

# Controlled Executive Bonus Plan (Single Bonus)

For: Eagle Lake Ford, LLC



Presented By: \_\_\_\_\_

[Licensed user's name appears here]

# Controlled Executive Bonus Plan Using Indexed Universal Life

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

Insured: Billy Mayfield

Preface

Employer: Eagle Lake Ford, LLC  
Limited Liability Co

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

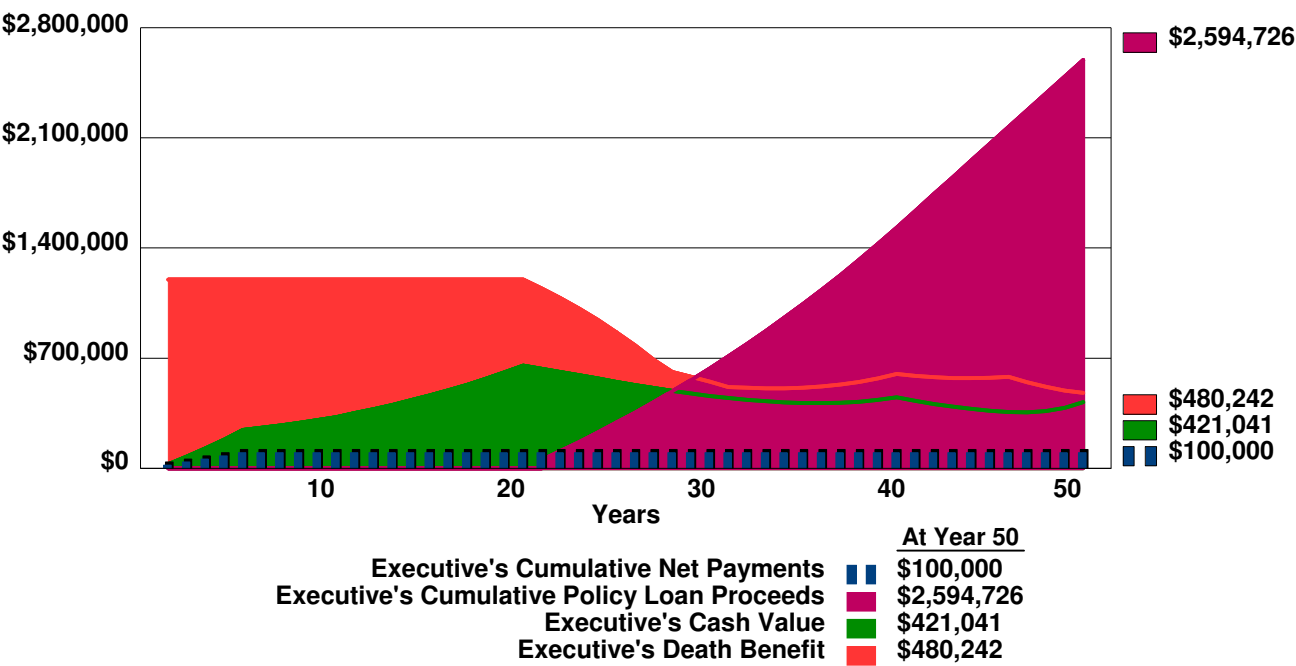
This plan includes an "endorsement of ownership rights" in which the executive agrees to make no loans or withdrawals on the policy without the employer's consent or until a specific date or event occurs -- such as retirement.

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.

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.

## Repayment of the Bonus

Employer: Eagle Lake Ford, LLC  
Limited Liability Co

### 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.

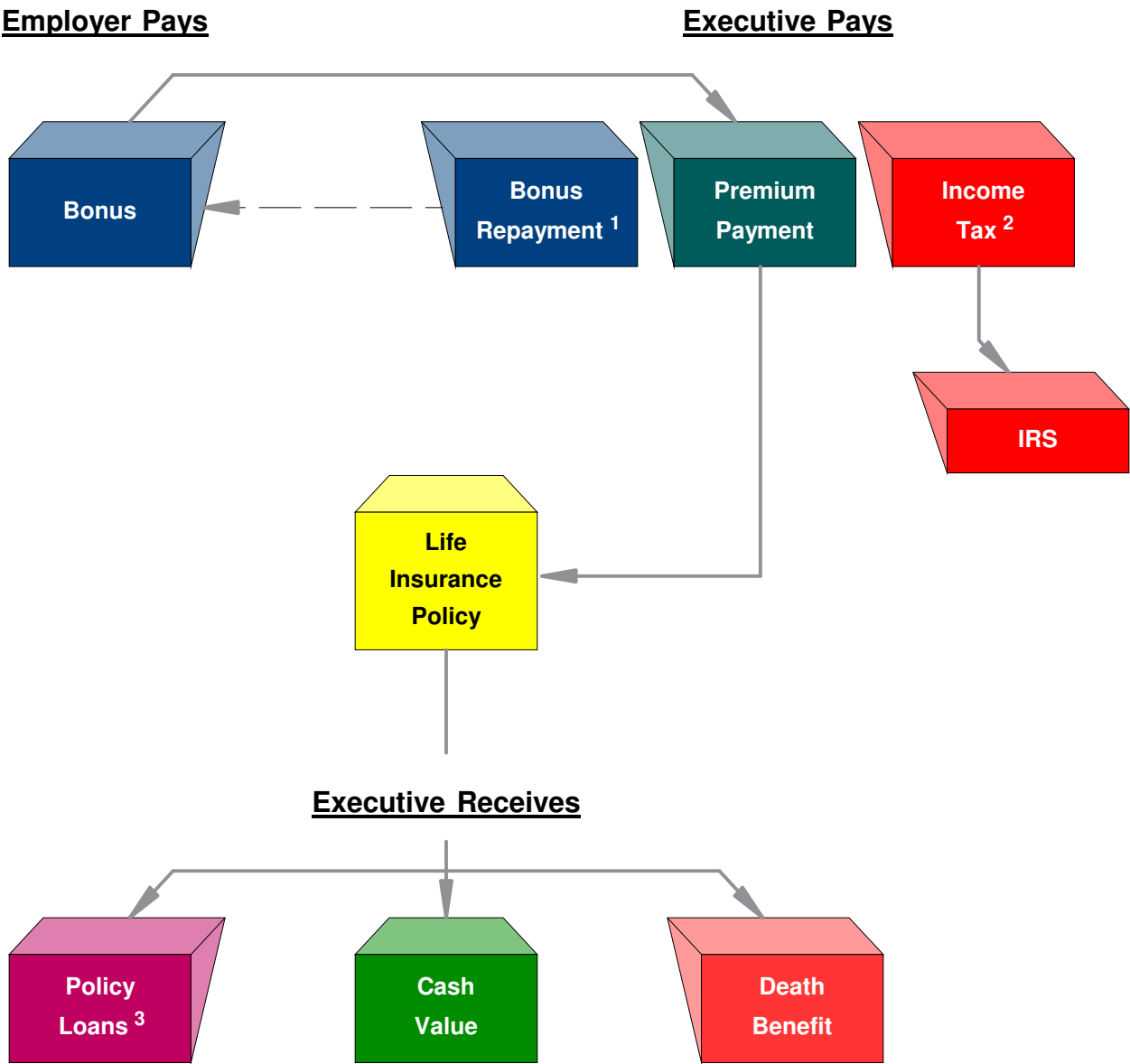
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## Flow Chart

Employer: Eagle Lake Ford, LLC  
Limited Liability Co



<sup>1</sup> Bonus must be repaid if the executive does not remain employed for a specified period of time.

<sup>2</sup> Due on the bonus received.

<sup>3</sup> For Retirement Income.

# Controlled Executive Bonus Plan Using Indexed Universal Life

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

Insured: Billy Mayfield

Summary of Costs and Benefits

Employer: Eagle Lake Ford, LLC  
Limited Liability Co

		Employer's Tax Bracket 40.00%	Executive's Tax Bracket 40.00%	Indexed UL Interest Rate 7.50%	Initial Payment 50,000	Initial Death Benefit 1,200,000					
		Employer's Costs		Executive's Costs				Executive's Values			
	Male Age	(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	
Year											
1	45	50,000	30,000	50,000	50,000	20,000	20,000	0	26,571	1,200,000	
2	46	50,000	30,000	50,000	50,000	20,000	20,000	0	75,509	1,200,000	
3	47	50,000	30,000	50,000	50,000	20,000	20,000	0	127,934	1,200,000	
4	48	50,000	30,000	50,000	50,000	20,000	20,000	0	184,154	1,200,000	
5	49	50,000	30,000	50,000	50,000	20,000	20,000	0	244,446	1,200,000	
6	50	0	0	0	0	0	0	0	258,283	1,200,000	
7	51	0	0	0	0	0	0	0	273,251	1,200,000	
8	52	0	0	0	0	0	0	0	289,485	1,200,000	
9	53	0	0	0	0	0	0	0	307,130	1,200,000	
10	54	0	0	0	0	0	0	0	326,359	1,200,000	
11	55	0	0	0	0	0	0	0	351,578	1,200,000	
12	56	0	0	0	0	0	0	0	376,720	1,200,000	
13	57	0	0	0	0	0	0	0	403,637	1,200,000	
14	58	0	0	0	0	0	0	0	432,456	1,200,000	
15	59	0	0	0	0	0	0	0	463,319	1,200,000	
16	60	0	0	0	0	0	0	0	496,339	1,200,000	
17	61	0	0	0	0	0	0	0	531,685	1,200,000	
18	62	0	0	0	0	0	0	0	569,532	1,200,000	
19	63	0	0	0	0	0	0	0	610,073	1,200,000	
20	64	0	0	0	0	0	0	0	653,523	1,200,000	
21	65	0	0	0	0	0	0	53,964	633,138	1,143,338	
22	66	0	0	0	0	0	0	55,925	612,448	1,081,784	
23	67	0	0	0	0	0	0	57,944	591,577	1,015,032	
24	68	0	0	0	0	0	0	60,024	570,680	942,758	
25	69	0	0	0	0	0	0	62,166	549,965	864,622	
26	70	0	0	0	0	0	0	64,373	529,689	780,261	
27	71	0	0	0	0	0	0	66,646	510,225	689,296	
28	72	0	0	0	0	0	0	68,987	491,984	613,057	
29	73	0	0	0	0	0	0	71,398	475,483	582,543	
30	74	0	0	0	0	0	0	73,882	460,475	550,623	
		250,000	150,000	250,000	250,000	100,000	100,000	635,309			

30 Year Summary

*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.	Employer's Cumulative Net Payments	150,000
	Executive's Cumulative Net Payments	100,000
	Executive's Cum. A/T Retirement Income	635,309
	Cash Value	460,475
	Executive's Death Benefit	550,623

# Controlled Executive Bonus Plan Using Indexed Universal Life

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

Insured: Billy Mayfield

## Summary of Costs and Benefits

Employer: Eagle Lake Ford, LLC  
Limited Liability Co

		Employer's Tax Bracket 40.00%		Executive's Tax Bracket 40.00%		Indexed UL Interest Rate 7.50%		Initial Payment 50,000		Initial Death Benefit 1,200,000	
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	
31	75	0	0	0	0	0	0	76,440	447,269	517,082	
32	76	0	0	0	0	0	0	79,075	435,851	511,616	
33	77	0	0	0	0	0	0	81,788	426,524	508,816	
34	78	0	0	0	0	0	0	84,584	419,621	509,056	
35	79	0	0	0	0	0	0	87,463	415,494	512,738	
36	80	0	0	0	0	0	0	90,428	414,524	520,290	
37	81	0	0	0	0	0	0	93,483	417,149	532,207	
38	82	0	0	0	0	0	0	96,629	423,815	548,989	
39	83	0	0	0	0	0	0	99,870	434,993	571,167	
40	84	0	0	0	0	0	0	103,207	451,171	599,294	
41	85	0	0	0	0	0	0	106,645	428,719	587,597	
42	86	0	0	0	0	0	0	106,645	408,892	579,250	
43	87	0	0	0	0	0	0	106,645	391,799	574,397	
44	88	0	0	0	0	0	0	106,645	377,495	573,127	
45	89	0	0	0	0	0	0	106,645	365,962	575,453	
46	90	0	0	0	0	0	0	106,645	357,065	581,270	
47	91	0	0	0	0	0	0	106,645	355,522	547,558	
48	92	0	0	0	0	0	0	106,645	363,550	517,845	
49	93	0	0	0	0	0	0	106,645	384,096	494,390	
50	94	0	0	0	0	0	0	106,645	421,041	480,242	
		250,000	150,000	250,000	250,000	100,000	100,000	2,594,726			

### 50 Year Summary

*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.	Employer's Cumulative Net Payments	150,000
	Executive's Cumulative Net Payments	100,000
	Executive's Cum. A/T Retirement Income	2,594,726
	Cash Value	421,041
	Executive's Death Benefit	480,242

# Controlled Executive Bonus Plan Using Indexed Universal Life

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Insured: Billy Mayfield

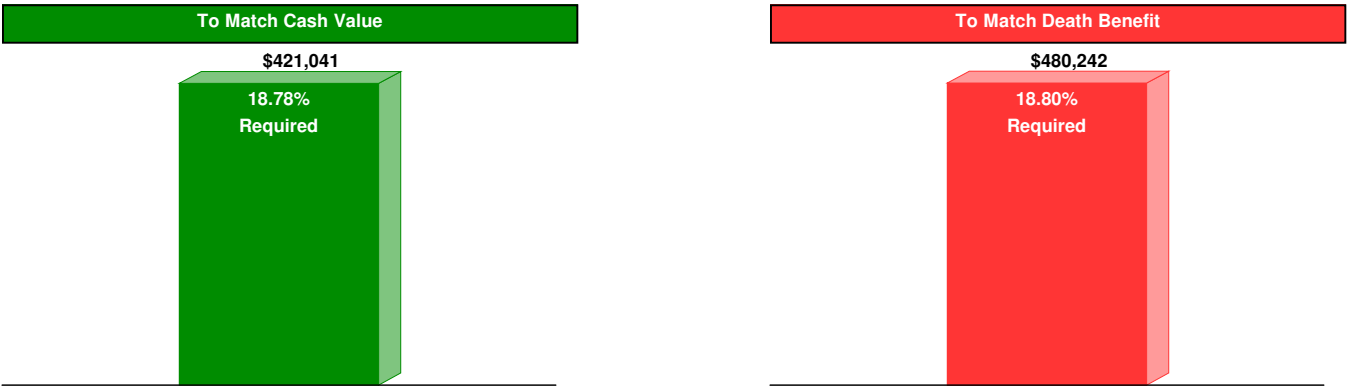
## Matching Values

Employer: Eagle Lake Ford, LLC  
Limited Liability Co

Executive's Tax Bracket	Indexed UL Interest Rate	Initial Payment	Initial Death Benefit
40.00%	7.50%	50,000	1,200,000

**Gross Interest Rate Required on  
a Hypothetical Taxable Investment  
to Match the Executive's share of Indexed Universal Life Policy Values over 50 Years  
(Executive's Net Payments Used as the Hypothetical Investment)**

	Hypothetical Taxable Alternative
To match Cash Value of: \$421,041	18.78%
To match Death Benefit of: \$480,242	18.80%



### Income Tax Considerations

1. Hypothetical Taxable Investment: Interest is taxed as earned.
2. Indexed Universal Life:
  - a. Death Benefit including available cash value component is income tax free.
  - b. Loans are income tax free as long as the policy is kept in force.
  - c. Withdrawals and other non-loan policy cash flow up to cost basis (not in violation of IRC Section 7702) are income tax free as a return of premium.
  - d. Cash values shown assume most favorable combination of b and/or c.

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# Controlled Executive Bonus Plan Using Indexed Universal Life

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## Executive's Repayment Obligations

Employer: Eagle Lake Ford, LLC  
Limited Liability Co

		Male Age 45	Indexed UL Interest Rate 7.50%	Initial Death Benefit 1,200,000				
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	50,000	50,000	100.00%	50,000	26,571	-23,429	1,200,000
2	46	50,000	100,000	100.00%	100,000	75,509	-24,491	1,200,000
3	47	50,000	150,000	100.00%	150,000	127,934	-22,066	1,200,000
4	48	50,000	200,000	100.00%	200,000	184,154	-15,846	1,200,000
5	49	50,000	250,000	100.00%	250,000	244,446	-5,554	1,200,000
6	50	0	250,000	0.00%	0	258,283	258,283	1,200,000
7	51	0	250,000	0.00%	0	273,251	273,251	1,200,000
8	52	0	250,000	0.00%	0	289,485	289,485	1,200,000
9	53	0	250,000	0.00%	0	307,130	307,130	1,200,000
10	54	0	250,000	0.00%	0	326,359	326,359	1,200,000
11	55	0	250,000	0.00%	0	351,578	351,578	1,200,000
12	56	0	250,000	0.00%	0	376,720	376,720	1,200,000
13	57	0	250,000	0.00%	0	403,637	403,637	1,200,000
14	58	0	250,000	0.00%	0	432,456	432,456	1,200,000
15	59	0	250,000	0.00%	0	463,319	463,319	1,200,000
16	60	0	250,000	0.00%	0	496,339	496,339	1,200,000
17	61	0	250,000	0.00%	0	531,685	531,685	1,200,000
18	62	0	250,000	0.00%	0	569,532	569,532	1,200,000
19	63	0	250,000	0.00%	0	610,073	610,073	1,200,000
20	64	0	250,000	0.00%	0	653,523	653,523	1,200,000
21	65	0	250,000	0.00%	0	633,138	633,138	1,143,338
22	66	0	250,000	0.00%	0	612,448	612,448	1,081,784
23	67	0	250,000	0.00%	0	591,577	591,577	1,015,032
24	68	0	250,000	0.00%	0	570,680	570,680	942,758
25	69	0	250,000	0.00%	0	549,965	549,965	864,622
26	70	0	250,000	0.00%	0	529,689	529,689	780,261
27	71	0	250,000	0.00%	0	510,225	510,225	689,296
28	72	0	250,000	0.00%	0	491,984	491,984	613,057
29	73	0	250,000	0.00%	0	475,483	475,483	582,543
30	74	0	250,000	0.00%	0	460,475	460,475	550,623
		250,000						

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

† Assumes the executive's death waives the repayment obligation.



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## Executive's Repayment Obligations

Employer: Eagle Lake Ford, LLC  
Limited Liability Co

		Male Age 45	Indexed UL Interest Rate 7.50%	Initial Death Benefit 1,200,000				
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 †
31	75	0	<div><div></div>250,000</div>	0.00%	0	<div><div></div>447,269</div>	447,269	<div><div></div>517,082</div>
32	76	0	<div><div></div>250,000</div>	0.00%	0	<div><div></div>435,851</div>	435,851	<div><div></div>511,616</div>
33	77	0	<div><div></div>250,000</div>	0.00%	0	<div><div></div>426,524</div>	426,524	<div><div></div>508,816</div>
34	78	0	<div><div></div>250,000</div>	0.00%	0	<div><div></div>419,621</div>	419,621	<div><div></div>509,056</div>
35	79	0	<div><div></div>250,000</div>	0.00%	0	<div><div></div>415,494</div>	415,494	<div><div></div>512,738</div>
36	80	0	<div><div></div>250,000</div>	0.00%	0	<div><div></div>414,524</div>	414,524	<div><div></div>520,290</div>
37	81	0	<div><div></div>250,000</div>	0.00%	0	<div><div></div>417,149</div>	417,149	<div><div></div>532,207</div>
38	82	0	<div><div></div>250,000</div>	0.00%	0	<div><div></div>423,815</div>	423,815	<div><div></div>548,989</div>
39	83	0	<div><div></div>250,000</div>	0.00%	0	<div><div></div>434,993</div>	434,993	<div><div></div>571,167</div>
40	84	0	<div><div></div>250,000</div>	0.00%	0	<div><div></div>451,171</div>	451,171	<div><div></div>599,294</div>
41	85	0	<div><div></div>250,000</div>	0.00%	0	<div><div></div>428,719</div>	428,719	<div><div></div>587,597</div>
42	86	0	<div><div></div>250,000</div>	0.00%	0	<div><div></div>408,892</div>	408,892	<div><div></div>579,250</div>
43	87	0	<div><div></div>250,000</div>	0.00%	0	<div><div></div>391,799</div>	391,799	<div><div></div>574,397</div>
44	88	0	<div><div></div>250,000</div>	0.00%	0	<div><div></div>377,495</div>	377,495	<div><div></div>573,127</div>
45	89	0	<div><div></div>250,000</div>	0.00%	0	<div><div></div>365,962</div>	365,962	<div><div></div>575,453</div>
46	90	0	<div><div></div>250,000</div>	0.00%	0	<div><div></div>357,065</div>	357,065	<div><div></div>581,270</div>
47	91	0	<div><div></div>250,000</div>	0.00%	0	<div><div></div>355,522</div>	355,522	<div><div></div>547,558</div>
48	92	0	<div><div></div>250,000</div>	0.00%	0	<div><div></div>363,550</div>	363,550	<div><div></div>517,845</div>
49	93	0	<div><div></div>250,000</div>	0.00%	0	<div><div></div>384,096</div>	384,096	<div><div></div>494,390</div>
50	94	0	<div><div></div>250,000</div>	0.00%	0	<div><div></div>421,041</div>	421,041	<div><div></div>480,242</div>

250,000

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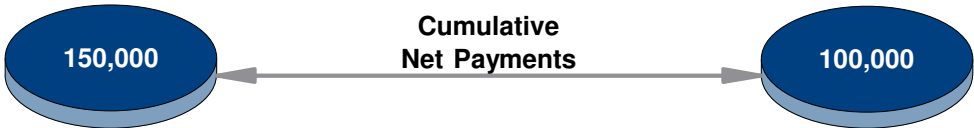
Insured: Billy Mayfield

## A Look at Year 50

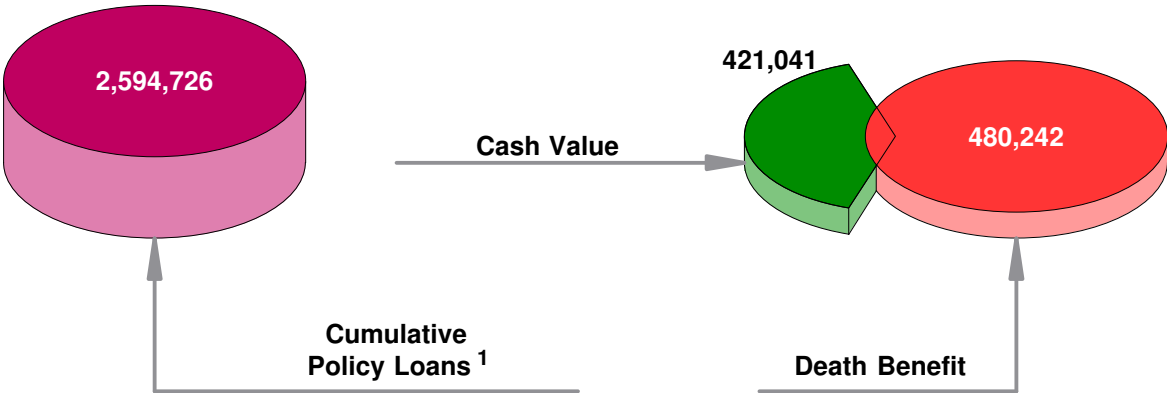
Employer: Eagle Lake Ford, LLC  
Limited Liability Co

### Employer's Costs

### Executive's Costs



### Executive's Values



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

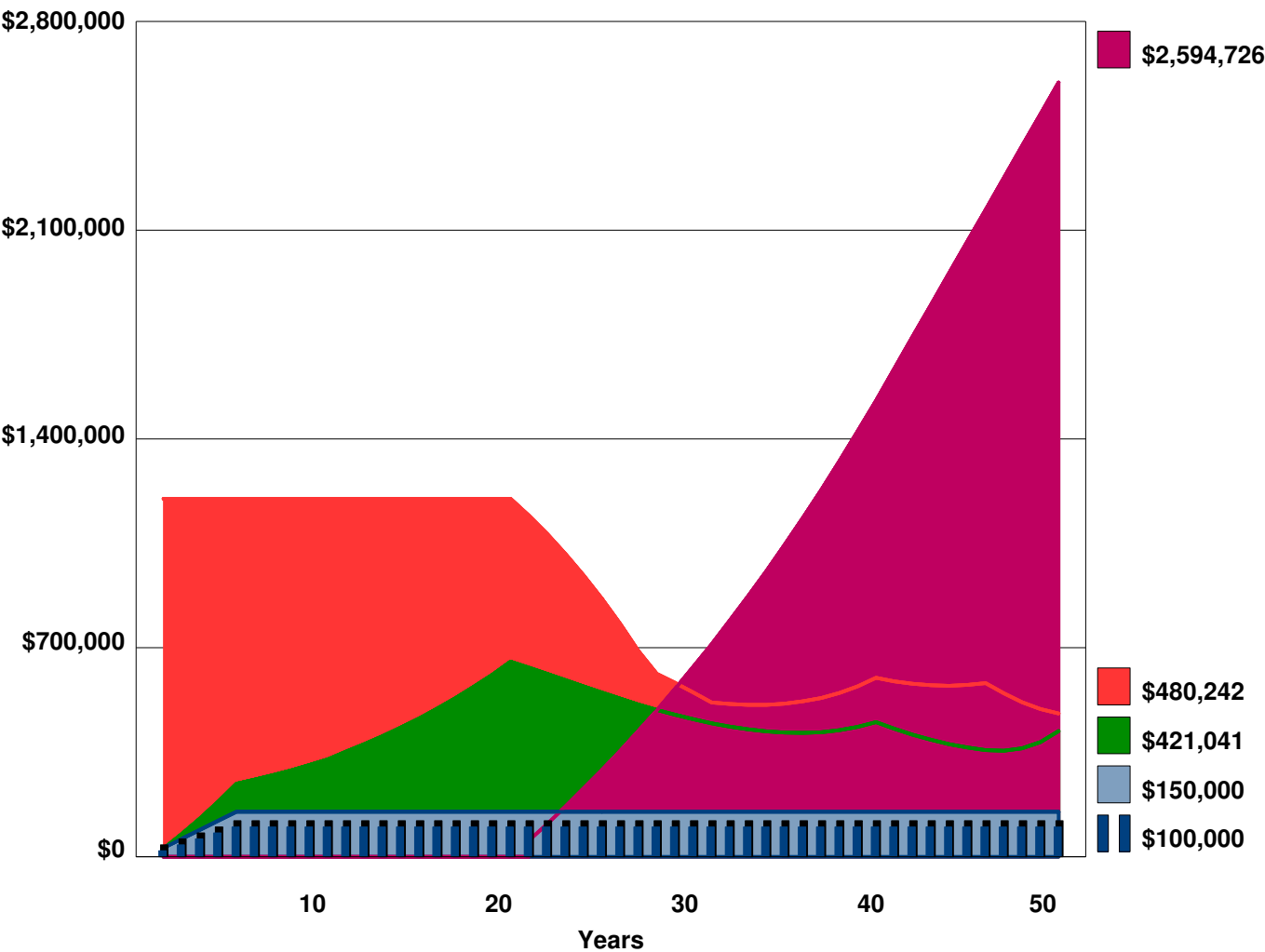
# Controlled Executive Bonus Plan Using Indexed Universal Life

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Insured: Billy Mayfield

## Consolidated 50 Year Analysis

Employer: Eagle Lake Ford, LLC  
Limited Liability Co



	At Year 50
Executive's Cumulative Net Payments	\$100,000
Employer's Cumulative Net Payments	\$150,000
Executive's Cumulative Policy Loan Proceeds <sup>1</sup>	\$2,594,726
Executive's Cash Value	\$421,041
Executive's Death Benefit	\$480,242

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