

Controlled Executive Bonus Retirement Plan

For: Alan Westbrook



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: Alan Westbrook (Age 45)

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.

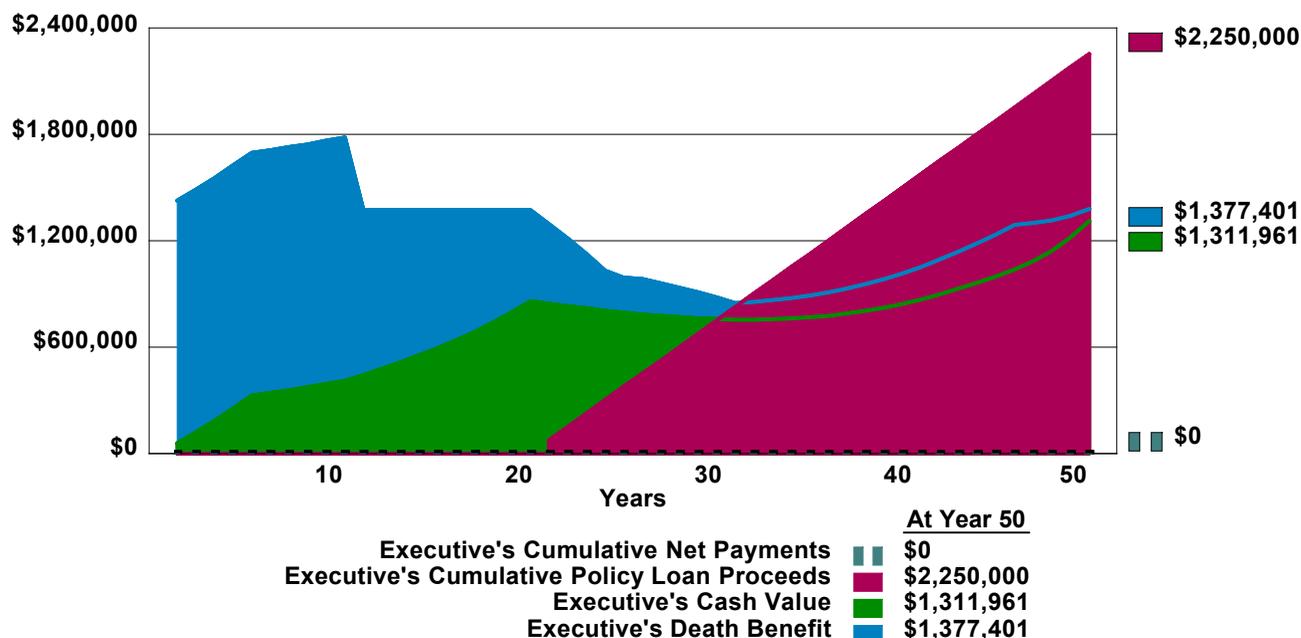
This variation also has a feature known as a "Controlled Bonus" in which the executive must repay the bonus should termination of employment occur prior to a certain date or event.

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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Insured: Alan Westbrook (Age 45)

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 1,370,289

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	56,566	1,426,855
2	46	100,000	60,000	65,000	100,000	35,000	0	0	117,106	1,487,395
3	47	100,000	60,000	65,000	100,000	35,000	0	0	181,957	1,552,246
4	48	100,000	60,000	65,000	100,000	35,000	0	0	251,468	1,621,757
5	49	100,000	60,000	65,000	100,000	35,000	0	0	325,955	1,696,244
6	50	0	0	0	0	0	0	0	340,389	1,710,678
7	51	0	0	0	0	0	0	0	355,954	1,726,243
8	52	0	0	0	0	0	0	0	372,754	1,743,043
9	53	0	0	0	0	0	0	0	390,908	1,761,197
10	54	0	0	0	0	0	0	0	410,454	1,780,743
11	55	0	0	0	0	0	0	0	441,797	1,370,289
12	56	0	0	0	0	0	0	0	475,506	1,370,289
13	57	0	0	0	0	0	0	0	511,769	1,370,289
14	58	0	0	0	0	0	0	0	550,800	1,370,289
15	59	0	0	0	0	0	0	0	592,831	1,370,289
16	60	0	0	0	0	0	0	0	638,065	1,370,289
17	61	0	0	0	0	0	0	0	686,779	1,370,289
18	62	0	0	0	0	0	0	0	739,217	1,370,289
19	63	0	0	0	0	0	0	0	795,695	1,370,289
20	64	0	0	0	0	0	0	0	856,580	1,370,289
21	65	0	0	0	0	0	0	75,000	842,726	1,291,539
22	66	0	0	0	0	0	0	75,000	829,299	1,208,852
23	67	0	0	0	0	0	0	75,000	816,501	1,122,030
24	68	0	0	0	0	0	0	75,000	804,583	1,030,867
25	69	0	0	0	0	0	0	75,000	793,789	990,418
26	70	0	0	0	0	0	0	75,000	784,047	982,001
27	71	0	0	0	0	0	0	75,000	775,273	959,412
28	72	0	0	0	0	0	0	75,000	767,692	934,857
29	73	0	0	0	0	0	0	75,000	761,576	908,268
30	74	0	0	0	0	0	0	75,000	757,250	879,593
		500,000	300,000	325,000	500,000	175,000	0	750,000		

30 Year Summary

Employer's Cumulative Net Payments	300,000
Executive's Cumulative Net Payments	0
Executive's Cum. A/T Retirement Income	750,000
Cash Value	757,250
Executive's Death Benefit	879,593

*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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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	75,000	755,104	848,799
32	76	0	0	0	0	0	0	75,000	754,828	855,243
33	77	0	0	0	0	0	0	75,000	756,631	864,208
34	78	0	0	0	0	0	0	75,000	760,734	875,940
35	79	0	0	0	0	0	0	75,000	767,371	890,705
36	80	0	0	0	0	0	0	75,000	776,783	908,773
37	81	0	0	0	0	0	0	75,000	789,023	930,221
38	82	0	0	0	0	0	0	75,000	804,260	955,244
39	83	0	0	0	0	0	0	75,000	822,641	984,020
40	84	0	0	0	0	0	0	75,000	844,229	1,016,638
41	85	0	0	0	0	0	0	75,000	868,939	1,053,030
42	86	0	0	0	0	0	0	75,000	896,923	1,093,383
43	87	0	0	0	0	0	0	75,000	928,046	1,137,581
44	88	0	0	0	0	0	0	75,000	962,021	1,185,349
45	89	0	0	0	0	0	0	75,000	998,462	1,236,311
46	90	0	0	0	0	0	0	75,000	1,036,755	1,289,851
47	91	0	0	0	0	0	0	75,000	1,083,757	1,299,315
48	92	0	0	0	0	0	0	75,000	1,142,431	1,314,680
49	93	0	0	0	0	0	0	75,000	1,216,763	1,339,257
50	94	0	0	0	0	0	0	75,000	1,311,961	1,377,401
		500,000	300,000	325,000	500,000	175,000	0	2,250,000		

50 Year Summary

Employer's Cumulative Net Payments	300,000
Executive's Cumulative Net Payments	0
Executive's Cum. A/T Retirement Income	2,250,000
Cash Value	1,311,961
Executive's Death Benefit	1,377,401

*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.

Controlled Executive Bonus Plan Using Indexed Universal Life

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

Insured: Alan Westbrook (Age 45)

Executive's Repayment Obligations

Employer: Midland Oil Supply, Inc.
S Corporation

		Male Age 45	Indexed UL Interest Rate 7.00%	Initial Death Benefit 1,370,289				
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	56,566	-3,434	1,426,855
2	46	100,000	200,000	60.00%	120,000	117,106	-2,894	1,487,395
3	47	100,000	300,000	60.00%	180,000	181,957	1,957	1,552,246
4	48	100,000	400,000	60.00%	240,000	251,468	11,468	1,621,757
5	49	100,000	500,000	60.00%	300,000	325,955	25,955	1,696,244
6	50	0	500,000	0.00%	0	340,389	340,389	1,710,678
7	51	0	500,000	0.00%	0	355,954	355,954	1,726,243
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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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Employer: Midland Oil Supply, Inc.
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Male Age 45
Indexed UL Interest Rate 7.00%
Initial Death Benefit 1,370,289

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500,000

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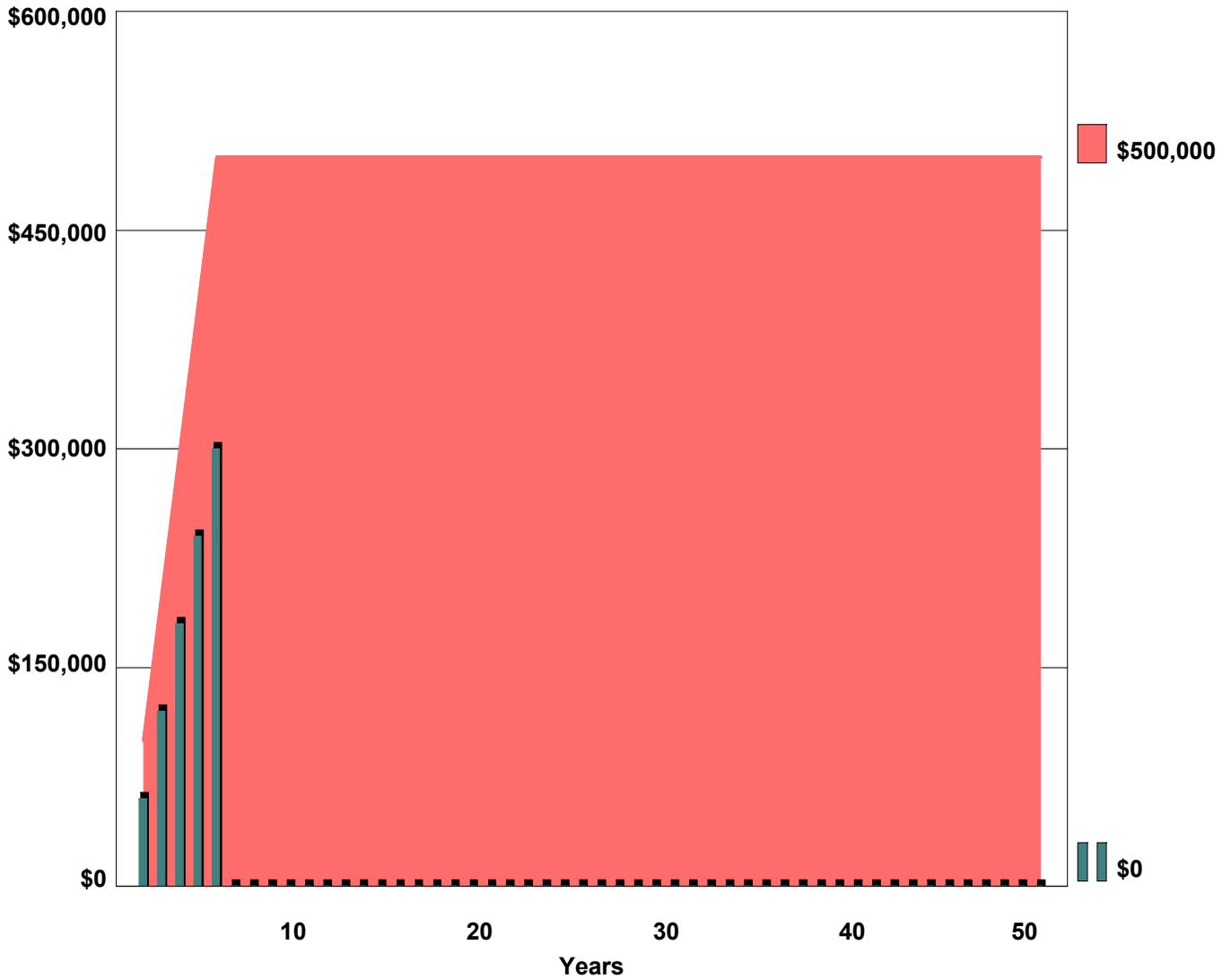
Controlled Executive Bonus Plan Using Indexed Universal Life

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

Insured: Alan Westbrook (Age 45)

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 \$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.

Controlled Executive Bonus Plan Using Indexed Universal Life

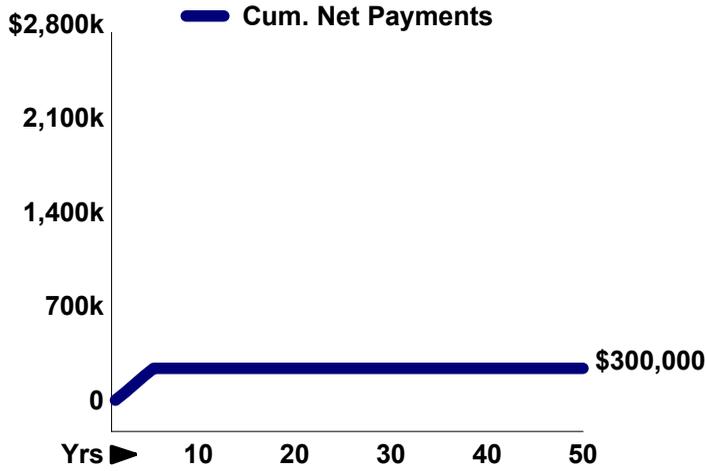
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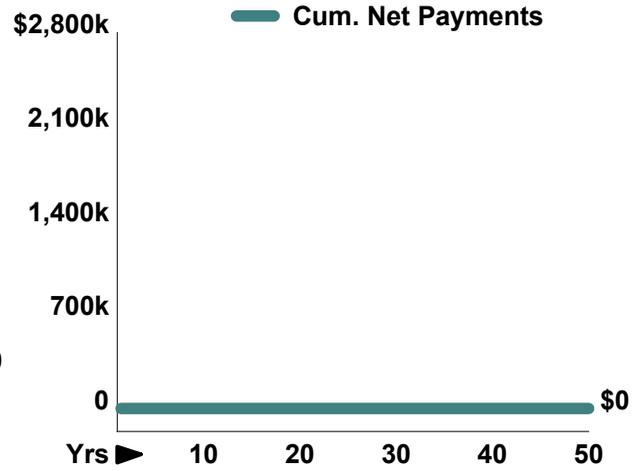
50 Year Analysis

Employer: Midland Oil Supply, Inc.
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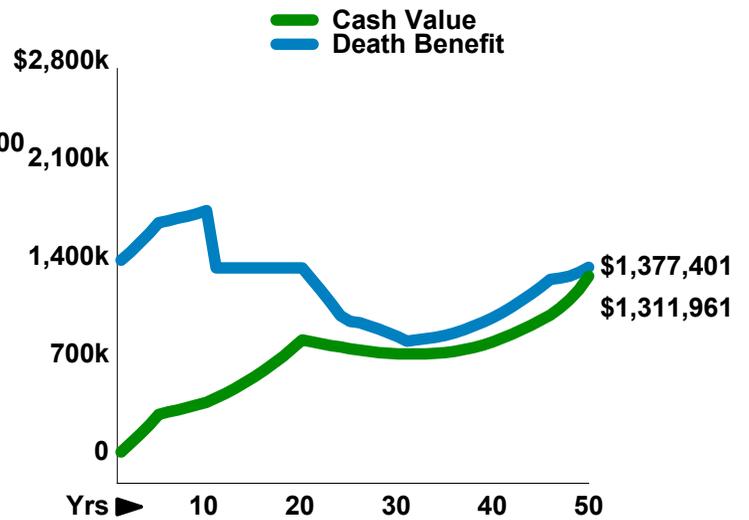
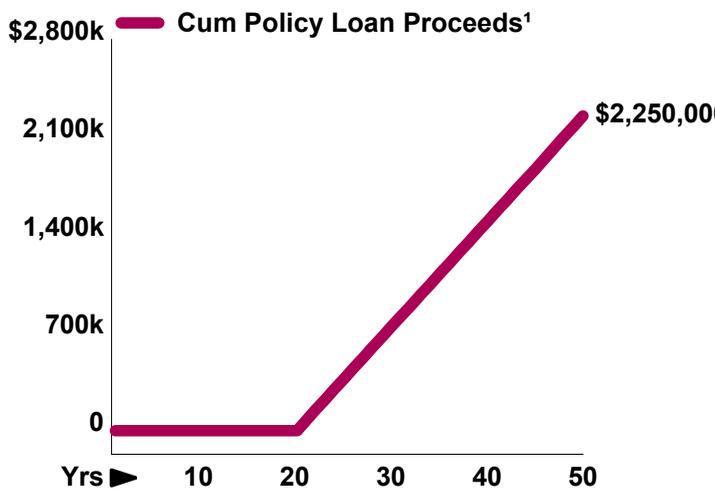
Employer's Costs



Executive's Costs



Executive's Values



¹For Retirement Income.