



Executive Bonus Plans

Client Guide

In an increasingly competitive marketplace, finding effective ways to attract, retain, and reward top talent has never been more important. Employees today expect more than just cash compensation – they're looking for a holistic benefits package that supports both their immediate needs and long-term financial security.

An executive bonus plan, also known as a Section 162 bonus plan, may be the solution your business needs. This arrangement allows you to provide select employees with a valuable benefit that is:



Cost-effective and **tax-deductible** for your business



Simple to implement and administer



Flexible and **customizable** to meet your goals and those of your key employees



Designed to encourage **loyalty** and long-term **retention**

By offering benefits that go beyond salary, you can strengthen your relationship with key employees, reduce turnover risk, and position your business for sustained success.

How it Works

An executive bonus plan is a simple, flexible strategy that allows you to use life insurance as a benefit for your most valuable employees. Instead of offering just cash bonuses, you provide your employees with a permanent life insurance policy funded by employer-paid bonuses.



Step 1

You select the key employees to include in the plan. Employees may be rewarded at different levels.



Step 2

The employee owns the policy, retaining the right to name the beneficiaries and access policy cash value.



Step 3

Your business enters into a separate agreement with each key employee, agreeing to pay the premium for the life insurance via a bonus to the employee.



Step 4

The employee pays income tax on the bonus. You may opt to cover their tax liability via an additional cash bonus to them (known as a "double bonus").





Benefits to Your Employees:

- **Cash value:** The life insurance policy builds cash value that can be accessed for supplemental retirement income, emergencies, or other needs.
- **Death benefit:** The life insurance death benefit provides financial security and protection for their family.
- **Customization:** The plan can be customized for what's most important to your employee (e.g., supplemental income, protection, long-term care).
- **Double bonus option:** You may choose to gross-up the bonus to cover the employee's tax liability, leaving them with no out-of-pocket cost.

Benefits to You:

- **Tax deductibility:** Premiums paid on the policy and any double bonuses may be deductible as compensation if they are reasonable.
- **Retention:** The plan itself fosters loyalty, keeping top talent engaged with long-term bonus payments. You may choose to add stronger "golden handcuffs" by restricting access to policy cash value until vesting or retirement. (This is a special type of executive bonus plan known as a restricted endorsement bonus arrangement or REBA.)
- **Flexibility:** Plans can be tailored to loyalty, performance, or succession goals and customized for each employee.
- **Simplicity:** The plan is easy to implement compared to complex non-qualified deferred compensation plans.
- **Selectivity:** You can choose which employees participate, and there is no requirement to offer broadly.

Next Steps

If you're looking for a cost-effective, tax-deductible way to reward and retain key employees, an executive bonus plan may be the right fit. It's straightforward, customizable, and provides lasting value to both your business and your employees. Talk with your financial professional to explore how an executive bonus plan could strengthen your compensation strategy and protect your business's future.

Contact your financial professional for more information.

