



EXECUTIVE BONUS PLAN

PROGRAM HIGHLIGHTS & FACT FINDER



TRANSAMERICA®



A REWARDING WAY TO RETAIN KEY EXECUTIVES

Executive Bonus Plans can be an effective way to reward select employees or owners while providing tax deductions for employers. Using an Executive Bonus Plan, companies can provide their key executives or owners growing cash values in the form of company-paid cash-value accumulation insurance policies.

Implementing this strategy is simple, since the plan is easy to administer and exempt from annual reporting and ERISA requirements.

THE BENEFITS OF AN EXECUTIVE BONUS PLAN

The employer...

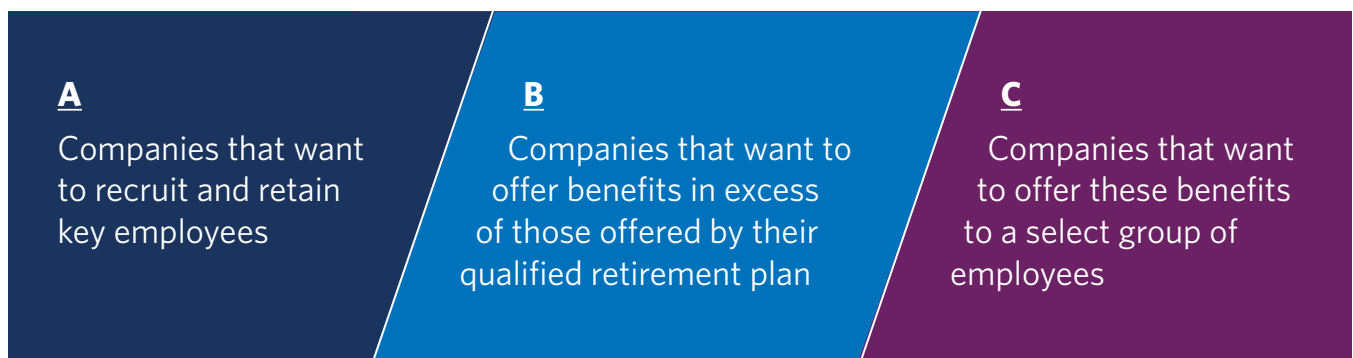
- Distinguishes its compensation package
- Provides selected employees with attractive pre- and post-retirement benefits
- Generally receives income tax deduction for executive bonus payments
- Maintains a plan that is easy to administer and to explain to employees

The executive...

- Enjoys tax-deferred growth of life insurance policy cash value
- Provides income tax-free death benefit protection for named beneficiaries
- Owns the policy and has access to an additional source of income to help meet financial goals*
- Can save more for retirement, since the plan is not subject to limitations set forth by statute on qualified plans

For business owners who want to take advantage of this strategy themselves, special consideration should be given to the tax benefits for the business entity as they compare to the potential tax on additional compensation received by the owner as an individual tax payer.

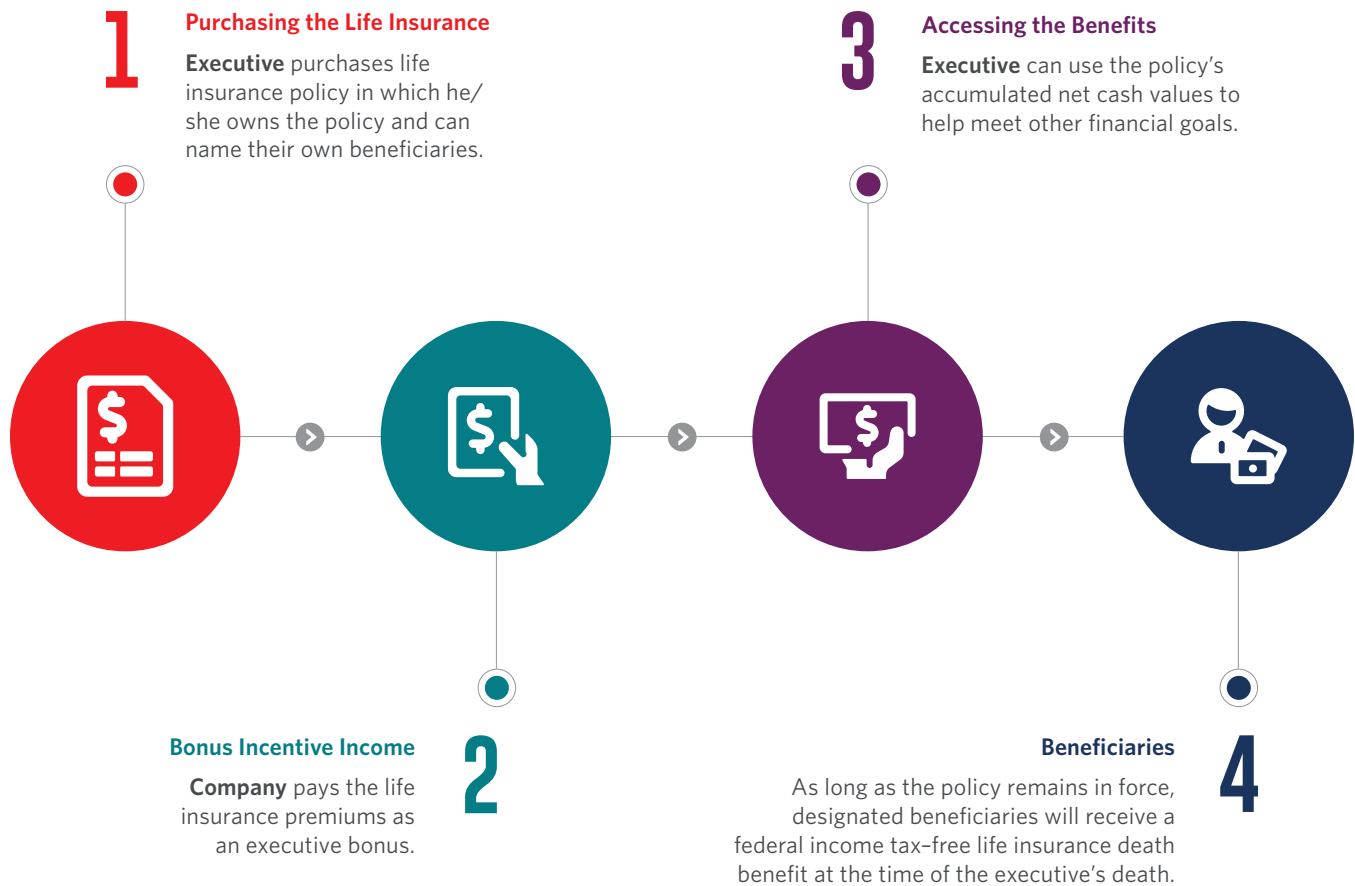
EXECUTIVE BONUS PLANS USING LIFE INSURANCE ARE IDEALLY SUITED FOR:



* Loans and withdrawals will lower the policy value and net cash value and will lower the death benefit or cause the policy to lapse. Withdrawals or distributions may have adverse tax consequences, so please consult your tax professional.

If the policy is considered a Modified Endowment Contract (MEC), distributions are treated first as taxable distributions of earnings in the policy. Withdrawals, loans, and assignments are considered distributions. Taxable distributions from a MEC prior to age 59 1/2 may also be subject to a 10% federal income tax penalty.

HOW IT WORKS



An Executive Bonus Plan can be an essential part of a comprehensive executive compensation package.

Employers can recruit and retain key associates by offering a valuable financial perk — death benefit protection and the tax-advantaged cash value of life insurance.

Step 1. Purchasing Life Insurance

- After considering risk tolerance, time horizon, and financial goals, the executive purchases an appropriate life insurance policy
- The executive is the policy owner and can name his or her own as beneficiary

Step 2. Bonus Incentive Income

- The life insurance policy premiums are paid by the employer as a taxable bonus to the executive
- For the company, the bonus paid under the Executive Bonus Plan is generally treated as tax-deductible employee compensation pursuant to Internal Revenue Code section 162

Step 3. Accessing the Benefits

- The executive can use the policy's accumulated net cash values to help meet other financial goals

Step 4. Beneficiaries

- In the event of the executive's death, named beneficiaries will receive an income tax-free life insurance death benefit

DOUBLE BONUS

A double bonus occurs when the employer pays the premiums on the executive's insurance policy via a bonus, and then increases the bonus to include the estimated income tax impact that will be owed on the entire bonus. The double bonus essentially covers both the cost of the permanent life insurance policy and the income taxes due on the bonus. A double bonus is a widely used and accepted practice for lessening the tax impact to executives who are chosen to participate in an Executive Bonus Plan.

To determine the amount that needs to be paid as a double bonus, divide the amount of the premium by 1 minus the tax rate. The tax rate should include the federal income tax as well as any applicable FICA, state, and local taxes. For example, if the premium is \$15,000 per year and the tax rate is 40%, the calculation would be \$15,000 per year divided by .60 (1-.40). This produces a double bonus amount of \$25,000.

Implementation of Plan

Implementing an Executive Bonus Plan is not a complex matter. A simple document that details the benefits, participation requirements, restrictions, and general provisions is required. In addition, applications and associated paperwork to obtain the insurance policies will also be required. Administration is minimal.



In Summary

An Executive Bonus Plan can be an effective yet simple tool, which successful business owners can use to recruit, reward, and retain exceptional executives. By implementing a strategic solution that provides incentive rewards to those executives who stay with the business, business owners can reduce the likelihood that a key executive will leave, potentially impacting the business negatively.

EXECUTIVE BONUS PLAN FACT FINDER

EMPLOYEE

Name _____

Annual Compensation \$ _____ Federal Tax Rate (Including FICA) _____ State and Local Tax Rates _____

Company Ownership (if any) % _____

EMPLOYER

Name _____

Address _____

Entity Type: C Corporation S Corporation Partnership LLC

Federal Tax Rate _____ State and Local Tax Rate _____

Total Number of Employees _____

ILLUSTRATION

Product to Illustrate _____

Policy Assumptions: Current _____ Guaranteed _____

Insured's DOB _____ State of Policy Issue _____

Gender: Male Female

Smoker Nonsmoker

Assumed Risk Classification: Select Preferred Standard

Desired: Death benefit \$ _____ or minimum so as not to create a MEC _____

Death benefit option: Level _____ Increasing with cash value _____ Increasing switching to level _____

Plus-premium _____

Annual insurance premium \$ _____

Years to pay premium _____ or to age _____

Maximize income from policy at insured's age _____ for _____ number of years _____

If premium is not known, indicate desired cash flow _____

Policy cash value at age 100 equal to: _____

Endowment at initial face _____ or keep in force until age 100 _____ or cash value equal to \$ _____

PLAN DESIGN

Bonus Amount: Single _____ Double _____ Specified \$ _____

Pay Bonus Until: Retirement _____ Specified \$ _____

PRODUCER INFORMATION

Producer Name _____

Phone No. _____

E-mail Address _____

Date _____

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