2024

Advanced Sales Forum

Navigating the Changing Tides

Wicked Good Benefits for Wicked Good Employees

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Navigate With Confidence

David Hayward CLU, ChFC, FLMI
Advanced Sales Specialist
National Life Group

Monica Rhee JD, LL.M.
AVP Advanced Designs
Pacific Life

Case Overview | Meet Steve and Elaine

- Steve and Elaine are equal owners of SE Innovations, LLC (“SEI”) (35% tax bracket for each owner).
- They have two employees who are key to the overall operations and success of SEI:
  - ✓ Thomas is the director of sales. He is married with 3 children in elementary school. His spouse works part-time.
  - ✓ Taylor is the director of operations. She is married with twin toddlers.
  - ✓ Both Taylor and Thomas have a small amount of term life insurance.
  - ✓ Taylor and Thomas are both age 36 and have a salary of $135,000.
- Steve and Elaine want to recognize the good work of Thomas and Taylor -- a benefit that will also serve as a motivation for them to stay with SEI for years to come.
- They are willing to spend up to $20,000 on each employee to retain their services.

Priority | Rewarding and Retaining Key Employees

Important Factors:
SEI desires to have control of the plan
SEI recovers its contributions to the plan if it is unsuccessful
The plan provides a death benefit and options to provide supplemental retirement income
The plan focuses on key employee retention
Easy to administer the plan

At your tables, review the case study and discuss the following:

- What are some reasons Steve and Elaine want to establish a plan benefitting Taylor and Thomas?
- What would Steve and Elaine like to see from this plan?
- Are Steve and Elaine's objectives aligned with the needs and desires of Taylor and Thomas? Does this matter?
- Based on the stated objectives, what plans might be suitable for Steve and Elaine to pursue?

Start Timer

5:00

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Possible Solutions – Focusing on Taylor

#1

EXECUTIVE BONUS

- $20,000 premium for 20 years
- Income starts at age 67, year 32
- Possible Double bonus to help Taylor’s tax situation

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Possible Solution #1A – Executive Bonus Plan: **Single Bonus**

Bonus $20,000

$20,000

$6,400

32% or 24%?

Bonus	$20,000
Compensation Ded'n (35%)	$ 7,000
Net Cost	$13,000

Possible Solution #1B – Executive Bonus Plan: **Double Bonus**

Bonus $29,412

$20,000

$9,412

Bonus	$29,412
Compensation Ded’n	$10,294
Net Cost	$19,118

Double Bonus Calculation

$$\frac{\$20{,}000}{(1 - 0.32)} = \$29{,}412$$

Possible Solution #1C – Executive Bonus Plan: **Net Bonus**

Bonus $20,000

$13,600

$6,400

Bonus	$20,000
Compensation Ded'n (35%)	$ 7,000
Net Cost	$13,000

Comparison of Bonus Plans

Type of Bonus Plan	SEI 35% Tax Bracket			Taylor 32% Tax Bracket			
	Premium	Compensation Deduction	Annual Cost	Bonus Amount	Taxes Due	Premium Amount	Net Cost
Single Bonus	$20,000	$7,000	$13,000	$20,000	$6,400	$20,000	$6,400
Double Bonus	$29,412	$10,294	$19,118	$29,412	$9,412	$20,000	$0
Net Bonus	$20,000	$7,000	$13,000	$20,000	$6,400	$13,600	$0

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Options Available with an Executive Bonus Plan

- Restrictive Endorsement
- Vesting Schedule

Executive Bonus Plan with Permanent Life Insurance

Employer Considerations

Current Tax Deduction	Tax-Deferred Accumulations
Future Tax Deduction	Minimal Complexity & Administration
Cost Recovery	Ownership & Control (corporate asset)
Required Current Cash Outlay	Flexible Contributions

Employee Considerations

Current Benefit	Tax-Deferred Accumulations
Future Benefit	Potential for Supplemental Retirement Income
Income Tax-Free Death Benefit	Ownership & Control
Required Current Cash Outlay	Tax-Advantaged Distributions

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Possible Solutions – Focusing on Taylor

#1

EXECUTIVE BONUS

- $20,000 premium for 20 years
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#2

SPLIT DOLLAR LOAN

- $20,000 premium loan to Taylor for 20 years
- Report interest as imputed income
- Repay loan at age 66
- Income Starts age 67, year 32

Possible Solution #2 – **Split Dollar Loan**

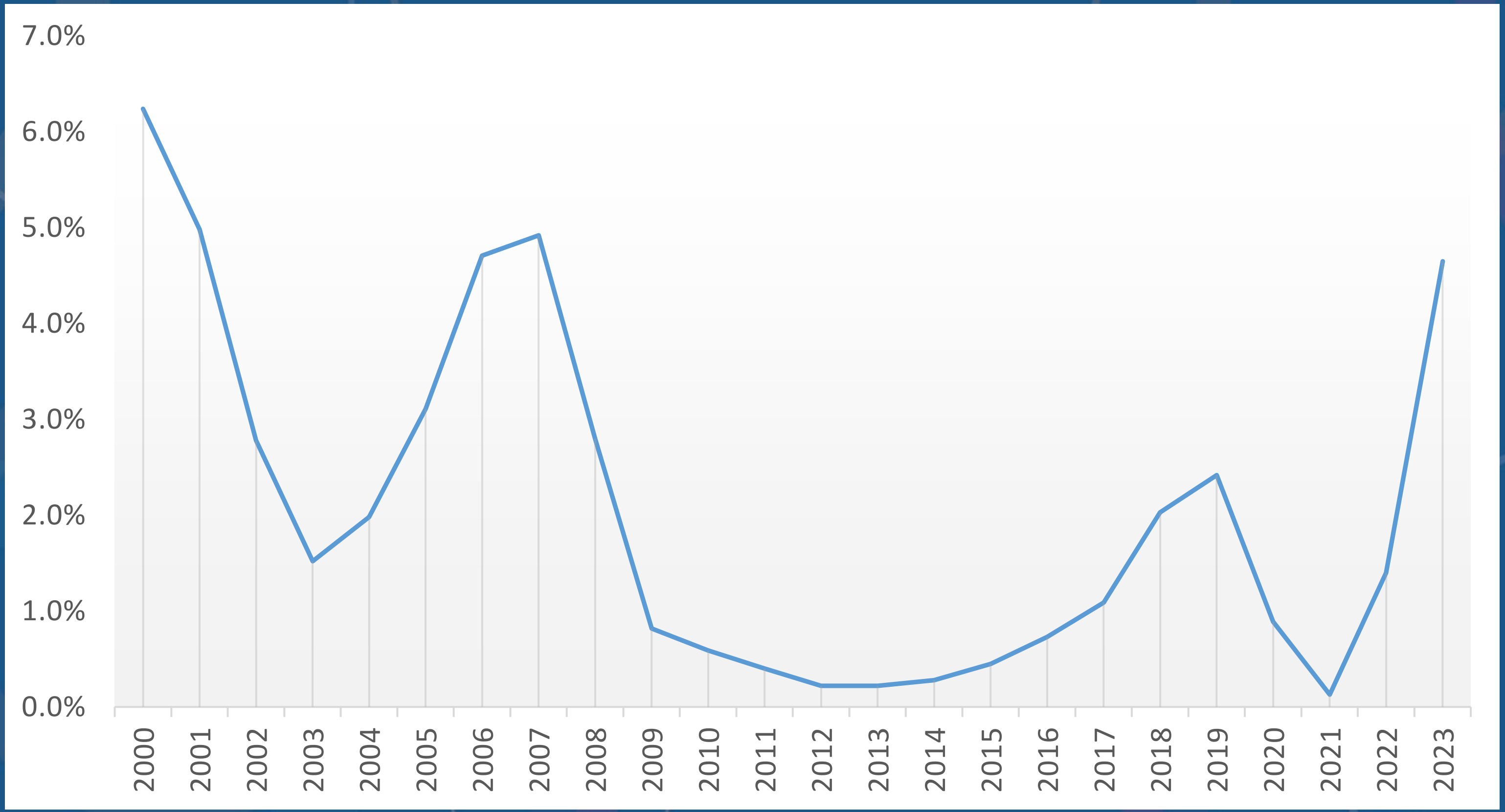
Premium Loaned $20,000

$20,000

Tax on Imputed Income

Loan	$20,000
Acct. Receivable	$20,000
Net Cost	$0

§7872 Demand Note Rate



Calendar Year	Blended Annual Rate
2000	6.24%
2001	4.98%
2002	2.78%
2003	1.52%
2004	1.98%
2005	3.11%
2006	4.71%
2007	4.92%
2008	2.80%
2009	0.82%
2010	0.59%
2011	0.40%
2012	0.22%
2013	0.22%
2014	0.28%
2015	0.45%
2016	0.73%
2017	1.09%
2018	2.03%
2019	2.42%
2020	0.89%
2021	0.13%
2022	1.40%
2023	4.65%
2024	5.03%

Source:
IRS.gov

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Possible Solution #2 – **Split Dollar Loan**

Premium Loaned $20,000

$20,000

Tax on Imputed Income

Loan	$20,000
Acct. Receivable	$20,000
Net Cost	$0

$20,000 x .0503 = $1,006 x .24 = $241.44

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Items to Consider

- Plan Documents
- Tracking the Loan
- TPA and Administrative Services

Split Dollar | Loan Regime

Employer Considerations

Current Tax Deduction	Tax-Deferred Accumulations
Future Tax Deduction	Minimal Complexity & Administration
Cost Recovery	Ownership & Control (corporate asset)
Required Current Cash Outlay	Flexible Contributions

Employee Considerations

Current Benefit	Tax-Deferred Accumulations
Future Benefit	Potential for Supplemental Retirement Income
Income Tax-Free Death Benefit	Ownership & Control
Required Current Cash Outlay	Tax-Advantaged Distributions

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Possible Solutions – Focusing on Taylor

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EXECUTIVE BONUS

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SPLIT DOLLAR LOAN

- $20,000 premium loan to Taylor for 20 years
- Report interest as imputed income
- Repay loan at age 66
- Income Starts age 67, year 32

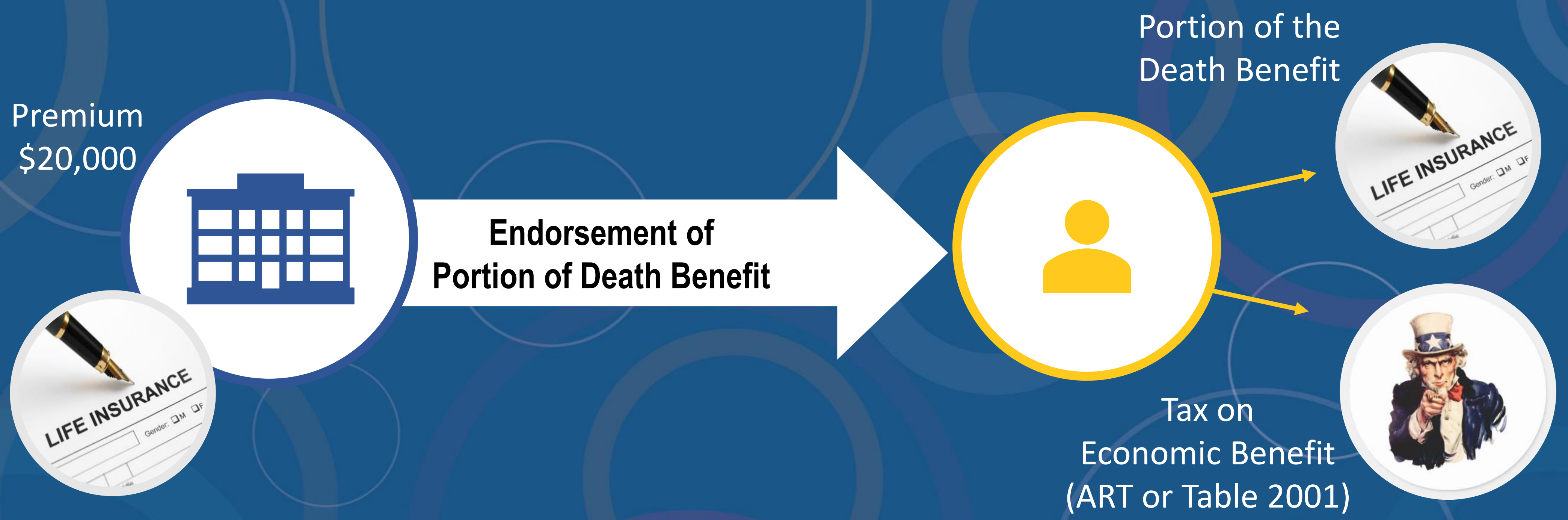
#3

SPLIT DOLLAR

ECONOMIC BENEFIT

- $20,000 premium for 20 years
- Transfer policy in year 21, pay taxes from cash value
- Income starts age 67, year 32

Possible Solution #3 – **Economic Benefit Split Dollar**



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Split Dollar | Economic Benefit

Employer Considerations

Current Tax Deduction	Tax-Deferred Accumulations
Future Tax Deduction	Minimal Complexity & Administration
Cost Recovery	Ownership & Control (corporate asset)
Required Current Cash Outlay	Flexible Contributions

Employee Considerations

Current Benefit	Tax-Deferred Accumulations
Future Benefit	Potential for Supplemental Retirement Income
Income Tax-Free Death Benefit	Ownership & Control
Required Current Cash Outlay	Tax-Advantaged Distributions

Possible Solutions – Focusing on Taylor

#1 EXECUTIVE BONUS

- $20,000 premium for 20 years
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- Possible Double bonus to help Taylor's tax situation

#2 SPLIT DOLLAR LOAN

- $20,000 premium loan to Taylor for 20 years
- Report interest as imputed income
- Repay loan at age 66
- Income Starts age 67, year 32

#3 SPLIT DOLLAR ECONOMIC BENEFIT

- $20,000 premium for 20 years
- Transfer policy in year 21, pay taxes from cash value
- Income starts age 67, year 32

#4 SERP

- $20,000 premium for 20 years
- Income to Taylor at age 67 (taxable)
- Company takes deduction when income is paid
- Company keeps death benefit for cost recovery

Possible Solution #4 – **SERP**

Premium
$20,000

Promise to Pay ~$200,000

$136,000

$64,000

Future Compensation	$200,000
Compensation Ded'n	$ 70,000
Net Cost	$130,000

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Nonqualified Deferred Compensation

Employer Considerations	
Current Tax Deduction	Tax-Deferred Accumulations
Future Tax Deduction	Minimal Complexity & Administration
Cost Recovery	Ownership & Control (corporate asset)
Required Current Cash Outlay	Flexible Contributions

Employee Considerations	
Current Benefit	Tax-Deferred Accumulations
Future Benefit	Potential for Supplemental Retirement Income
Income Tax-Free Death Benefit	Ownership & Control
Required Current Cash Outlay	Tax-Advantaged Distributions

Summary of Possible Solutions

Type of Plan	SEI			Taylor
	Premium	Compensation Deduction	Annual Cost	Net Annual Cost
Single Bonus	$20,000	$7,000	$13,000	$6,400
Double Bonus	$29,412	$10,294	$19,118	$0
Net Bonus	$20,000	$7,000	$13,000	$0
Split Dollar Loan	$20,000	$0	$20,000	$241 to $3,000
Split Dollar Economic Benefit*	$20,000	$0	$20,000	$40 to $150
SERP	$20,000	$0	$20,000	$0

* Bonus the policy to Taylor, and take out the tax

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Questions?

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Thank You

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