EXECUTIVE BONUS
WITH DEFERRED ACCESS TO PLAN VALUES
USING AN ENDORSEMENT OF POLICY OWNERSHIP RIGHTS

HIGHLIGHTS OF THE PLAN

With this plan, the Executive applies for and owns a life insurance policy on his/her own life. The Executive's family is the beneficiary.

FUNDING THE POLICY

The business provides the funds for the policy's premiums using one of the following methods:

1. **Single Bonus**: The bonus is equal to the premium on the policy. The Executive is responsible for the income tax on the bonus.

2. **Gross-Up Bonus**: The bonus is equal to both the premium on the policy and the Executive's tax on the bonus. (This is also known as a “double bonus”.)

3. **Special Schedule Bonus**: This bonus is fine-tuned by the business. It is frequently used with rising young Executives with bright futures. Typically, the schedule starts with a single bonus and later phases to a gross-up bonus.

THE ENDORSEMENT OF POLICY OWNERSHIP RIGHTS

The purpose of utilizing an Endorsement Of Policy Ownership Rights (“Endorsement”) is to provide an Executive with a bonus-funded plan while restricting his/her access to policy values prior to retirement. The Endorsement takes the form of an Agreement between the business and the Executive in which the Executive agrees to this condition.

The Endorsements are registered with the issuing insurance company and, as a result, the Executive is unable to take any action on the policy other than that allowed by the Endorsement.

In the event of an Executive's death prior to retirement, the Endorsement allows the immediate payment of the death proceeds to the Executive's family.

Owner-Executives frequently use a bonus approach for their own plans; however, they never use an Endorsement technique. This is because owners do not want to impose voluntary restrictions on the funds in their plans. While owners may well be willing to provide bonus funding for valuable non-owner Executives, they do not want to see cash values easily squandered or, worse, used for competitive ventures.

ADVANTAGES TO THE BUSINESS

1. Provided it represents "reasonable" compensation, an Employer can deduct the bonus paid to the Executive.

2. Because of the Endorsement, the business is certain that the policy's cash values will be used as planned.

3. The plan helps create a nurturing environment for Executives, thus reducing replacement and retraining costs considerably.

4. The Employer is free to select which Executives shall be covered and what rights and benefits shall be provided.

5. The plan requires no formal qualification or approval by the Internal Revenue Service. No periodic reports or actuarial plan evaluations need to be provided to state or federal regulatory agencies.

ADVANTAGES TO THE EXECUTIVE

1. A substantial amount of life insurance protection is made available at little or no out-of-pocket cost.

2. The death benefit protection helps provide some peace of mind for both the Executive and his/her family.

3. The Executive's policy cash values represent a significant equity asset and, usually only at retirement, the Executive may use policy loans or withdrawals in order to supplement other retirement income. (This is why this benefit arrangement is often referred to as "a plan with deferred access".)

4. If the policy includes a waiver of premium provision, the plan is self-completing if the Executive becomes disabled.

TAX CONSEQUENCES TO THE EXECUTIVE

1. The bonus is taxable income to the Executive.

2. Bonuses used to pay premiums represent cost basis in the policy. If the policy is cashed in at retirement, surrender values in excess of cost basis are taxable income. Alternatively, provided the policy is not a modified endowment contract, policy loans can produce income tax free cash flow.

3. Death benefits are free of income tax.

4. Since the Executive owns the policy, death proceeds payable to the Executive's beneficiaries are includable in the Executive's estate. The unlimited marital deduction offsets this inclusion if the proceeds are payable to the Executive's spouse.

Note: Resolutions and Bonus Agreements are also available in Documents On A Disk. Most commentators believe that executive-owned plans, such as the one described above, do not require ERISA compliance. In all cases, a client's tax advisers should carefully review the circumstances to determine if ERISA is applicable.

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