

Executive Bonus Plan

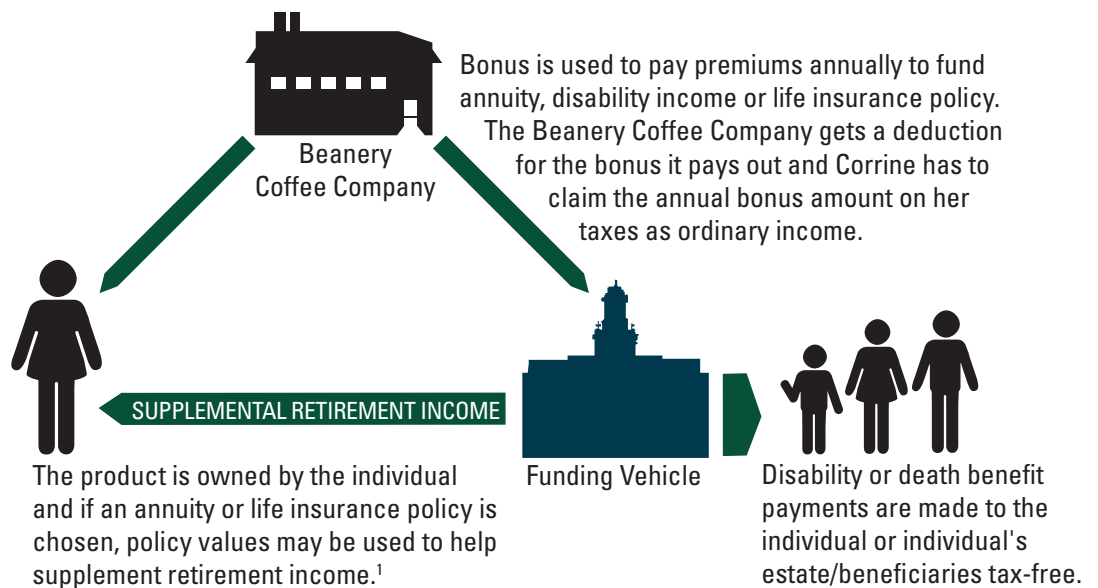
How to retain and attract top talent



Corinne Strong is considering a position as a financial comptroller for the Beanery Coffee Company. The Beanery needs to fill this high-level position quickly and needs to offer Corinne an incentive to join the company and *stay* there.

Strategy

Develop a customized supplemental retirement benefit for Corinne – called an **Executive Bonus Plan** – to provide additional retirement benefits beyond those offered in the company’s qualified retirement plan. In addition, the Executive Bonus Plan will provide death benefit protection for Corinne’s family in the event of her death.



The benefits

There are several advantages for both the employer and employee when implementing an Executive Bonus Plan.

Employer benefits	Employee benefits
<ul style="list-style-type: none"> • Helps to attract and retain valuable employees. • Minimal administrative costs and record keeping. • You select which employees will participate in the plan. Complete discretion can be maintained regarding who participates and the amount of the bonus for each employee/participant. • IRS approval of the plan is not required. • A corporate resolution is needed to help establish the bonus plan as part of the compensation package offered to executives or key employees. • A written bonus agreement between you and each employee/participant helps each party understand how the bonus plan will work as well as their respective rights and responsibilities. 	<ul style="list-style-type: none"> • If life insurance funds the Executive Bonus Plan, the employee gains a valuable insurance policy that will pay a death benefit income tax-free to a designated beneficiary. • Employee may be able to access the life insurance policy's cash values to help supplement his or her retirement income.¹ • The employee has complete control over the policy and owns all its values and rights. • The life insurance policy provides an immediate death benefit and, with certain life insurance policies, accumulating cash values. (The latter may serve as a source of supplemental retirement income for the employee.) • The life insurance policy is fully portable. It can be continued in force, if premium payments are made by the individual, even if the Executive Bonus Plan is terminated or the employee separates from the employer.

Tax considerations

Employer	Employee
<ul style="list-style-type: none"> • Employer deducts bonus(es) paid. 	<ul style="list-style-type: none"> • Employee pays income tax on bonus(es) received.

Additional information:

- An income tax-free death benefit will be paid to Corinne's beneficiary upon her death.
- There are various alternative approaches in structuring the bonus arrangement so that there are no out-of-pocket costs associated with this program for the employee (Double Bonus or Leveraged 162 Bonus). Please consult your tax advisor for more information.

¹ Distributions under the policy (including cash dividends and partial/full surrenders) are not subject to taxation up to the amount paid into the policy (your cost basis). If the policy is a Modified Endowment Contract, policy loans and/or distributions are taxable to the extent of gain and are subject to a 10% tax penalty. Access to cash values through borrowing or partial surrenders can reduce the policy's cash value and death benefit, increase the chance the policy will lapse, and may result in a tax liability if the policy terminates before the death of the insured.

The information provided is not written or intended as specific tax or legal advice. Representatives are not authorized to give tax or legal advice. Individuals are encouraged to seek advice from their own tax or legal counsel.



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