10/24

EXECUTIVE BONUS PLAN

A TOOL TO RETAIN & REWARD KEY EMPLOYEES

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For many small- and mid-size businesses, qualified plans allow for their employees to contribute a significant amount of their wages for retirement while having either tax-deferred or tax-favored treatment on plan contributions.

However, limits on how much employers and employees may contribute to qualified plans may result in a savings gap for highly compensated employees, leaving them with insufficient assets to maintain their standard of living in retirement.

EXECUTIVE BONUS

AS A COMPLEMENT TO A QUALIFIED PLAN

A non-qualified executive bonus plan funded with a permanent life insurance policy can complement an existing qualified plan by helping to recruit, retain, and reward key employees of the company while offering them death benefit protection and a potential source of supplemental retirement income in the form of policy loans and withdrawals.

An Executive Bonus Plan involves paying the premiums, through a series of bonuses, for a personal life insurance policy that is owned by the executive. Premiums may be bonuses to the executive or paid directly to the insurance company. Bonus amounts will be taxable to the employee and can be tax deductible for the business.

BENEFITS FOR THE BUSINESS

- Simple way to retain and reward key employees
- Bonus amounts can be tax deductible (as long as compensation is reasonable)[1]
- Ease of implementation and administration
- Ability to limit plan participants to select group of key employees
- Customizable to each individual entering the arrangement

BENEFITS FOR THE EXECUTIVE

- Ability to contribute more for retirement above qualified plan limits
- Executive is the owner of the policy (subject to any cash value restriction agreement)
- Death benefit protection for family along with tax-deferred growth of policy cash values
- Tax free access to policy cash values which can supplement retirement income[2]

The tax treatment of an executive bonus plan depends on the legal form and tax status (e.g., partnership, LLC, or S-corp.) of the business and whether the executive is an owner of that business or not, among other factors. The marginal tax rates of the business and the executive are also important considerations.

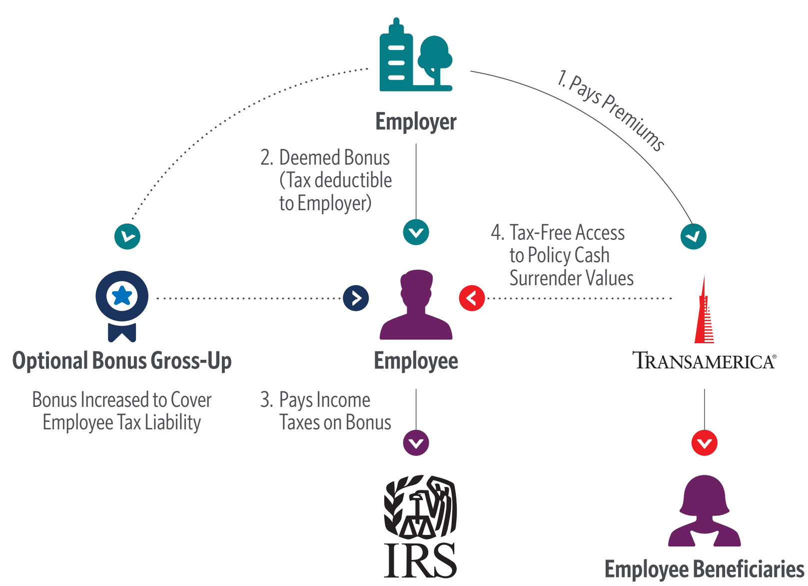
CANDIDATES FOR EXECUTIVE BONUS PLANS

Businesses that desire to use the plan to recruit, retain, and reward highly compensated key employees

Corporate entities, including S corporations and partnerships with non-owner key employees

Small- to medium-sized businesses with 20 or more employees

HOW AN EXECUTIVE BONUS PLAN WORKS



[1] The tax deductibility of the bonus is subject to the reasonable compensation limits established by Internal Revenue Code Section 162(a).

[2] Loans and withdrawals will lower the policy value and net cash value and will lower the death benefit or may cause the policy to lapse. Withdrawals or distributions may have adverse tax consequences, so please consult your tax professional. If the policy is considered a modified endowment contract (MEC), distributions are treated first as taxable distributions of earnings in the policy. Withdrawals, loans, and assignments are considered distributions. Taxable distributions from a MEC prior to age 59½ may also be subject to a 10% federal income tax penalty.

CUSTOMIZING AN EXECUTIVE BONUS PLAN

Executive bonus plans can be customized to the individual executive allowing for varying bonus amounts, life insurance policy designs, and additional options to help support employee retention.

Customize the Bonus	• Pay a bonus equal to the insurance premium • Option to pay an additional bonus to cover employee's tax expenses and eliminate out-of-pocket costs for the employee
Customize Employee Access to Cash Value	• The employer may choose to limit the employee's access to policy cash values for a period of time as a retention tool • A separate agreement, known as a **Restricted Executive Bonus Arrangement (REBA)** is established between the employer and employee to establish a vesting schedule for the cash surrender value
Customize the Policy	• The policy can be designed with a focus on maximum cash value accumulation for supplementing retirement income[1] or on maximizing death benefit protection

REWARD AND RETAIN KEY EXECUTIVES – PLAN IN ACTION

Hypothetical Example[2]

Widgets, Inc. would like to reward Mike, their chief distribution officer and one of their most valued executives, for his efforts in helping the company expand and grow. Mike is 45 years old and plans to retire once he reaches age 60. Widgets, Inc. would like to find a way to retain Mike until he retires, as his expertise is crucial to the company's continued success.

The company chooses to implement an executive bonus plan for Mike where the company agrees to pay premiums on a **$500,000** *Transamerica Financial Choice IUL℠ II* (FCIUL II) policy owned by Mike. This will provide death benefit protection along with tax-free access to cash surrender values to supplement his income in retirement.

Widgets, Inc. pays the annual premiums of **$30,000** for 15 years on behalf of Mike, which constitutes a taxable bonus to him. The company chooses to pay an additional bonus of **$11,667** to Mike to cover his tax expenses, known as a double bonus.

Upon retiring at age 60, Mike chooses to access his policy's cash surrender value for retirement income to supplement what he will withdraw from his qualified plans and other retirement assets.

PLAN SUMMARY – WIDGETS, INC.

Annual bonus paid to Mike	$41,667
Tax deduction to employer in current tax year[3]	$8,750
Total bonuses paid to Mike	**$625,000**
Cumulative tax deductions to employer[3]	- $131,250
Total after-tax plan cost	**$493,750**

PLAN SUMMARY – MIKE

Total after-tax bonuses received	$450,000
Total premiums paid on *Transamerica Financial Choice IUL II*	-$450,000
Mike's total out of pocket expenses	**$0**
Annual tax-free income (Ages 61 to 90)	$50,304
Total tax free income (Ages 61 to 90)[4]	**$1,509,120**
Remaining death benefit at age 90 for Mike's family	$364,640

The example shown is derived from a complete hypothetical illustration that assumes non-guaranteed elements will continue for all years. This is not likely to occur and actual results will be more or less favorable. All non-guaranteed elements are subject to change by the company. Keep in mind that the purpose of hypothetical illustrations is to show how a policy might work under different scenarios, including minimum interest rates at maximum guaranteed charges. Illustrations may not be used to predict or project future policy values. Prospective policy owners should refer to a complete, personalized sales illustration for guaranteed elements and other important information as well as the consumer brochure for the *Transamerica Financial Choice IUL II*. **At a 0% index growth rate, guaranteed charges and maximum index loans starting in policy year 16, this policy lapses in year 20 with no cash value.**

[1] Loans and withdrawals will lower the policy value and net cash value and will lower the death benefit or may cause the policy to lapse. Withdrawals or distributions may have adverse tax consequences, so please consult your tax professional. If the policy is considered a modified endowment contract (MEC), distributions are treated first as taxable distributions of earnings in the policy. Withdrawals, loans, and assignments are considered distributions. Taxable distributions from a MEC prior to age 59½ may also be subject to a 10% federal income tax penalty.

[2] This hypothetical example assumes a male, age 45, preferred elite risk class, $30,000 annual premium paid for 15 years, assuming 6.57% index growth rate fully allocated in the Balanced Uncapped Index Account $500,000 death benefit, level death benefit option (GPT), and monthly policy loans in years 16–45.

[3] Assumes a 21% C-corp tax bracket.

[4] Tax-free as long as the policy remains in force.

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This policy is first and foremost a life insurance policy. The main purpose is to provide a death benefit. It is not a short-term savings vehicle nor is it for short-term insurance needs. It is designed to be long term in nature and should be purchased only if you have the financial ability to keep it in force for a substantial period of time.

This is not intended to be a full description of the policy. Refer to the *Transamerica Financial Choice IUL*℠ *II* consumer brochure, the life insurance policy, current Cap rates, Statement of Understanding, and a personalized hypothetical illustration for a complete explanation of the terms.

Transamerica and its representatives do not give investment recommendations, tax, or legal advice. This material and the concepts presented are for informational purposes and should not be viewed as an investment recommendation, tax, or legal advice. Any investment, tax, or legal advice you require should be based on your particular circumstances and should be obtained from an independent professional advisor.

Even though the interest credited to the policy's index accounts may be affected by the index(es), this life insurance policy is not an investment in the stock market(s) or financial market index(es) and does not participate in any stock or investments.

The *Transamerica Financial Choice IUL II* (Policy Form ICC22 TPIU11-0224 or TPIU11xx-0224) is an index universal life policy issued by Transamerica Life Insurance Company, Cedar Rapids, Iowa. Policy form number may vary, and this product may not be available in all jurisdictions.

Not available in New York.

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