

Executive Bonus plan overview

Key employees¹ often leave to work for competitors because they are enticed by executive benefit plans not available to them at their current place of employment. Business owners need to find ways to keep these key employees. A bonus plan is a simple and effective way for employers to provide additional compensation to selected key employees with minimal administration and reporting.

Retaining key employees is essential in today's competitive market. Bonus plans should be marketed to a company's key decision-maker—for example, the owner, president, CFO, human resources professional, or the individual responsible for compensation and benefits. Bonus plan marketing is targeted to retaining key employees in any type of business.

Two types of bonus plans

Executive Bonus plan—The employer and employee enter into an agreement under which the employer pays an additional amount of compensation to the key employee as a bonus. The employee pays income tax on the bonus, or the employer may increase the bonus to cover the tax. The employer is entitled to an income tax deduction for the amount paid, provided compensation is reasonable. The key employee purchases a life insurance policy on his or her life, using the bonus from the employer. The policy is owned outright by the employee.



Restrictive Executive Bonus Arrangements (REBA)—Under a REBA, an Executive Bonus plan is used with an added feature that restricts the employee from exercising ownership rights for a specified period of time, usually until retirement. The employer provides this feature via a restricted endorsement on the policy, allowing the plan to function as “golden handcuffs.” As with all executive benefit plans, care must be taken to avoid adverse ERISA complications for the employer such as reporting and disclosure requirements. This is particularly important when placing a restrictive endorsement on the policy.

Summary

Sun Life Financial can provide effective executive benefit solutions for your business-owner clients. An Executive Bonus plan funded with life insurance can provide an immediate tax deduction for the employer; accumulated funds on a tax-favored basis; and retirement, disability, and death benefits for selected participants.

1. Key employee as defined according to the Internal Revenue Code, section 101 (j).

About Sun Life Financial

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Take the next step. To learn more or to discuss a case design, contact the Advanced Markets Group at 800-432-1102, ext. 1756 or 1838.

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