

# Controlled Executive Bonus Plan Using Indexed Universal Life

Presented By: [Licensed user's name appears here]

Insured: Alan Westbrook

## Preface

Employer: Midland Oil Supply, Inc.  
S Corporation

Of all the strategies available for an employer to provide unique benefits for selected executives, a bonus used to pay the premium for an executive-owned cash value life insurance policy is highly rewarding yet very simple to implement and administer.

There are two categories of this benefit plan:

### Plans with Unrestricted Access

This executive owns the policy and has no restriction on access to plan values.

### Plans with Deferred Access

This plan includes an "endorsement of ownership rights" in which the executive agrees to make no loans or withdrawals on the policy without the employer's consent or until a specific date or event occurs -- such as retirement.

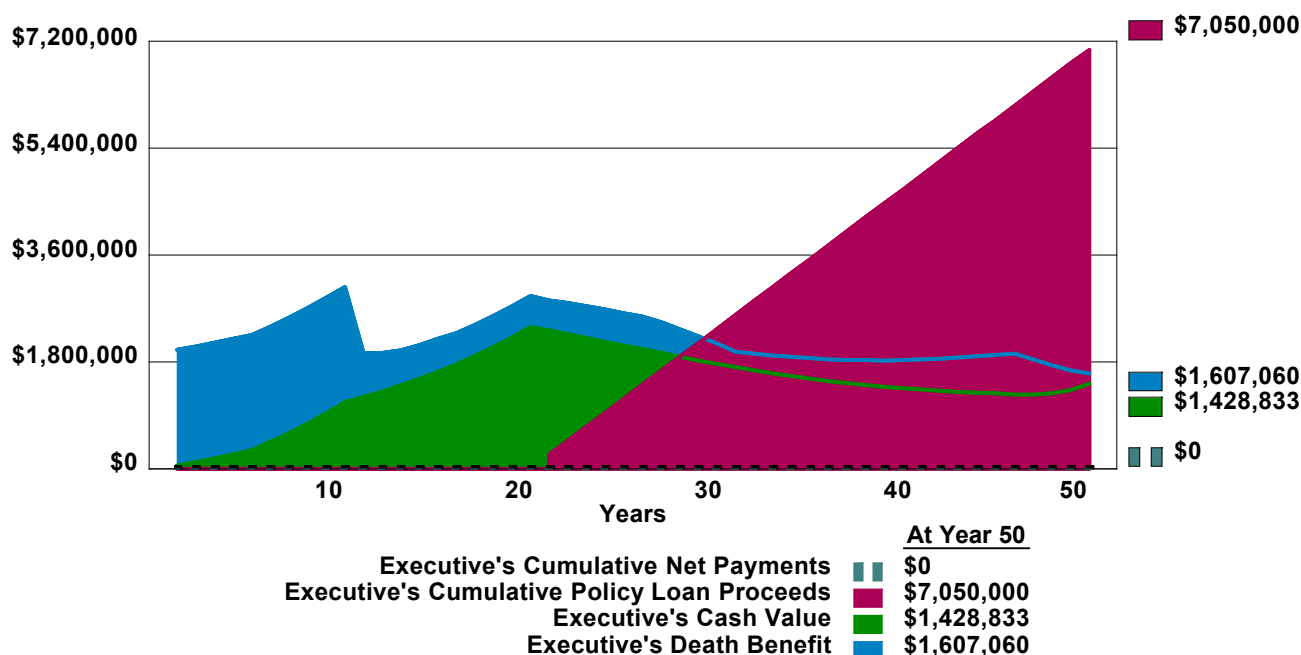
This variation also has a feature known as a "Controlled Bonus" in which the executive must repay the bonus should termination of employment occur prior to a certain date or event.

These plans have the following features:

1. Employer can pick and choose participants;
2. No regulatory approval required;

3. Employer can deduct its funding costs;
4. Executive has tax free access to cash values through policy loans (the Deferred Access variation limits this feature);
5. Income tax free death benefits for the executive's family;
6. Any size business can establish a plan;
7. Types of business entities:  
C corporations and tax exempt organizations: The plan is suitable for any executive.  
S corporations, LLCs, and Partnerships: The plan is suitable for any non-owner executive.
8. Advance of death benefits in certain adverse health circumstances - as defined in the policy.

This compensation plan has a considerable amount of financial leverage that is particularly evident in the accompanying presentation.



This graphic assumes the non-guaranteed values shown continue in all years. This is not likely, and actual results may be more or less favorable.

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## Summary of Costs and Benefits

Employer: Midland Oil Supply, Inc.  
S Corporation

Employer's Tax Bracket 40.00%    Executive's Tax Bracket 35.00%    Indexed UL Interest Rate 7.00%    Initial Payment 65,000    Initial Death Benefit 1,947,400

Year	Male Age	Employer's Costs		Executive's Costs				Executive's Values		
		(1) Bonus to the Executive	(2) Cost of the Bonus (Net Payment)	(3) Policy Premium	(4) Bonus from Employer	(5) Income Tax on Column (4)	(6) Executive's Net Payment	(7) Retirement Income Net Loan Proceeds	(8) Year End Cash Value*	(9) Death Benefit
1	45	100,000	60,000	65,000	100,000	35,000	0	0	52,894	2,000,294
2	46	100,000	60,000	65,000	100,000	35,000	0	0	109,512	2,056,912
3	47	100,000	60,000	65,000	100,000	35,000	0	0	170,197	2,117,597
4	48	100,000	60,000	65,000	100,000	35,000	0	0	235,300	2,182,700
5	49	100,000	60,000	65,000	100,000	35,000	0	0	305,118	2,252,518
6	50	200,000	120,000	130,000	200,000	70,000	0	0	445,357	2,392,757
7	51	200,000	120,000	130,000	200,000	70,000	0	0	595,583	2,542,983
8	52	200,000	120,000	130,000	200,000	70,000	0	0	756,533	2,703,933
9	53	200,000	120,000	130,000	200,000	70,000	0	0	929,000	2,876,400
10	54	200,000	120,000	130,000	200,000	70,000	0	0	1,113,714	3,061,114
11	55	0	0	0	0	0	0	0	1,201,502	1,947,400
12	56	0	0	0	0	0	0	0	1,296,290	1,947,400
13	57	0	0	0	0	0	0	0	1,398,674	1,986,118
14	58	0	0	0	0	0	0	0	1,509,314	2,082,853
15	59	0	0	0	0	0	0	0	1,628,753	2,182,529
16	60	0	0	0	0	0	0	0	1,757,642	2,284,935
17	61	0	0	0	0	0	0	0	1,896,659	2,427,723
18	62	0	0	0	0	0	0	0	2,046,562	2,578,669
19	63	0	0	0	0	0	0	0	2,208,202	2,738,171
20	64	0	0	0	0	0	0	0	2,382,508	2,906,660
21	65	0	0	0	0	0	0	235,000	2,321,255	2,834,856
22	66	0	0	0	0	0	0	235,000	2,259,477	2,784,887
23	67	0	0	0	0	0	0	235,000	2,197,315	2,732,850
24	68	0	0	0	0	0	0	235,000	2,134,815	2,678,532
25	69	0	0	0	0	0	0	235,000	2,071,928	2,621,588
26	70	0	0	0	0	0	0	235,000	2,008,818	2,561,896
27	71	0	0	0	0	0	0	235,000	1,946,155	2,460,331
28	72	0	0	0	0	0	0	235,000	1,884,420	2,350,893
29	73	0	0	0	0	0	0	235,000	1,824,207	2,233,258
30	74	0	0	0	0	0	0	235,000	1,766,257	2,107,146
		<b>1,500,000</b>	<b>900,000</b>	<b>975,000</b>	<b>1,500,000</b>	<b>525,000</b>	<b>0</b>	<b>2,350,000</b>		

### 30 Year Summary

Employer's Cumulative Net Payments	900,000
Executive's Cumulative Net Payments	0
Executive's Cum. A/T Retirement Income	2,350,000
Cash Value	1,766,257
Executive's Death Benefit	2,107,146

\*This illustration assumes the nonguaranteed values shown continue in all years. This is not likely, and actual results may be more or less favorable. This illustration is not valid unless accompanied by a basic illustration from the issuing life insurance company.

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		(1) Bonus to the Executive	(2) Cost of the Bonus (Net Payment)	(3) Policy Premium	(4) Bonus from Employer	(5) Income Tax on Column (4)	(6) Executive's Net Payment	(7) Retirement Income Net Loan Proceeds	(8) Year End Cash Value*	(9) Death Benefit
31	75	0	0	0	0	0	0	235,000	1,711,470	1,972,319
32	76	0	0	0	0	0	0	235,000	1,658,789	1,938,106
33	77	0	0	0	0	0	0	235,000	1,608,590	1,907,553
34	78	0	0	0	0	0	0	235,000	1,561,265	1,881,126
35	79	0	0	0	0	0	0	235,000	1,517,235	1,859,322
36	80	0	0	0	0	0	0	235,000	1,476,917	1,842,637
37	81	0	0	0	0	0	0	235,000	1,440,196	1,831,012
38	82	0	0	0	0	0	0	235,000	1,407,258	1,824,704
39	83	0	0	0	0	0	0	235,000	1,378,213	1,823,899
40	84	0	0	0	0	0	0	235,000	1,352,923	1,828,520
41	85	0	0	0	0	0	0	235,000	1,330,816	1,838,044
42	86	0	0	0	0	0	0	235,000	1,311,965	1,852,621
43	87	0	0	0	0	0	0	235,000	1,295,623	1,871,552
44	88	0	0	0	0	0	0	235,000	1,280,607	1,893,681
45	89	0	0	0	0	0	0	235,000	1,265,448	1,917,553
46	90	0	0	0	0	0	0	235,000	1,248,024	1,941,037
47	91	0	0	0	0	0	0	235,000	1,246,659	1,836,110
48	92	0	0	0	0	0	0	235,000	1,268,926	1,739,318
49	93	0	0	0	0	0	0	235,000	1,325,127	1,659,193
50	94	0	0	0	0	0	0	235,000	1,428,833	1,607,060
		<b>1,500,000</b>	<b>900,000</b>	<b>975,000</b>	<b>1,500,000</b>	<b>525,000</b>	<b>0</b>	<b>7,050,000</b>		

### 50 Year Summary

Employer's Cumulative Net Payments	900,000
Executive's Cumulative Net Payments	0
Executive's Cum. A/T Retirement Income	7,050,000
Cash Value	1,428,833
Executive's Death Benefit	1,607,060

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## Executive's Repayment Obligations

Employer: Midland Oil Supply, Inc.  
S Corporation

		Male Age 45	Indexed UL Interest Rate 7.00%	Initial Death Benefit 1,947,400					
Year	Male Age	(1) Bonus Paid to the Executive	(2) Cumulative Bonus Paid to the Executive	(3) % of Bonus Due if Executive Terminates	(4) Amount of Repayment Due by Executive	(5) Executive's Policy Cash Value*	(6) Executive's Net Gain/Loss** (5) - (4)	(7) Executive's Policy Death Benefit †	
1	45	100,000	100,000	60.00%	60,000	52,894	-7,106	2,000,294	
2	46	100,000	200,000	60.00%	120,000	109,512	-10,488	2,056,912	
3	47	100,000	300,000	60.00%	180,000	170,197	-9,803	2,117,597	
4	48	100,000	400,000	60.00%	240,000	235,300	-4,700	2,182,700	
5	49	100,000	500,000	60.00%	300,000	305,118	5,118	2,252,518	
6	50	200,000	700,000	50.00%	350,000	445,357	95,357	2,392,757	
7	51	200,000	900,000	40.00%	360,000	595,583	235,583	2,542,983	
8	52	200,000	1,100,000	30.00%	330,000	756,533	426,533	2,703,933	
9	53	200,000	1,300,000	20.00%	260,000	929,000	669,000	2,876,400	
10	54	200,000	1,500,000	10.00%	150,000	1,113,714	963,714	3,061,114	
11	55	0	1,500,000	0.00%	0	1,201,502	1,201,502	1,947,400	
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30	74	0	1,500,000	0.00%	0	1,766,257	1,766,257	2,107,146	
		1,500,000							

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\*\*Negatives in Column (6) are in excess of the policy cash value.

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39	83	0	1,500,000	0.00%	0	1,378,213	1,378,213	1,823,899
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50	94	0	1,500,000	0.00%	0	1,428,833	1,428,833	1,607,060

1,500,000

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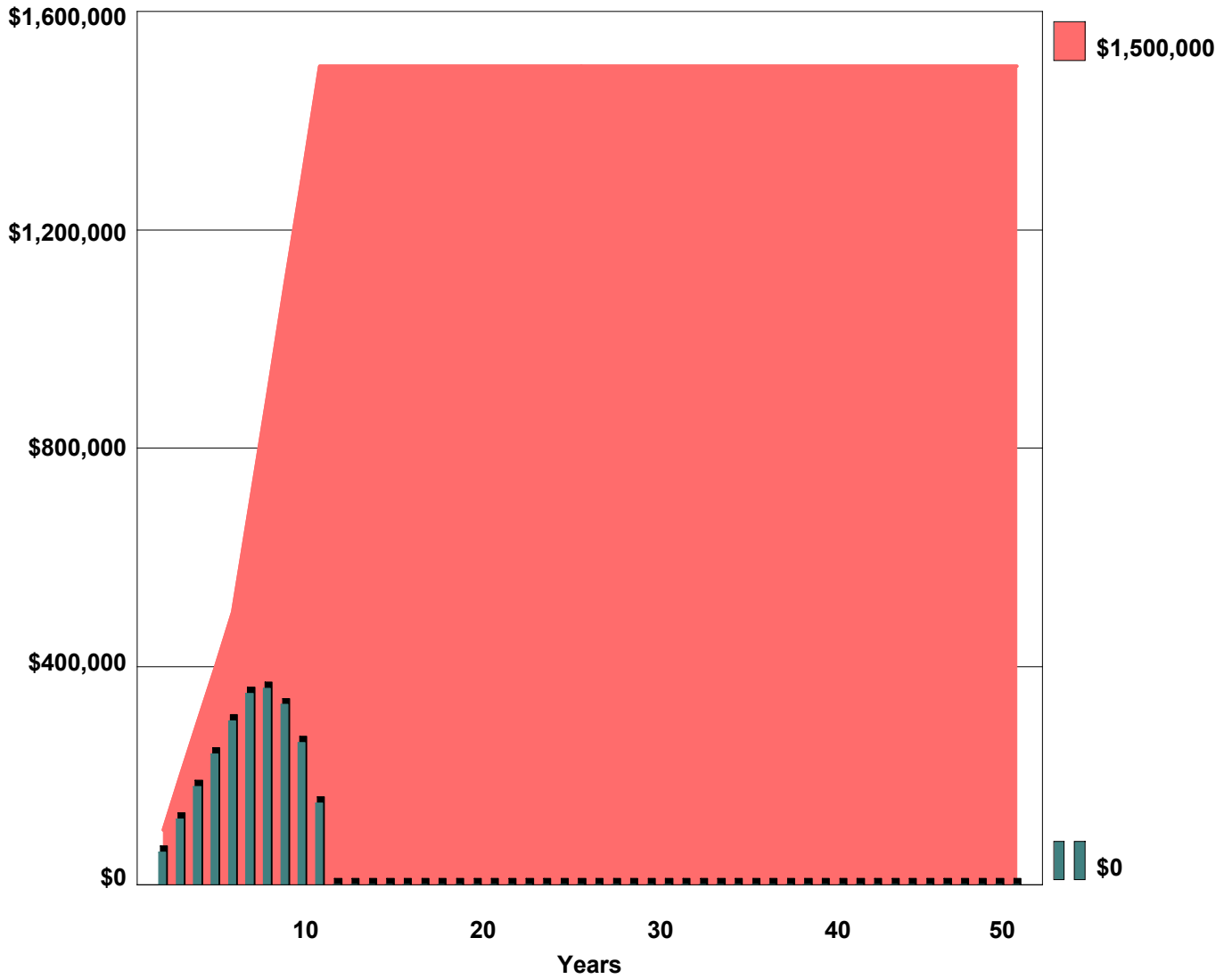
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## Executive's Repayment Obligations 50 Year Analysis

Employer: Midland Oil Supply, Inc.  
S Corporation



**At Year 50**  
Executive's Repayment Obligations \$0  
Executive's Cumulative Bonuses \$1,500,000

## Repayment of the Bonus

Employer: Midland Oil Supply, Inc.  
S Corporation

### Background

A Controlled Executive Bonus Plan is a fringe benefit in which an executive is paid a recurring taxable bonus which is used to purchase a life insurance policy with an emphasis on maximizing cash value accumulation. Subject to the terms of a separate Employment Agreement, the executive is required to repay the bonus under certain circumstances such as voluntary termination of employment by the executive prior to a certain date or event described in the Agreement or termination by the employer for cause.

### Question

Can the executive deduct the repayment if it occurs?

### Comments

The executive may be able to deduct the repayment under IRC Sec. 1341 (computation of tax where taxpayer restores an amount held under a claim of right). If the executive's bonus repayment is not deductible, and a policy loan is used to provide all or part of the funds for the bonus repayment, there is meaningful tax leverage available as tax free cash flow will have been accessed from the policy's tax deferred assets as the source of funds for repayment.

The employer must recognize any amount repaid as income under IRC Sec. 61.

**Important Note:** This information is for educational purposes only. In all cases, the approval of a client's legal and tax advisers must be secured regarding the implementation or modification of any planning technique as well as the applicability and consequences of new cases, rulings, or legislation upon existing or impending plans.

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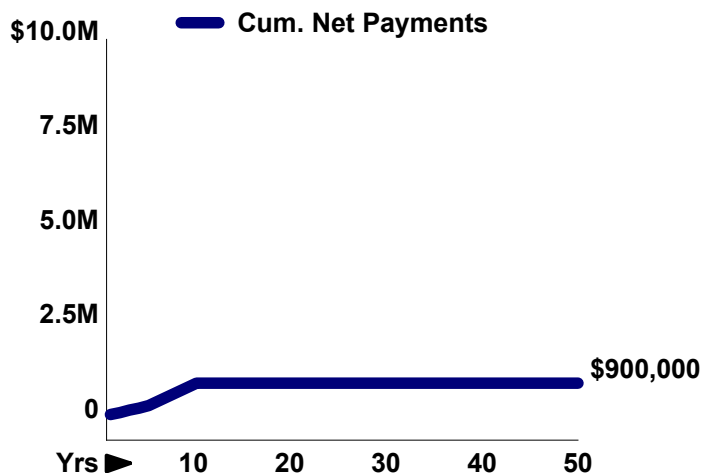
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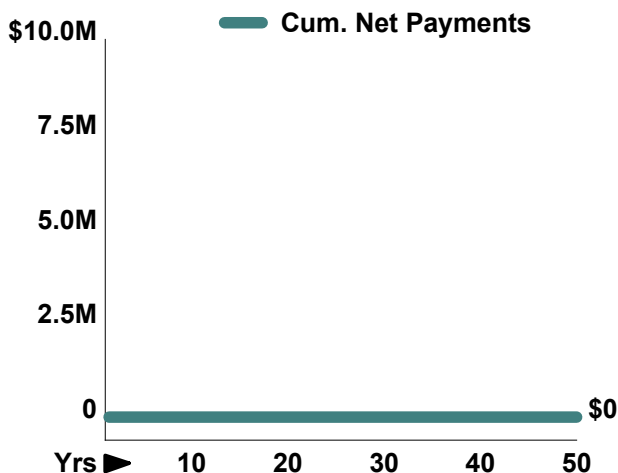
## 50 Year Analysis

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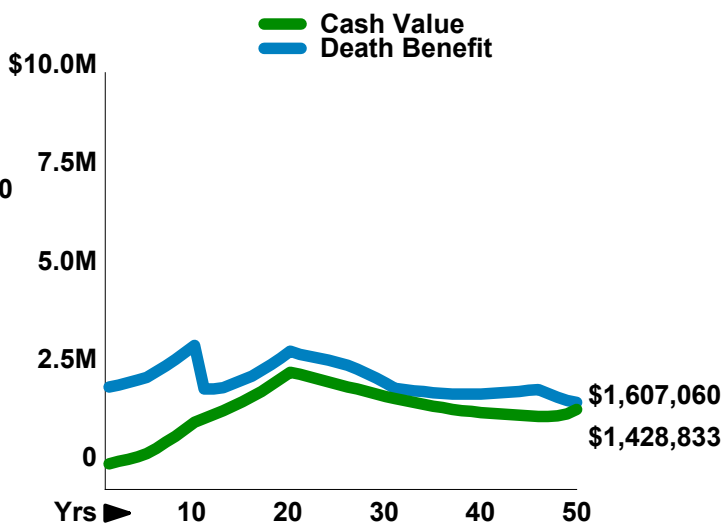
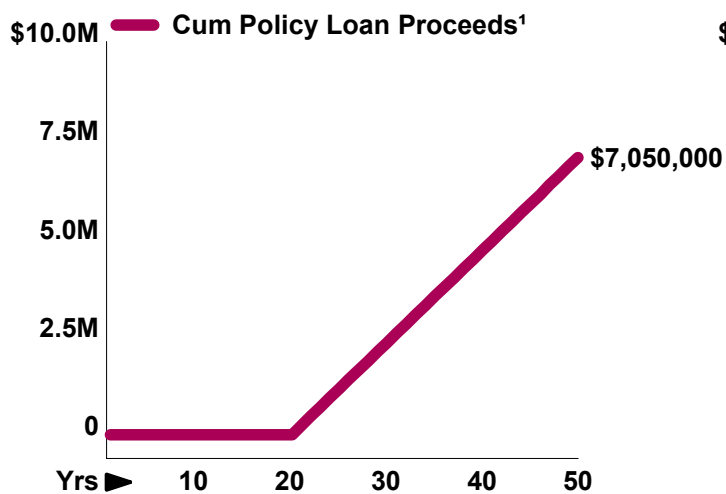
### Employer's Costs



### Executive's Costs



### Executive's Values



<sup>1</sup>For Retirement Income.