

EXECUTIVE BONUS UNRESTRICTED ACCESS TO PLAN VALUES

HIGHLIGHTS OF THE PLAN

This plan has several variations including:

1. The Executive applies for and owns a life insurance policy on his/her own life. The Executive's family is the beneficiary.
2. The Executive applies for and owns a life insurance policy on a member of his/her family. The Executive is the beneficiary.
3. To fund a cross purchase buy-sell plan, the Executive, who is an owner of the business, applies for and owns a policy on the life of a co-owner. The co-owner usually applies for and owns a parallel policy insuring the Executive's life.

FUNDING THE POLICY

The common denominator of the three variations involves the business providing the funds for the policy's premiums using one of the following methods:

1. **Single Bonus:** The bonus is equal to the premium on the policy. The Executive is responsible for the income tax on the bonus.
2. **Gross-Up Bonus:** The bonus is equal to both the premium on the policy and the Executive's tax on the bonus. (This is also known as a "double bonus".)
3. **Special Schedule Bonus:** This bonus is fine-tuned by the business. It is frequently used with rising young Executives with bright futures. Typically, the schedule starts with a single bonus and later phases to a gross-up bonus.

ADVANTAGES TO THE BUSINESS

1. Provided it represents "reasonable" compensation, an Employer can deduct the bonus paid to the Executive.
2. The plan helps create a nurturing employment environment for Executives, thus reducing the Employer's replacement and retraining costs considerably.
3. The Employer is free to select which Executives shall be covered and what rights and benefits shall be provided.
4. The plan requires no formal qualification or approval by the Internal Revenue Service or ERISA compliance. No periodic reports or actuarial plan evaluations need to be provided to state or federal regulatory agencies.

ADVANTAGES TO THE EXECUTIVE

1. A substantial amount of life insurance protection is made available at little or no out-of-pocket cost.
2. The death benefit protection helps provide some peace of mind for both the Executive and his/her family.
3. The Executive's policy cash values represent a significant equity asset. They may be withdrawn for any reason, e.g., emergencies, educational funding, business opportunities, etc. (This is why this benefit arrangement is often referred to as "a plan with unrestricted access".)
4. At retirement, the Executive may utilize policy cash values to supplement other retirement income.
5. If the policy includes a waiver of premium provision, the plan is self-completing if the Executive becomes disabled.

Note: Resolutions and Bonus Agreements are also available in Documents On A Disk. Most commentators believe that executive-owned plans, such as the one described above, do not require ERISA compliance. In all cases, a client's tax advisers should carefully review the circumstances to determine if ERISA is applicable.

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