



## EXECUTIVE BONUS PLANS

### *Rewarding Key Employees With Life Insurance Paid For With Deductible Corporate Dollars*

Your key employees are a big reason for your business' profitability. It's in your best interest to keep them happy by recognizing their contribution and rewarding them for it.

Management surveys show that over the long term, recognition alone is not enough to retain key employees. It must be backed by other rewards for the employee so he or she feels involved in the business' success. Employers often use selective, discriminatory fringe benefits to reward those employees whose work is most responsible for creating profits. An executive bonus plan is one of these select fringe benefits.

#### **A Tax Efficient Bonus for Key Employees**

An executive bonus plan is a simple and tax-efficient way for a business to assist key employees with the purchase of their personal life insurance. The business helps employees guarantee their families' financial security by paying premiums for additional life insurance. The premiums are paid as a bonus.

The bonus that the business pays is taxable income to the employee. It can, however, be structured to avoid or limit the employee's tax cost. The bonus can be large enough to pay the insurance premium and have enough money left over to pay the tax on the bonus, as well.

The plan also helps an employee bolster his or her insurance protection and frees up dollars he or she would personally be paying for premiums before the bonus was awarded.

#### **How the Executive Bonus Plan Works**

With an executive bonus plan, the employee takes out a personal life insurance policy and names a beneficiary. The business then pays the policy premium. The business can deduct the premium on its income taxes as long as the total payments to the employee are within the bounds of reasonable compensation. The employee then pays income taxes on the premium.

#### **Benefits on Both Sides**

An executive bonus plan offers benefits for both your company and your key employees. Executive bonus plans are simple and easy to administer. They avoid special government reporting. The company can deduct the bonus for income tax purposes. The employee gets an important fringe benefit at a low cost. Finally, the employee owns and controls the policy.

#### **Tax Considerations**

*This information is a general discussion of the relevant federal tax laws. It is not intended for, nor can it be used by any taxpayer for the purpose of avoiding federal tax penalties. This information is provided to support the promotion or marketing of ideas that may benefit a taxpayer. Taxpayers should seek the advice of their own tax and legal advisors regarding any tax and legal issues applicable to their specific fact pattern.*



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