year 2	80%
Within Year 3	60%
Within Year 4	40%
Within Year 5	20%

## UNIQUE BENEFITS OF CASH VALUE LIFE INSURANCE

In a Restricted Bonus Plan, there are several advantages of using cash value life insurance:

- Cash values accumulate on a tax-deferred basis
- Cash values may be used to create tax-free supplemental retirement income for the employee
- The employee's beneficiaries can receive a tax-free death benefit
- Cash values may be accessed prior to age 59½ without the 10 percent penalty that applies to qualified retirement plans and IRAs
- Many states offer a level of creditor protection for life insurance cash values and death benefits

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