

Controlled Executive Bonus Plan Using Indexed Universal Life

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

Insured: Tony Jamison

Executive's Repayment Obligations

Employer: Town and Country Auto Group S Corporation

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 †
				Male Age 45	Indexed UL Interest Rate 6.50%	Initial Death Benefit 2,313,016		
1	45	100,000	100,000	40.00%	40,000	52,753	12,753	2,365,769
2	46	100,000	200,000	40.00%	80,000	106,697	26,697	2,419,713
3	47	100,000	300,000	40.00%	120,000	164,674	44,674	2,477,690
4	48	100,000	400,000	40.00%	160,000	227,583	67,583	2,540,599
5	49	100,000	500,000	40.00%	200,000	295,824	95,824	2,608,840
6	50	100,000	600,000	35.00%	210,000	369,825	159,825	2,682,841
7	51	100,000	700,000	30.00%	210,000	450,052	240,052	2,763,068
8	52	100,000	800,000	25.00%	200,000	537,003	337,003	2,850,019
9	53	100,000	900,000	20.00%	180,000	631,219	451,219	2,944,235
10	54	100,000	1,000,000	10.00%	100,000	737,578	637,578	3,050,594
11	55	100,000	1,100,000	0.00%	0	852,730	852,730	3,165,746
12	56	100,000	1,200,000	0.00%	0	977,375	977,375	3,290,391
13	57	100,000	1,300,000	0.00%	0	1,116,555	1,116,555	3,429,571
14	58	100,000	1,400,000	0.00%	0	1,267,113	1,267,113	3,580,129
15	59	100,000	1,500,000	0.00%	0	1,429,596	1,429,596	3,742,612
16	60	100,000	1,600,000	0.00%	0	1,609,634	1,609,634	3,922,650
17	61	100,000	1,700,000	0.00%	0	1,803,564	1,803,564	4,116,580
18	62	100,000	1,800,000	0.00%	0	2,012,341	2,012,341	4,325,357
19	63	100,000	1,900,000	0.00%	0	2,236,898	2,236,898	4,549,914
20	64	100,000	2,000,000	0.00%	0	2,478,367	2,478,367	4,791,383
21	65	0	2,000,000	0.00%	0	2,401,962	2,401,962	3,119,284
22	66	0	2,000,000	0.00%	0	2,325,288	2,325,288	3,055,299
23	67	0	2,000,000	0.00%	0	2,248,577	2,248,577	2,989,151
24	68	0	2,000,000	0.00%	0	2,172,072	2,172,072	2,920,766
25	69	0	2,000,000	0.00%	0	2,095,910	2,095,910	2,849,914
26	70	0	2,000,000	0.00%	0	2,020,350	2,020,350	2,776,469
27	71	0	2,000,000	0.00%	0	1,946,466	1,946,466	2,647,287
28	72	0	2,000,000	0.00%	0	1,874,924	1,874,924	2,509,032
29	73	0	2,000,000	0.00%	0	1,806,533	1,806,533	2,361,266
30	74	0	2,000,000	0.00%	0	1,742,267	1,742,267	2,203,588
		2,000,000						

*This illustration assumes that the currently illustrated, non-guaranteed values 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.

**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: Town and Country Auto Group
S Corporation

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 †
				Male Age 45	Indexed UL Interest Rate 6.50%	Initial Death Benefit 2,313,016		
31	75	0	2,000,000	0.00%	0	1,683,312	1,683,312	2,035,649
32	76	0	2,000,000	0.00%	0	1,628,586	1,628,586	2,005,246
33	77	0	2,000,000	0.00%	0	1,578,708	1,578,708	1,981,285
34	78	0	2,000,000	0.00%	0	1,534,326	1,534,326	1,964,516
35	79	0	2,000,000	0.00%	0	1,496,141	1,496,141	1,955,746
36	80	0	2,000,000	0.00%	0	1,464,834	1,464,834	1,955,763
37	81	0	2,000,000	0.00%	0	1,440,965	1,440,965	1,965,235
38	82	0	2,000,000	0.00%	0	1,425,231	1,425,231	1,984,976
39	83	0	2,000,000	0.00%	0	1,418,308	1,418,308	2,015,780
40	84	0	2,000,000	0.00%	0	1,420,246	1,420,246	2,057,793
41	85	0	2,000,000	0.00%	0	1,430,507	1,430,507	2,110,544
42	86	0	2,000,000	0.00%	0	1,449,436	1,449,436	2,174,494
43	87	0	2,000,000	0.00%	0	1,476,575	1,476,575	2,249,270
44	88	0	2,000,000	0.00%	0	1,510,443	1,510,443	2,333,425
45	89	0	2,000,000	0.00%	0	1,549,438	1,549,438	2,425,393
46	90	0	2,000,000	0.00%	0	1,591,083	1,591,083	2,522,694
47	91	0	2,000,000	0.00%	0	1,656,385	1,656,385	2,449,288
48	92	0	2,000,000	0.00%	0	1,754,670	1,754,670	2,387,735
49	93	0	2,000,000	0.00%	0	1,899,113	1,899,113	2,348,853
50	94	0	2,000,000	0.00%	0	2,107,005	2,107,005	2,346,978
51	95	0	2,000,000	0.00%	0	2,399,462	2,399,462	2,399,462
52	96	0	2,000,000	0.00%	0	2,739,370	2,739,370	2,739,370
53	97	0	2,000,000	0.00%	0	3,131,555	3,131,555	3,131,555
54	98	0	2,000,000	0.00%	0	3,581,268	3,581,268	3,581,268
55	99	0	2,000,000	0.00%	0	4,094,221	4,094,221	4,094,221

2,000,000

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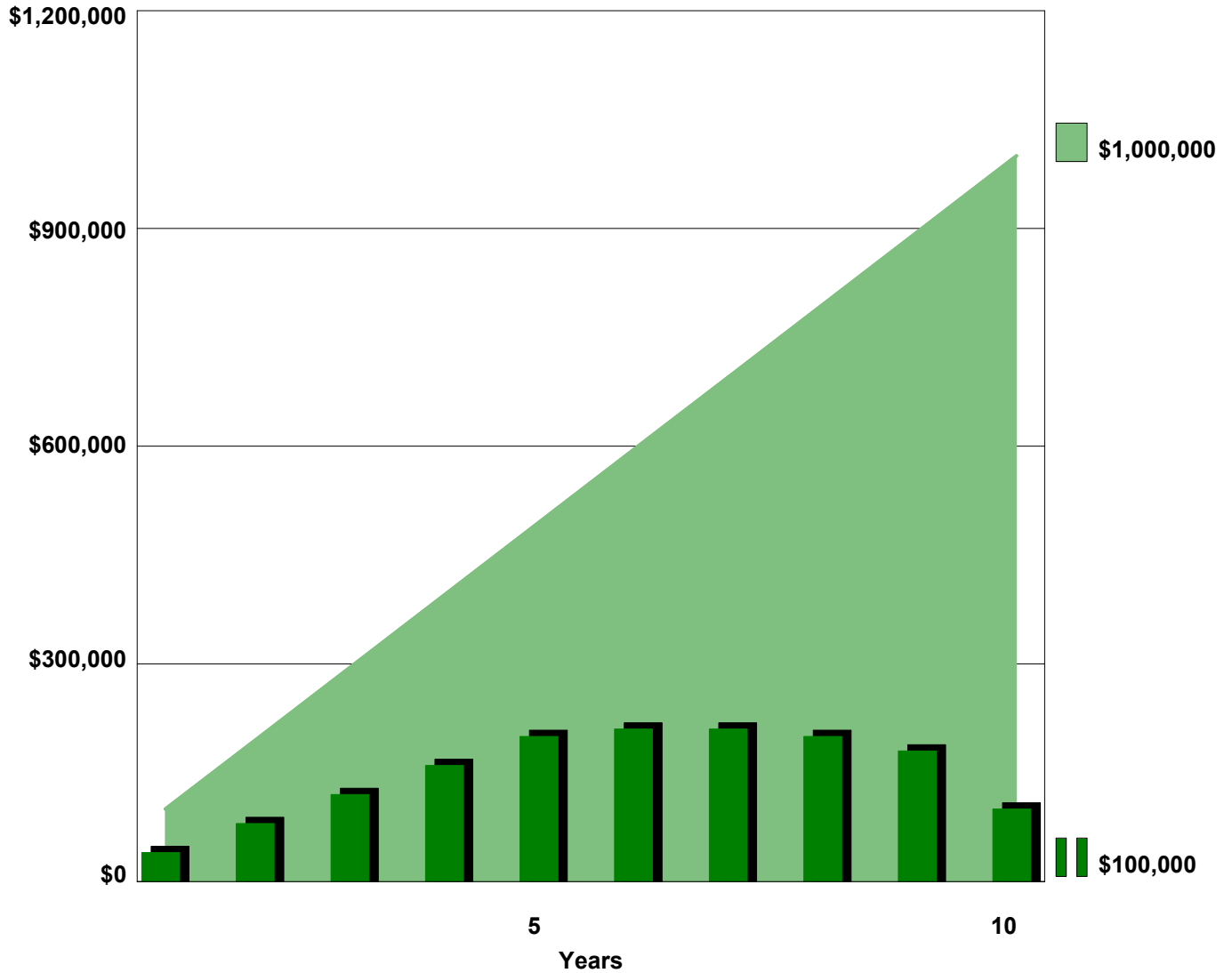
Controlled Executive Bonus Plan Using Indexed Universal Life

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

Insured: Tony Jamison

Executive's Repayment Obligations 10 Year Analysis

Employer: Town and Country Auto Group
S Corporation



At Year 10
Executive's Repayment Obligations \$100,000
Executive's Cumulative Bonuses \$1,000,000

Controlled Executive Bonus Plan Using Indexed Universal Life

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Insured: Tony Jamison

Repayment of the Bonus

Employer: Town and Country Auto Group
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.