Restricted executive bonus arrangement

The concept

Like an executive bonus arrangement, the employer pays the premiums on a life insurance policy purchased and owned by the employee as a form of employee benefit. The difference is that with a restrictive endorsement bonus plan, the employee's access to the policy's cash value is limited until a triggering event occurs such as the passage of a certain period of time.

Benefits

This arrangement is an effective tool for recruiting, rewarding and retaining valued employees. Note that because the employee's access to the policy's cash value is limited until the passage of a triggering event, the policy acts as a form of "golden handcuff" for purposes of retaining the employee until the triggering event occurs. Except for the limit on access the cash value, the policy is owned by and under the complete control of the employee.

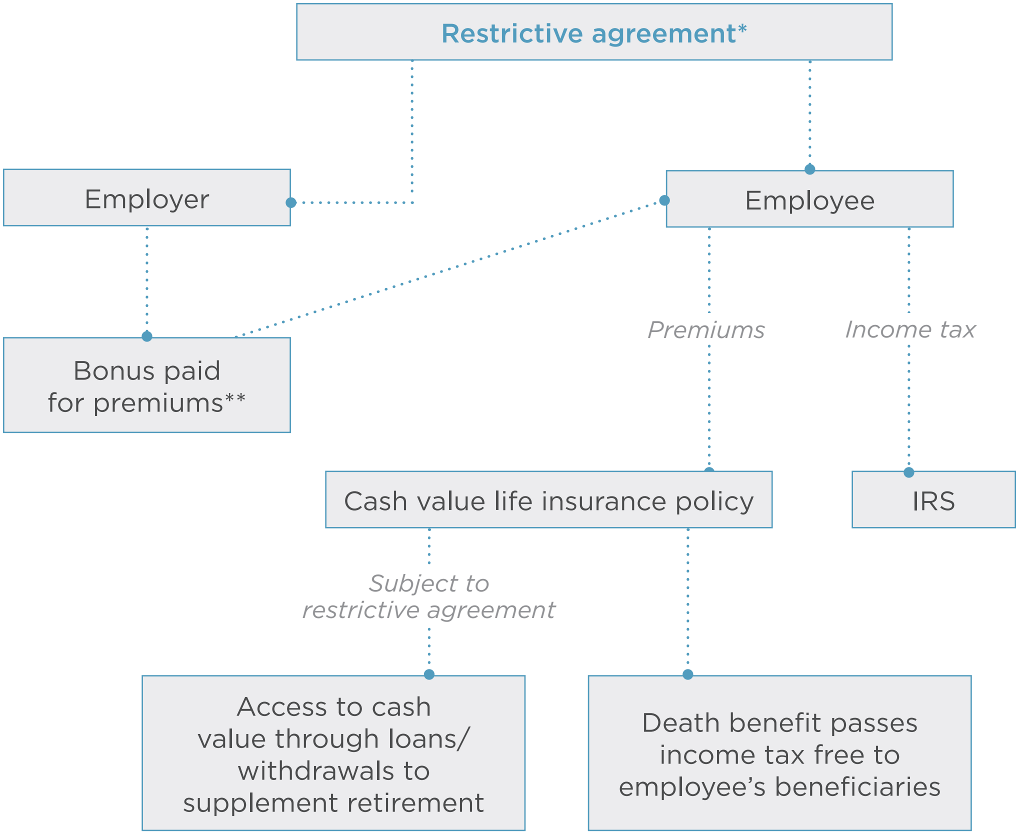
Tax considerations

- The employer's premium contributions are taxable as ordinary income to the employee at the time of the bonus regardless of the restrictive agreement and are deductible by the employer under IRC Section 162, providing that the total amount of compensation to the employee is "reasonable"
- The death proceeds are paid income tax free to the employee's beneficiary

Steps

- The employer agrees to pay the premiums on a life insurance policy purchased and owned by the employee
- The employer and employee create a separate written agreement under which the employee agrees not to access the policy's cash value through loans or withdrawals until the passage of a triggering event

How it works



* Restrictions on the policy’s cash value commonly last until a specified date. Repayment obligations can remain at 100% until a specified date or can gradually decrease. The terms of the cash value restriction and the repayment obligation can be anything to which the employer and employee agree.

** It is considered a double or budget bonus if income tax due on the bonus is being accounted for by the employer.