

# **Executive Bonus Plan**

## **The Plan Description**

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.

There are two categories of this fringe benefit plan:

### **Plans with Unrestricted Access**

This plan is owned by the participant, has no restriction on the executive's access to plan values, and may be used at any time for any purpose. Bonus plans of this type are typically used for shareholder-executives.

### **Plans with Deferred Access**

This variation utilizes a technique known as an "endorsement of policy ownership rights". With this procedure, the employer's payment of the bonus is conditional upon the executive agreeing, in writing, not to take any action on the policy without the consent of the employer, such as withdrawal or loan, until an agreed upon date or event occurs - such as retirement or achievement of a particular business goal. The deferred access variation is primarily used with non-shareholder executives, and consent of the employer is usually secured in advance when it is anticipated that the executive will make loans on the policy to fund any income tax due in the years premiums are bonused by the employer.

Specimen documents are available for either plan, and both plans contain the following characteristics:

1. Employer can discriminate as to who participates;
2. Employer can deduct its funding costs;
3. Executive has tax free access to cash values through policy loans;
4. Income tax free death benefits for the executive's family;
5. No regulatory approval required by the employer;
6. Simple plan administration for the employer;
7. Any size business can establish a plan;
8. Type of business:  
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.
9. Executive's values may not be attached by employer's creditors;
10. Advance of death benefits in certain adverse health circumstances - as defined in the policy.

Favorable income tax consequences combine with significant policy values and benefits to create an executive compensation plan with a considerable amount of financial leverage. This is particularly evident in the accompanying presentation.

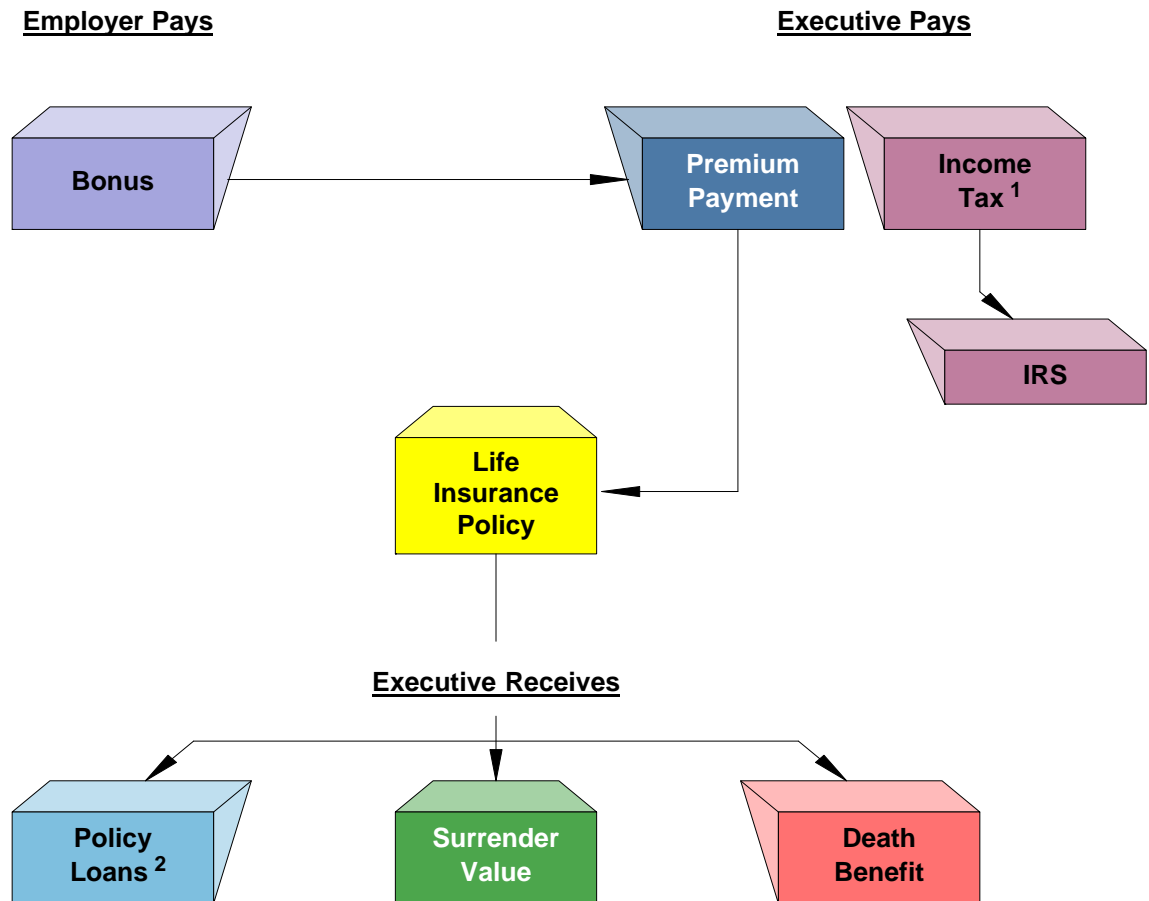
# Executive Bonus Plan Using Indexed Universal Life

## Who Pays What - Who Receives What

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

Insured: Robert Wallace  
Employer: Wallace Engineering, Inc.  
C Corporation

### Flow Chart Analysis



<sup>1</sup>Due on the bonus received.

<sup>2</sup>For Retirement Income.

## Executive Bonus Plan Using Indexed Universal Life

Values Page: 1                      Presented By: [Licensed user's name appears here]  
Date: [Current date appears here]

Insured: Robert Wallace  
Employer: Wallace Engineering, Inc.  
C Corporation

Male Age 45	Employer's Tax Bracket 34.00%	Executive's Tax Bracket 40.00%	Indexed UL Interest Rate 8.00%	Initial Payment 50,000	Initial Death Benefit 1,184,217
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Year	Employer's Costs		Executive's Costs				Executive's Values			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	Bonus to the Executive	Cost of the Bonus (Net Payment)	Policy Premium	Bonus from Employer	Income Tax on Column (4)	Net Policy Loan Proceeds	Executive's Net Payment	Retirement Income Net Loan Proceeds	Year End Surrender Value*	Death Benefit
1	50,000	33,000	50,000	50,000	20,000	0	20,000	0	27,881	1,184,217
2	50,000	33,000	50,000	50,000	20,000	20,000	0	0	56,175	1,163,157
3	50,000	33,000	50,000	50,000	20,000	20,000	0	0	87,173	1,140,981
4	50,000	33,000	50,000	50,000	20,000	20,000	0	0	121,160	1,117,629
5	50,000	33,000	50,000	50,000	20,000	20,000	0	0	158,400	1,093,040
6	0	0	0	0	0	20,000	-20,000	0	148,045	1,067,148
7	0	0	0	0	0	0	0	0	158,686	1,060,943
8	0	0	0	0	0	0	0	0	170,435	1,054,410
9	0	0	0	0	0	0	0	0	183,429	1,047,530
10	0	0	0	0	0	0	0	0	197,820	1,040,285
11	0	0	0	0	0	0	0	0	217,274	1,032,657
12	0	0	0	0	0	0	0	0	238,310	1,024,624
13	0	0	0	0	0	0	0	0	261,057	1,016,166
14	0	0	0	0	0	0	0	0	285,659	1,007,259
15	0	0	0	0	0	0	0	0	312,278	997,880
16	0	0	0	0	0	0	0	0	341,884	988,005
17	0	0	0	0	0	0	0	0	372,796	977,605
18	0	0	0	0	0	0	0	0	406,350	966,655
19	0	0	0	0	0	0	0	0	442,787	955,124
20	0	0	0	0	0	0	0	0	482,378	942,982
	250,000	165,000	250,000	250,000	100,000	100,000	0	0		

### 20 Year Summary

\*This is an InsMark supplemental illustration for indexed universal life. In an actual presentation, this footnote refers to an accompanying basic illustration from a specific life insurance company with important details, caveats, and guarantees.

Employer's Cumulative Net Payments	165,000
Executive's Cumulative Net Payments	0
Executive's Cum. A/T Retirement Income	0
Executive's Surrender Value	482,378
Executive's Death Benefit	942,982

# Executive Bonus Plan Using Indexed Universal Life

Values Page: 2                      Presented By: [Licensed user's name appears here]  
Date: [Current date appears here]

Insured: Robert Wallace  
Employer: Wallace Engineering, Inc.  
C Corporation

Male Age 45	Employer's Tax Bracket 34.00%	Executive's Tax Bracket 40.00%	Indexed UL Interest Rate 8.00%	Initial Payment 50,000	Initial Death Benefit 1,184,217
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Year	Employer's Costs		Executive's Costs				Executive's Values			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	Bonus to the Executive	Cost of the Bonus (Net Payment)	Policy Premium	Bonus from Employer -	Income Tax on Column (4) +	Net Policy Loan Proceeds -	= Executive's Net Payment	Retirement Income Net Loan Proceeds	Year End Surrender Value*	Death Benefit
21	0	0	0	0	0	0	0	55,000	467,498	872,282
22	0	0	0	0	0	0	0	55,000	453,334	797,834
23	0	0	0	0	0	0	0	55,000	440,105	719,441
24	0	0	0	0	0	0	0	55,000	428,076	636,893
25	0	0	0	0	0	0	0	55,000	417,576	585,867
26	0	0	0	0	0	0	0	55,000	408,797	578,983
27	0	0	0	0	0	0	0	55,000	401,723	560,827
28	0	0	0	0	0	0	0	55,000	396,651	541,884
29	0	0	0	0	0	0	0	55,000	393,927	522,127
30	0	0	0	0	0	0	0	55,000	393,955	501,545
31	0	0	0	0	0	0	0	55,000	397,206	480,143
32	0	0	0	0	0	0	0	55,000	403,673	493,172
33	0	0	0	0	0	0	0	55,000	413,729	510,301
34	0	0	0	0	0	0	0	55,000	427,776	531,968
35	0	0	0	0	0	0	0	55,000	446,242	558,642
36	0	0	0	0	0	0	0	55,000	469,585	590,822
37	0	0	0	0	0	0	0	55,000	498,327	629,078
38	0	0	0	0	0	0	0	55,000	532,999	673,988
39	0	0	0	0	0	0	0	55,000	574,162	726,166
40	0	0	0	0	0	0	0	55,000	622,400	786,246
	250,000	165,000	250,000	250,000	100,000	100,000	0	1,100,000		

### 40 Year Summary

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Employer's Cumulative Net Payments	165,000
Executive's Cumulative Net Payments	0
Executive's Cum. A/T Retirement Income	1,100,000
Executive's Surrender Value	622,400
Executive's Death Benefit	786,246

# Executive Bonus Plan Using Indexed Universal Life

Values Page: 3  
Date: [Current date appears here]

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

Insured: Robert Wallace  
Employer: Wallace Engineering, Inc.  
C Corporation

Male Age 45	Employer's Tax Bracket 34.00%	Executive's Tax Bracket 40.00%	Indexed UL Interest Rate 8.00%	Initial Payment 50,000	Initial Death Benefit 1,184,217
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Year	Employer's Costs		Executive's Costs				Executive's Values			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	Bonus to the Executive	Cost of the Bonus (Net Payment)	Policy Premium	Bonus from Employer -	Income Tax on Column (4) +	Net Policy Loan Proceeds -	= Executive's Net Payment	Retirement Income Net Loan Proceeds	Year End Surrender Value*	Death Benefit
41	0	0	0	0	0	0	0	55,000	678,159	854,724
42	0	0	0	0	0	0	0	55,000	741,906	932,114
43	0	0	0	0	0	0	0	55,000	814,119	1,018,949
44	0	0	0	0	0	0	0	55,000	895,239	1,115,719
45	0	0	0	0	0	0	0	55,000	985,645	1,222,854
46	0	0	0	0	0	0	0	55,000	1,085,609	1,340,673
47	0	0	0	0	0	0	0	55,000	1,200,956	1,420,450
48	0	0	0	0	0	0	0	55,000	1,334,771	1,511,959
49	0	0	0	0	0	0	0	55,000	1,491,056	1,618,311
50	0	0	0	0	0	0	0	55,000	1,674,989	1,743,617

250,000	165,000	250,000	250,000	100,000	100,000	0	1,650,000
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### 50 Year Summary

\*This is an InsMark supplemental illustration for indexed universal life. In an actual presentation, this footnote refers to an accompanying basic illustration from a specific life insurance company with important details, caveats, and guarantees.

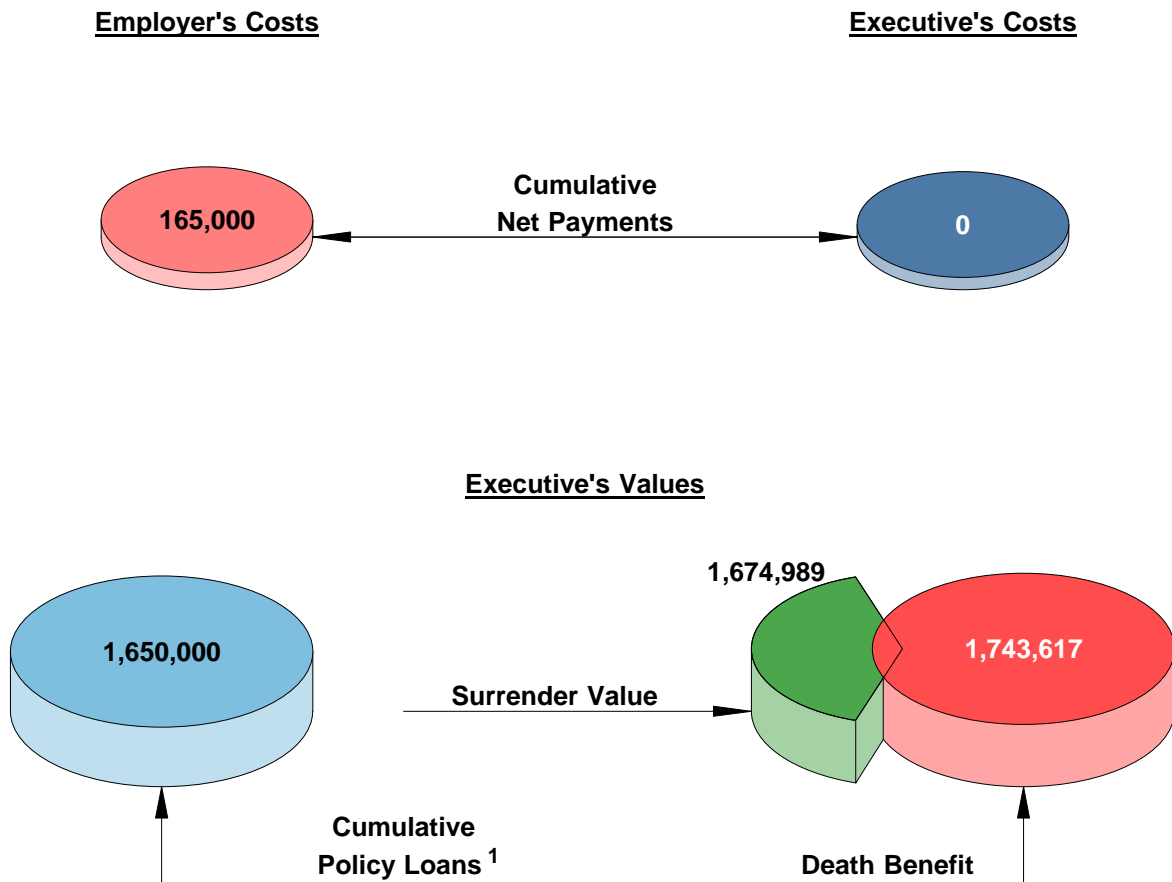
Employer's Cumulative Net Payments	165,000
Executive's Cumulative Net Payments	0
Executive's Cum. A/T Retirement Income	1,650,000
Executive's Surrender Value	1,674,989
Executive's Death Benefit	1,743,617

# Executive Bonus Plan Using Indexed Universal Life

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

Insured: Robert Wallace  
Employer: Wallace Engineering, Inc.  
C Corporation

## 50th Year Summary Analysis



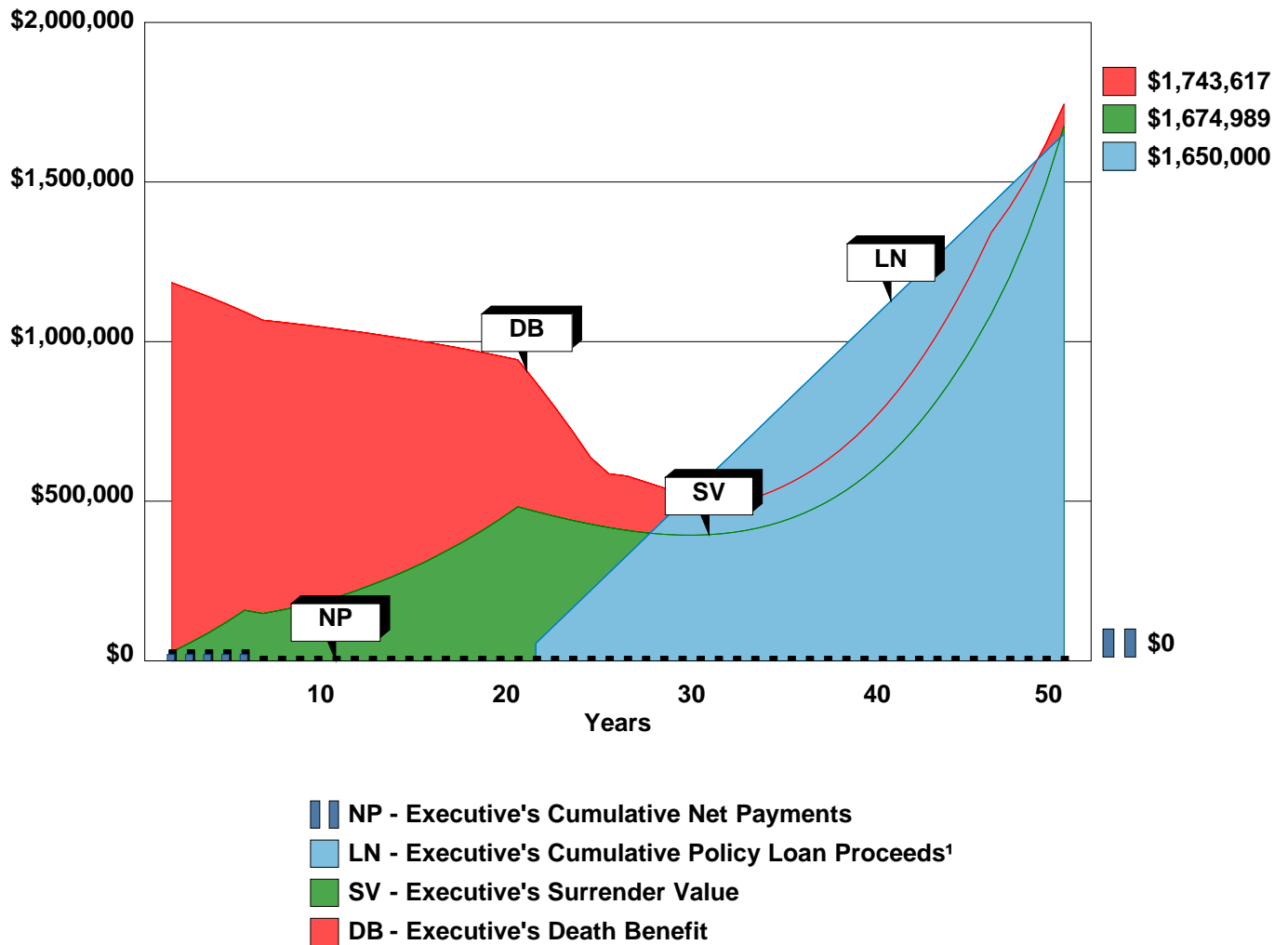
<sup>1</sup> For Retirement Income.

# Executive Bonus Plan Using Indexed Universal Life

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Date: [Current date appears here]

Insured: Robert Wallace  
Employer: Wallace Engineering, Inc.  
C Corporation

## Executive's 50 Year Graphic Analysis



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