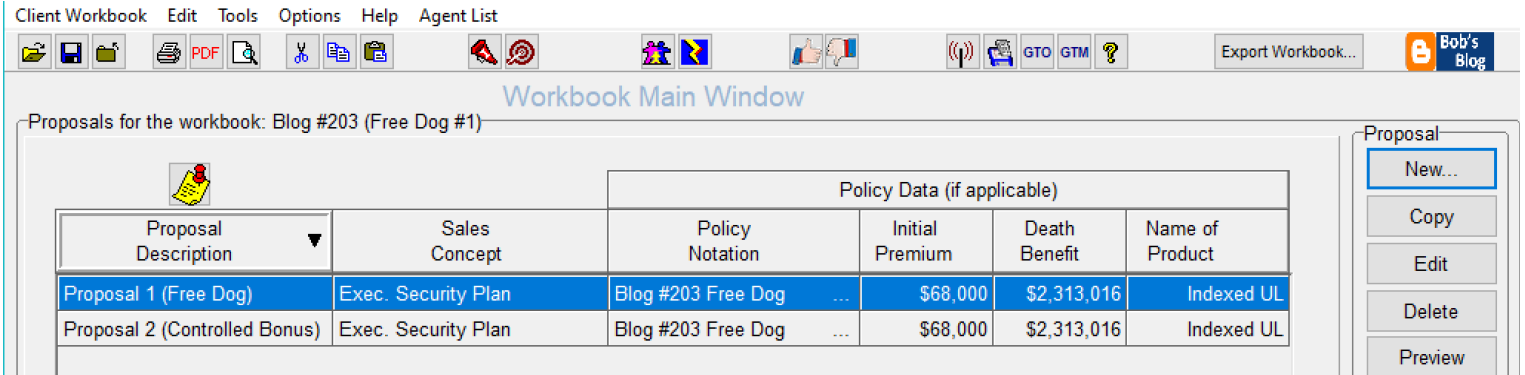Below is a view of the Workbook Main Window from the InsMark Illustration System used for Blog #203 along with a description of the input for the proposals.

Workbook file name: Blog #203 (Free Dog #1).!ii

Proposal 1: This proposal contains an executive benefit plan using the Executive Security Plan module on the Executive Benefits tab in the InsMark Illustration System. The data entry is simple — first determine the policy design you want to reflect for premiums, withdrawals or loans, and death benefits. I used an indexed universal life (IUL) policy with a male age 45 with premium in year 1 of $68,000, followed by premiums of $100,000 in years 2 – 20. I wanted to schedule policy loans in each preretirement year equal to the executive's income tax on the bonus. This procedure eliminates the executive's taxes. At the same time, the sponsoring employer only has to use a single bonus equal to the premium at a distinctly reduced cost from a gross-up bonus.

My goal was to produce no out-of-pocket for the covered executive (who, this case, is in a 32% income tax bracket) using a single bonus. The life insurance company I used for the policy data does not allow access to policy values during the first year. To produce $0.00 out-of-pocket cost for the executive in the first year, I scheduled the first year premium at $68,000. This design, coupled with a gross-up bonus in the first year, produces a bonus of $100,000 — equal to the single bonus of $100,000 in subsequent years. After year 1, I used participating policy loans to cover the executive's income tax. In some cases, you may be forced to use policy withdrawals for two or three years until policy loans are acceptable to the insurance company. (Participating policy loans can accelerate the growth of cash values.)

		Employer's Tax Bracket 40.00%	Executive's Tax Bracket 32.00%	Indexed UL Interest Rate 6.50%	Initial Payment 68,000	Initial Death Benefit 2,313,016			

		Employer's Costs		**Executive's Costs**					**Executive's Values**	
		(1) Bonus to the Executive	(2) Cost of the Bonus (Net Payment)	(3) Policy Premium	(4) Bonus from Employer	(5) Income Tax on Column (4)	(6) After Tax Policy Cash Flow	(7) Executive's Net Payment	(8) Year End Cash Value*	(9) Death Benefit
Year	Male Age									
1	45	100,000	60,000	68,000	100,000	32,000	0	0	52,753	2,365,769
2	46	100,000	60,000	100,000	100,000	32,000	32,000	0	106,697	2,419,713
3	47	100,000	60,000	100,000	100,000	32,000	32,000	0	164,674	2,477,690
4	48	100,000	60,000	100,000	100,000	32,000	32,000	0	227,583	2,540,599
5	49	100,000	60,000	100,000	100,000	32,000	32,000	0	295,824	2,608,840
6	50	100,000	60,000	100,000	100,000	32,000	32,000	0	369,825	2,682,841
7	51	100,000	60,000	100,000	100,000	32,000	32,000	0	450,052	2,763,068
8	52	100,000	60,000	100,000	100,000	32,000	32,000	0	537,003	2,850,019
9	53	100,000	60,000	100,000	100,000	32,000	32,000	0	631,219	2,944,235
10	54	100,000	60,000	100,000	100,000	32,000	32,000	0	737,578	3,050,594
11	55	100,000	60,000	100,000	100,000	32,000	32,000	0	852,730	3,165,746
12	56	100,000	60,000	100,000	100,000	32,000	32,000	0	977,375	3,290,391
13	57	100,000	60,000	100,000	100,000	32,000	32,000	0	1,116,555	3,429,571
14	58	100,000	60,000	100,000	100,000	32,000	32,000	0	1,267,113	3,580,129
15	59	100,000	60,000	100,000	100,000	32,000	32,000	0	1,429,596	3,742,612
16	60	100,000	60,000	100,000	100,000	32,000	32,000	0	1,609,634	3,922,650
17	61	100,000	60,000	100,000	100,000	32,000	32,000	0	1,803,564	4,116,580
18	62	100,000	60,000	100,000	100,000	32,000	32,000	0	2,012,341	4,325,357
19	63	100,000	60,000	100,000	100,000	32,000	32,000	0	2,236,898	4,549,914
20	64	100,000	60,000	100,000	100,000	32,000	32,000	0	2,478,367	4,791,383

The calculations required to establish the $68,000 premium reduction in the first year are (in this case):

$$(1 - \frac{\text{exec's tax bracket}}{100}) \times \$100,000.$$

$$1 - 32/100 = .68$$

$$.68 \times \$100,000 = \$68,000.$$

Below are the remaining years of the illustration in an abbreviated form:

21	65	0	0	0	0	0	0	0	260,000	2,401,962	3,119,284
22	66	0	0	0	0	0	0	0	260,000	2,325,288	3,055,299
23	67	0	0	0	0	0	0	0	260,000	2,248,577	2,989,151
24	68	0	0	0	0	0	0	0	260,000	2,172,072	2,920,766
30	74	0	0	0	0	0	0	0	260,000	1,742,267	2,203,588
35	79	0	0	0	0	0	0	0	260,000	1,496,141	1,955,746
40	84	0	0	0	0	0	0	0	260,000	1,420,246	2,057,793
45	89	0	0	0	0	0	0	0	260,000	1,549,438	2,425,393
50	94	0	0	0	0	0	0	0	260,000	2,107,005	2,346,978
55	99	0	0	0	0	0	0	0	260,000	4,094,221	4,094,221
		2,000,000	1,200,000	1,968,000	2,000,000	640,000	608,000	0	9,100,000		

We call this feature "short print". The option is on the Print menu, where you select "Short Print" (as I did in this example). The program uses a quick calculation to produce the most efficient yet still readable illustration. You can also customize the years one at a time.

Type of Business:

This is a critical selection as the tax treatment is different if the executive is a non-shareholder (as is Tony Jamison in Blog #203) or is also a shareholder. This prompt for it appears on the Plan Details tab:

Type of business
- ○ C Corporation
- ◉ S Corporation
  - ○ Insured is a Shareholder
  - ◉ Insured is a Non-shareholder executive
- ○ Limited Liability Company
  - ○ Insured is a Member
  - ◉ Insured is a Non-member executive
- ○ Partnership
  - ◉ Insured is a Partner
  - ○ Insured is a Non-partner executive
- ○ Limited Liability Partnership
  - ◉ Insured is a Partner
  - ○ Insured is a Non-partner executive
- ○ Sole Proprietorship
  - ◉ Insured is an Owner
  - ○ Insured is a Non-owner executive
- ○ Tax Exempt Organization

In this case, our executive is a non-shareholder of an S corporation. This selection is an essential distinction as all pass-through firms (S corporation, LLC, LLP, Partnership) treat a non-shareholder the same regarding a deduction of a bonus. Principals of pass-through organizations are generally not addressed by financial advisers for bonus benefits. That is a blunder, as you will see by clicking here to view a plan for Tony Jamison as though he is a shareholder of an S corporation. Instead of bonuses, we illustrate the allocation of profits, and it is as useful a strategy as a bonus plan. Use either the Executive Bonus Plan or Executive Security Plan in the InsMark Illustration System to illustrate this variation.

Proposal #2: This introduces a Controlled Bonus assumption. Some companies prefer to include a penalty if the insured executive voluntarily terminates employment during the early years of a Private Retirement Plan. There is a provision called a Controlled Bonus in our Executive Bonus and Executive Security Plan modules that deals with this. See below for how a Controlled Bonus might be applied. The percentage of bonus repayment illustrated in Col. (3) can be any percentage or length desired by the employer and acceptable to the executive.

Controlled Bonuses are likely not appropriate for shareholders.

Male Age	Indexed UL Interest Rate	Initial Death Benefit
45	6.50%	2,313,016

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 [+]
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

In this case, the penalty ceases after ten years. It is not a harsh Controlled Bonus for a serious executive as the plan has positive values in all ten years, as shown in Column (6). Many companies prefer a harsher penalty, for example, 100% in the first few years. This provides a valuable management tool if an executive elects not to participate. What signal does it give to management? Probably that the executive may be planning to leave the firm shortly, and it is information that is virtually impossible to determine otherwise. There is a report included with a Controlled Bonus that outlines the tax details of the concept, including no repayment if death occurs.

Importing Basic Illustration Data into InsMark Systems

The source of illustration data is 1) a link from the life insurance company whose basic illustration software you are using, or 2) from a Winflex connection with links to InsMark, or 3) from hand-entered data in **InsMark Source Data Storage**. The first two are the most reliable because the data source is the insurance company's basic illustration.

There are, however, three ways to hand-enter illustration data in InsMark Source Data Storage:

1) Enter pertinent data along with year by year numerical values in the arrays in InsMark's Source Data Storage. This procedure is simple to do for most of the prompts, although entering several years of cash values and increasing death benefits can be tedious (unless you have staff who can do it for you).

   Caution: Be very careful when you hand-enter data. Mistakes are easy to make, and you should have a second set of eyes evaluating your results.

2) Print a pdf of non-guaranteed values from the basic illustration, convert that pdf to an Excel file (PDF Converter Elite can do this), and copy the columns of premiums, withdrawals, loans, cash values, and death benefits from Excel and paste them into the arrays in InsMark Source Data Storage (part of the InsMark Illustration System).

3) View InsMark's video tutorial using Acrobat Reader. Click here to view that video.

Important Note #1: The hypothetical life insurance illustrations and alternative investments referred to in this report assume the nonguaranteed values shown continue in all years. This is not likely, and actual results may be more or less favorable. Actual illustrations of life insurance are not valid unless accompanied by a basic illustration from the issuing life insurance company.

Important Note #2: The information in this report 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.