Blueprints for Business

Executive Bonus Arrangements Using Life Insurance

Producer Guide

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Executive Bonus Arrangements Using Life Insurance

To remain competitive and profitable, companies must constantly increase productivity through the efforts of their executives. Unfortunately, finding and retaining top executives is becoming increasingly difficult. Quality executives are in demand and salary alone may not be enough for employers to recruit and keep the talent needed to excel in the marketplace. Code Section 409A has made nonqualified benefits less attractive. Employers are looking for simple ways to attract and keep top performers.

Executive Bonus Arrangements

Executive bonus arrangements (also known as Section 162 bonus plans) can be used by an employer for the executive's purchase of life insurance. Generally, the employer pays the premium but charges the executive with a bonus in the amount equal to that payment. Alternatively, the employer could bonus cash to the executive; the executive may then use the cash to pay the insurance premium. (Please note: If the employer pays the premium directly to the insurance company or if the bonus is paid to the executive with the expectation that it will be used to purchase life insurance, then the employer may need to comply with ERISA requirements discussed later in this guide.)

The executive—or third party such as an irrevocable life insurance trust established by the executive—purchases, owns and names the beneficiary of the life insurance policy. The owner of the policy has all rights in the policy. The employer never has any right to any part of the cash value or death benefit, and at no time does the employer have any incident of ownership in the policy.

This arrangement allows an employer to determine who will receive the bonus and how large the bonus will be. The bonus, whether used to pay the policy premiums or not, is deductible by the employer if the executive's total compensation is "reasonable" for the services he/she actually renders. The bonus is taxable to the executive.

Unfortunately, the implementation of an executive bonus arrangement doesn't ensure the employer will reap the intended benefits. Any number of events could prevent the employer from realizing the results the arrangement was designed to achieve. For example the executive may:

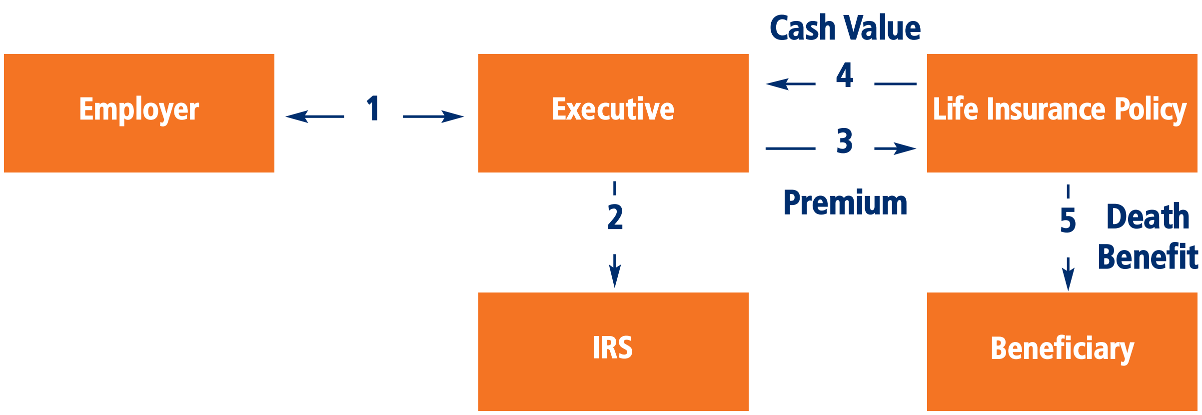
- decide to retire early,
- leave to take a job with another company,
- resign to start up a competing company, or
- engage in activities detrimental to the employer (e.g. fraud, embezzlement).

How an Executive Bonus Arrangement Works

An Executive Bonus Arrangement is a simple and straightforward method of rewarding an executive over and above the traditional salary and other benefits. Under this type of arrangement, the executive applies for, owns and names the beneficiaries of a life insurance policy. Through an executive bonus, the employer pays the insurance premium directly to the insurance company or pays the bonus to the executive who then pays the policy premium. This payment is considered ordinary income for the executive and is taxable at his or her normal income tax rate. [I.R.C. § 61(a)] The bonuses, if reasonable compensation, are tax deductible to the employer when paid. Also, employer bonuses are treated as wages to the executive and therefore subject to FICA and FUTA withholding. [I.R.C. § 162(a)(1)]

A simple corporate resolution (signed by both the executive and the employer's authorized representative) is usually all that is required to document the arrangement; the restrictions can be included in the resolution, a separate restricted endorsement agreement or in a comprehensive employment agreement. The executive's basis in the policy is equal to the sum of the premiums paid. Any policy withdrawals, surrenders or loans made by the executive are taxed as they would be if the executive had purchased the policy without the benefit of the bonus arrangement.

To be deductible by the employer, a bonus must be related to the services rendered and it must represent reasonable compensation for those services. Past services may be taken into account in establishing the amount of the bonus. If the executive's total compensation, including the bonus, is excessive and unreasonable, then the bonus may be treated as a dividend and is not deductible by the employer.



1. The employer and the executive enter into an agreement in which the employer agrees to pay the executive an annual bonus which will be used to pay the premiums on a life insurance policy. The executive's ability to exercise ownership rights will be subject to restrictions specified in the agreement or in a separate employment agreement. Bonus payments are tax deductible by the employer (assuming total compensation is reasonable).
2. Executive pays tax on bonus as ordinary income.
3. Executive applies for, purchases and owns life insurance policy.
4. Executive may receive income through withdrawals and loans from the policy's cash value, subject to any restrictions included in the agreement.[1]
5. At the executive's death, income tax-free death benefit proceeds are paid to the executive's named beneficiary.

[1] If the policy lapses or is surrendered, the IRS will tax distributions received over the life of the policy and at termination that are in excess of total premiums paid.

Advantages of Executive Bonus Arrangements

The benefits to an employer offering executives an executive bonus arrangement include:

1. A reward to the selected key executives.
2. Amounts of insurance coverage on various executives and the amounts of their bonuses can be different for each executive.
3. The size of the bonus from year to year can vary to reflect the value of each executive's work and the current profitability of the company.
4. Arrangement can be terminated without IRS notification, approval or restrictions.
5. Contributions are fully deductible if the executive's total compensation is reasonable.
6. Arrangement is relatively simple to implement and administer.
7. The executive can agree (through a policy endorsement) not to change ownership or borrow against the policy for a period of time without the employer's consent.
8. An executive bonus arrangement may not be required to comply with Section 409A and its regulations. However, the employer and executive should consult with counsel regarding the executive bonus arrangement design and the possible consequences under 409A.

The executive also enjoys a number of distinct advantages through a bonus arrangement including:

1. Arrangement can be customized to meet the executive's individual needs.
2. Beneficiaries will generally receive the insurance death benefit Income tax free at the executive's death [I.R.C. § 101(a)(1)].
3. Policy cash values potentially grow Income tax deferred and can be available to the executive for emergencies, retirement or other needs with the employer's consent.[1]
4. The executive may voluntarily contribute personal funds to arrangement to potentially increase cash value growth and supplemental retirement income.[1]
5. Retirement benefits can be accessed Income tax free through proper structuring and use of withdrawals to basis and policy loans as long as the policy remains in force.[1, 2]
6. Executive owns the policy (and cash value) and is fully vested from the start of the arrangement.[1]

[1] Restrictions may apply to the extent that IRC §409A applies to the arrangement.

[2] Income tax-free distributions are achieved by withdrawing to the cost basis (premiums paid) then using policy loans. Policy loans and withdrawals may reduce the policy's cash value and death benefit. This assumes the policy qualifies as life insurance and does not lapse.

Executive Bonus Arrangement Design Options

Using an executive bonus arrangement, an employer can reposition dollars that might otherwise be spent on executive group term coverage. An executive bonus arrangement can be used to "carve out" selected executives from an employer's group term life insurance plan and instead create post-retirement or permanent benefits for them. Viewed as a whole, there is a great deal of flexibility in designing both premium payment schedules and benefits under an executive bonus arrangement.

Pre- and post-retirement death benefit

An executive bonus arrangement can be designed to simply provide life insurance protection both before and after retirement. Premium payments may be made until the executive retires, or premiums may be paid over a shorter period of time through the use of the various types of cash value contracts available. Funding a policy sufficiently to potentially allow the life insurance to continue beyond the premium paying period may benefit the employer by shortening the premium paying period as well as benefit the executive with the advantage of owning a portable policy.

Supplemental retirement income

An executive bonus arrangement can be designed to provide a potential source of supplemental income for an executive during retirement while continuing to provide post-retirement life insurance protection. During the executive's life, the policy's cash value may accumulate on a tax-deferred basis. As long as the policy is not classified as a "modified endowment contract," the executive can make withdrawals to basis and loans that will not be subject to income tax.[1] As long as the policy remains in force until the executive's death, the income tax on policy distributions over the executive's basis can be permanently deferred, although the policy's death benefit will be reduced. (The policy's basis is equal to that portion of the bonus actually paid as premiums.) But gain over basis will be taxable if the policy lapses or is surrendered before the executive's death.

Estate liquidity

For estate tax purposes, inclusion of the policy proceeds in the gross estate of the executive/insured can be avoided if the insured has no incidents of ownership in the policy at the time of his or her death or within three years prior to death. In situations where a decision is made to establish an irrevocable life insurance trust (ILIT) to own a newly issued policy, the estate inclusion three-year rule [I.R.C. § 2035(d)] can usually be avoided by simply having the policy applied for by the ILIT trustee and issued to the trust as owner. In circumstances where the ILIT is established to own an existing policy, the risk of an early death causing the policy proceeds to be included in the insured's gross estate will remain for the three-year period following the transfer. When designing an executive bonus arrangement for estate tax purposes, normal gift-tax consequences would apply to any gifts made to the trust to pay the insurance premiums or any transfers of an existing cash value policy to a trust.

Paying the executive's additional income taxes

The employer's payment of the bonus to the executive (or to the insurance company for the executive's benefit) results in taxable income to the executive; he/she is responsible for paying the income taxes that are due as a result. This increase in income taxes can be a problem for the executive. Several executive bonus arrangement design alternatives are available to deal with this income tax problem. Planning for paying the income taxes is essential, particularly when the employer pays the policy premium directly to the insurance company. The executive may find him/herself in the position of having a large additional income tax liability without the cash to pay it. This could be especially disconcerting to the executive because the asset creating the tax liability may not be accessible for many years. If an executive receiving an executive bonus arrangement benefit is to see it as a reward for good work and an attractive incentive, it must include an acceptable strategy for paying taxes.

[1] If the policy is a modified endowment contract (IRC Section 7702A) distribution from the policy (by loan or withdrawal) will be taxable as ordinary income to the extent of the gain in the policy and may be subject to a 10% income tax penalty prior to age 59 ½.

Zero Net Outlay or ‘Double’ Bonus Arrangements

In addition to a bonus in the amount sufficient to pay the annual premium, the employer may also bonus an additional amount to cover the executive’s income tax on the bonus itself. In fact, an additional bonus to pay the executive’s increased income taxes may be advisable since the restrictions may not permit the executive to access policy cash values to pay the income taxes due on the bonus. Thus, it often makes sense to increase the bonus so that after the executive pays the income tax on the bonus to pay the insurance premium, his or her net out-of-pocket outlay is zero.

Example: Suppose that the annual premium is $10,000, and the executive is in a 31% tax bracket.
To pay the premium and the tax on the bonus itself, the employer could bonus the executive $14,493 [$10,000 ÷ (1 - 0.31)]. The tax on $14,493 at 31% is $4,493, leaving $10,000 to pay the insurance premium.

Executive Borrows Funds to Pay the Income Taxes

It may be possible for the executive to borrow the money needed to pay the taxes. There are two potential sources of loan dollars:

Bank Loan If the executive has reasonable credit and collateral sources beyond the policy, he/she may go to a bank or commercial lender each year and take out a loan. The loan proceeds could be used to pay the taxes. At the executive’s death, part of the policy death benefit could be used to pay back the loan. This approach can be attractive if paying the interest on the loan balance is less expensive than the amount of the income taxes.

Loan from Employer Instead of borrowing from a bank, the executive may be able to borrow the amount needed to pay income taxes from the employer. Such a loan could be at a fair market interest rate or the rate could be below market. In fact, the loan could even be interest free. A below market or interest free loan creates imputed income for the executive which would also be taxable. Despite this additional income tax cost, it may still make economic sense for the executive to borrow from the employer instead of a bank/commercial lender. The executive’s tax and legal advisors should be consulted for a full analysis of this option.

Combination It is possible to use a combination of these strategies. For example, the employer could give the executive an additional bonus to pay part of the income tax costs and could lend him/her the remaining funds needed. Or the employer could lend the executive part of the funds and the executive could borrow the balance from a bank or other commercial lender.

Employer May Consent to Executive Use of Policy Cash Values

Depending on the type of policy and its current level of cash value, it may make sense for the executive to withdraw or borrow enough of the policy’s cash value to pay the income taxes. If the employer is not going to supply the funds the executive needs to pay the taxes, the employer can consent in writing to the executive’s use of policy cash values for this purpose.

ERISA Issues

An **unrestricted bonus** which the executive voluntarily uses to purchase a life insurance policy would most likely not be considered an ERISA plan. However, if an employer pays the premium directly to the insurance company or provides a bonus to the executive with the expectation that it will be used to pay for a life insurance premium, then the bonus arrangement may be considered an employee benefit plan under ERISA even if only one executive participates in the arrangement. The odds of the plan being considered an ERISA plan may increase when the executive and the employer agree that the employer may prevent the executive from exercising certain policy rights for a period of time as is the case in an executive bonus arrangement.

ERISA may define a bonus life insurance arrangement as an executive welfare benefit plan or an executive pension plan or both:

- A welfare benefit plan is a plan established or maintained for the purpose of providing to participants, or their beneficiaries, through the purchase of insurance or otherwise, benefits including medical, surgical, or hospital benefits; benefits for sickness, accident, disability, death, unemployment or vacation; or benefits under Section 302(c) of the Labor Management Relations Act of 1947.
- A pension plan is a plan established or maintained by an employer to provide retirement income to executives, or which results in deferral of income by executives for periods terminating at or after retirement.

There are some employers that take the position that a bonus plan is not an ERISA benefit plan, but merely an increase in taxable compensation to the executive, or an employment contract. Other employers take the position that a bonus life insurance arrangement is an ERISA plan. The employer's tax and legal counsel should be aware of this issue and should advise the employer as they see fit.

Welfare Benefit Plans

For those employers that assume the bonus arrangement is an ERISA plan, many take the position that the bonus arrangement is a welfare benefit plan under ERISA because they argue that it simply provides a benefit in the event of death. Most unrestricted bonus arrangements would probably be considered welfare benefit plans. Restricted bonus plans where the restrictions are removed well before normal retirement age or before the executive is eligible to retire, may also be seen as welfare benefit plans for ERISA purposes.

As a welfare benefit plan, a bonus arrangement would require limited reporting for ERISA compliance. However, a plan that is properly structured to meet top-hat requirements may be exempt from Title I of ERISA except for providing plan documents to the Secretary of Labor upon request and having a claims procedure in place. It would still be subject to ERISA fiduciary requirements.

Pension Plans

A bonus life insurance arrangement may also be considered a pension plan under ERISA if the result is to provide retirement income to the executive. Certain types of bonus plans are more likely to be determined to be pension plans under ERISA. For example, a plan that is designed to produce large cash values relative to the death benefits might be a pension plan. Also, if a bonus plan includes vesting provisions or requires a restrictive endorsement that is released at or near retirement, it might be considered a pension plan under ERISA. This determination is entirely a factual one that must be made by qualified legal and tax advisors. For example, a 10-year restriction for a 55-year-old executive may create a pension plan whereas a 10-year restriction for a 35-year-old may not.

There is a top-hat exemption from most Title I requirements for pension plans if the plan is unfunded and established primarily for the purpose of providing retirement income for a select management group or highly compensated executives. However, it is doubtful that a bonus arrangement using life insurance would be classified as "unfunded." Therefore, to avoid being characterized as a pension plan under ERISA, a bonus plan should be designed and intended to primarily provide death benefits. The cash values in the policy should be incidental to the death benefit, and the plan language and other executive communications should reflect this fact. If an executive bonus arrangement has a restrictive endorsement, it should be removed well before retirement. Finally, a vesting schedule might be viewed as a factor supporting pension plan status. When considering implementing an executive bonus arrangement, careful planning must occur with the assistance of qualified legal and tax advisors.

Marketing Opportunities

An executive bonus arrangement can be an attractive option for employers looking to provide selected key employees with an incentive that is easy and inexpensive to administer. Typically, all that is needed is a simple corporate resolution establishing the arrangement. Some of the prospects for an executive bonus arrangement include (but are not limited to):

1. Any closely held business with non-owner key executives;
2. Small businesses where qualified plans are too expensive;
3. Group term carve-out opportunities where additional insurance benefits are provided to a select group of executives "carved out" of a group term plan;
4. Companies in a higher tax bracket than the executive where the combined tax paid can be reduced;

Example: Employer is in a 34% tax bracket and the executive is in a 28% tax bracket. When the employer bonuses $10,000 to the executive, the employer's cost after the $10,000 tax deduction is only $6,600. The executive pays $2,800 in taxes on the bonus leaving $7,200 that can be used to help pay the insurance premiums. The net tax savings using an executive bonus arrangement is $600 [(34% - 28%) x $10,000].

5. Companies wishing to find a replacement for qualified plan benefits;
6. Providing a premium source to fund a cross-purchase buy-sell between shareholders.

Almost any type of insurance can be purchased as part of a Section 162 bonus arrangement including disability policies, long-term care policies, term or cash value life insurance. By using traditional life insurance, employers can offer a meaningful and portable benefit that may be structured to provide key executives with family death benefit protection, supplemental retirement income and/or estate liquidity.

Conclusion

Employers need techniques to reward and retain key executives. In the current tax environment, executive bonus arrangements often make sense. They provide significant death and retirement benefits to executives, while allowing the employer to retain a degree of control over those benefits. They offer tax-efficient vehicles for employers and executives to accumulate retirement funds, and they can be structured to provide post-retirement life insurance coverage. They can be a simple and effective alternative for employers who don't want to deal with the restrictions required for nonqualified deferred compensation plans under Code section 409A. Like NQDC arrangements, executive bonus arrangements can "tie" key executives to the company. The longer the executive stays with the company, the larger the potential benefit.

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Split Dollar Loans Marketing Kit

ING Life Companies' Executive Benefits

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Today the opportunity in the Executive Benefits market is bigger than ever. The gap between retirement needs and retirement savings is growing, especially for highly paid executives. Now more than ever, executives need solutions that can help them bridge this gap.

But new legislation has hampered the effectiveness of traditional nonqualified benefits solutions. Section 409A of the Internal Revenue Code has riddled deferral plans, salary continuation plans, and supplemental executive retirement plans ("SERPs") with complexity, restrictions, and big penalties. So while today's top executives need nonqualified retirement benefits more, and while today's employers continue to seek ways to retain their most talented executives, the old solutions are becoming obsolete. Now is the time for an Executive Benefits alternative that is not subject to the restrictions of § 409A.

The ING life companies bring you a powerful solution to help meet the need for Executive Benefits that is not subject to § 409A. This solution is the Split Dollar Loan arrangement. A Split Dollar Loan arrangement uses life insurance to help provide supplemental retirement savings for key executives. The executive owns the policy and has the assurance that it will not be subject to the claims of the employer's creditors. This makes the Split Dollar Loan arrangement an attractive solution for today's Executive Benefits needs.

This kit is designed to give you everything you need to provide your clients with the Split Dollar Loans solution. This kit includes the following:

- Three alternative plan designs depending on whether the client's primary objective is cost recovery, "Golden Handcuffs," or providing a deferral alternative.
- A summary discussion of how Split Dollar Loan arrangements work and where they fit in the Executive Benefits marketplace.
- A detailed discussion of how each of the three plan alternatives works, its tax consequences, and the advantages and disadvantages associated with the plan design **(Appendix 1)**.
- A marketing and implementation checklist that producers can use to sell, design, and implement a Split Dollar Loan arrangement **(Appendix 2)**.

Remember, the time for Executive Benefits is now and the place for Executive Benefits is ING.

To learn more about Split Dollar Loans and ING's Executive Benefits platform, contact ING Life Sales Support at **1-866-ING-SELL (1-866-464-7355).**

Big Opportunity for Split Dollar Loans

Now is a time of great opportunity for the financial professional who wishes to enter the field of Executive Benefits. Change in recent years has created uncertainty in this market. That uncertainty has caused many would-be producers to shy away from Executive Benefits. Yet the level of need for Executive Benefits planning has remained the same or even grown.

The result is a market with increasing opportunity and decreasing competition. For the producer who wishes to increase sales, now is the time to get into the Executive Benefits market!

The need for supplemental retirement benefits is greater than ever. There is increased competition for the best executives, the cost of replacing executives is climbing, and the gap between retirement needs and what can be provided through qualified plans is widening.

Yet, several features of the new rules under § 409A have made nonqualified retirement benefits less attractive to producers and clients alike:

- Section 409A applies to a wide variety of **nonqualified benefits** arrangements including both deferral plans and salary continuation plans (or "SERPs");
- Section 409A is **complex**: the final regulations interpreting the rules of § 409A are over 400 pages long;
- Section 409A requires the continued **exposure of funding assets** to the claims of an employer's creditors; and
- Section 409A provides **large penalties** for benefits arrangements which do not comply with the new rules.

Marketing Split Dollar Loan arrangements allows you to help your clients meet the need for supplemental retirement benefits without being burdened by the full weight of § 409A's rules and regulations.

The ING life companies have created tools and resources to help you succeed in this market by offering a flexible Executive Benefits plan design which is an alternative to § 409A plans. This planning alternative is the Split Dollar Loan arrangement.

You can use a Split Dollar Loan arrangement to help your clients recruit, retain, and reward key executives without the constrictions of § 409A. Even better, you can tailor Split Dollar Loans to meet specific client needs including cost recovery, "Golden Handcuffs," or providing executives an alternative to income deferrals.

What is a Split Dollar Loan Arrangement?

A Split Dollar Loan arrangement (or split dollar with "loan" treatment) is an arrangement where the employer's dollars are used to fund the purchase of life insurance for a key executive and where the business retains an interest in the policy equal to the sum of premiums it advances. The executive owns the life insurance policy and is taxed on the "imputed interest" from treating these premium payments as a series of loans. The life insurance policy can be used by the executive for death benefit protection and as a potential source of supplemental retirement income.

More simply stated, the employer pays the premiums on a policy insuring the life of the executive. The executive owns the policy which can provide income tax-free benefits for the executive's family in the event of death and which can be used by the executive as a potential source of supplemental retirement income. Proceeds from an insurance policy are generally income tax free (e.g., absent a transfer for value), and if properly structured, may also be free from estate tax.

In a typical Split Dollar Loan arrangement, the employer retains an interest in the life insurance policy to the extent of the premiums it has paid. The employer formalizes this interest by filing a collateral assignment against the life insurance policy. The executive is required to repay these premiums upon termination of employment.

While the Split Dollar Loan arrangement is in place, the executive is subject to income taxation on the "imputed interest" costs associated with the premiums paid. Under the final split dollar regulations, the IRS treats these premium payments as if they are a series of loans to the executive. Since the executive does not pay any actual interest on the loans, the IRS treats the interest that should have been paid as ordinary income to the executive. This is called "imputed interest" because the IRS imputes the hypothetical interest amount as income.

The executive will usually withdraw cash value from the policy by using a combination of loans and withdrawals in order to reimburse the employer, but could repay this amount from other funds if he or she prefers. Any cash value in the policy in excess of what is paid back to the employer belongs to the executive and can be used to provide income tax-free supplemental retirement income. Income tax-free distributions are achieved by withdrawing to the cost basis (premiums paid) then using policy loans. Loans and withdrawals may generate an income tax liability, reduce available cash value and reduce the death benefit or cause the policy to lapse. This assumes the policy qualifies as life insurance and is not a modified endowment contract.

Benefits of Split Dollar Loans

The Split Dollar Loan arrangement offers several benefits to the employer and the executive. The executive gets a retirement benefit that is not subject to the restrictions of § 409A and which allows the executive to choose when and how to take policy distributions to provide supplemental retirement income. The executive's family also benefits from the death benefit protection offered by the life insurance policy.

Additionally, the Split Dollar Loan arrangement gives the employer an opportunity to reward key executives with a retirement benefit that is outside of § 409A. This benefit can be offered selectively to only those employees the employer wants to reward – there is no requirement of nondiscrimination. The employer also has a chance to get its money back. Since a Split Dollar Loan arrangement requires premiums to be reimbursed upon termination of employment, this benefit design offers the employer a source of cost recovery. And the prospect of getting its money back is more immediate than with a typical nonqualified arrangement under § 409A which delays cost recovery until the death of the employee. For most small to mid-sized businesses, cost recovery at the employee's retirement is much easier to plan for than cost recovery delayed until death.

What if the Employer Wants "Golden Handcuffs?"

While the standard Split Dollar Loan arrangement provides a flexible benefit and a source of cost recovery for the employer, it does not provide any strings to make sure the executive stays with the business. One of the primary reasons for employers to implement nonqualified plans is to provide incentives that will help retain key executives. Where a benefit is tied directly to a requirement that the executive continue working for the employer, the arrangement is said to have "Golden Handcuffs."

The good news is that an alternative Split Dollar Loan plan design can provide incentives for retention. If your client wants an arrangement that will provide "Golden Handcuffs," then you should consider using a Split Dollar Loan with a "Rollout."

A Split Dollar Loan with a Rollout is essentially a Split Dollar Loan arrangement where the employer makes an additional promise to release its interest in the split dollar life insurance policy at retirement or some other specified date. This technique is sometimes referred to as a Split Dollar Loan/§ 409A Combo Arrangement because it technically involves two separate benefits: (i) the Split Dollar Loan arrangement, and (ii) the promise of an additional benefit at retirement that can be used to pay off the Split Dollar Loan. This second benefit must comply with the requirements of § 409A.

The Split Dollar Loan with a Rollout gives the executive a more robust retirement benefit since there is no requirement to reduce the policy's cash value to reimburse the employer for premiums paid. It also gives the executive an incentive to stay with the employer – the bonus to pay off the loan will only be received if the executive stays with the employer until retirement age.

From the employer's perspective, the Split Dollar Loan with a Rollout offers an Executive Benefit design that includes "Golden Handcuffs." The executive must stay with the business to get the rollout benefit. If the executive leaves early, the employer will get its premiums back under the regular Split Dollar Loan arrangement and the § 409A benefit will be forfeited.

What the employer loses in this plan design is cost recovery. If the executive stays until retirement age, the employer does not get any of its money back. So the employer must decide what is more important, getting its money back or making sure the executive stays until retirement age. If cost recovery is more important, choose the standard Split Dollar Loan design. If "Golden Handcuffs" are more important, choose the Split Dollar Loan with a Rollout.

How About a Deferral Alternative?

Sometimes an employer is not interested in providing benefits for employees, but would be willing to provide an opportunity for employee's to fund their own retirement benefits. The typical solution in this scenario is a deferred compensation plan where employees can make an election to defer a portion of their salary and instead receive a taxable benefit during retirement.

Unfortunately, deferred compensation arrangements are governed by § 409A. This means that even though employees are using their own money to fund the benefit, any assets purchased to fund the arrangement must be exposed to the claims of the employer's creditors. It also means that the employee must decide today exactly when he or she wants to receive the benefit in the future. Through careful planning, a "Salary Reduction" Split Dollar Loan arrangement may provide an alternative to traditional deferred compensation without subjecting the benefit to § 409A.

A Salary Reduction Split Dollar Loan arrangement begins with an agreement between an executive and his or her employer to reduce the executive's annual salary. In exchange for this reduction of salary, the employer agrees to purchase a life insurance policy for the executive using a Split Dollar Loan arrangement. To keep the executive from having to pay taxes annually on imputed interest costs, the interest will be accrued until termination of employment. The parties also enter into an agreement to pay the executive a bonus at retirement. The bonus amount might be equal to the amount of salary the executive has foregone, or it might include the amount of interest projected to be accrued in the Split Dollar Loan arrangement, or it might even be large enough to reimburse the executive for tax costs associated with the benefit.

The Salary Reduction Split Dollar Loan arrangement is essentially a Split Dollar Loan with a Rollout that has been funded by a Salary Reduction Agreement and that has accrued interest during the executive's working years. It provides the executive an opportunity to fund a retirement benefit by agreeing to a reduction in salary without exposing the funding asset to the claims of the employer's creditors.

Appendix 1 – Plan Designs

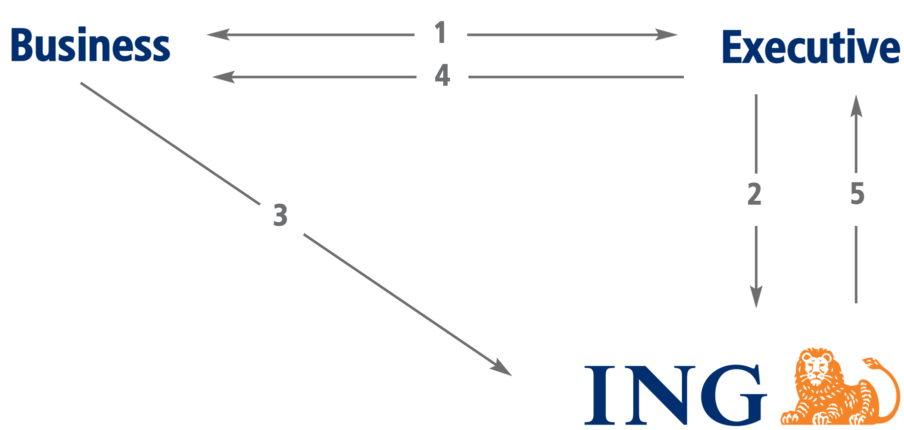
Split Dollar Loan Arrangements

Split Dollar arrangement with "loan" treatment is an arrangement where the employer's dollars are used to fund the purchase of life insurance for a key executive with retention by the employer of an interest in the policy equal to the sum of premiums advanced and where the executive is taxed on the "imputed interest" from treating the employer's premium payments as a series of loans. The life insurance policy can be used by the executive for death benefit protection and as a potential source of supplemental retirement income.

These plans will best fit situations where:

- The executive wants flexibility;
- The executive wants control of the funding policy; and
- The employer wants a source of cost recovery for the benefit.

Steps for Implementing a Split Dollar Loan Arrangement



1. The employer identifies a need to retain and reward a key executive. The employer and the executive agree that personal life insurance protection and the related cash value accumulations are important components of the executive's overall compensation package. The parties execute a Split Dollar Loan agreement setting forth their rights and obligations.

2. The executive acquires a cash value life insurance policy on his or her life and executes a collateral assignment with the ING life company indicating the policy rights reserved to the employer.

3. The employer makes premium payments on the policy.

- The premium payments are treated as below-market loans from the employer to the executive;
- Each year, the executive is taxed under IRC § 7872 on the amount of interest imputed by the IRS on the sum of premiums that have been advanced;
- The employer retains a collateral assignment interest in the policy equal to the sum of premiums advanced.

4. At retirement, the Split Dollar Loan arrangement is terminated and the employer recovers its premiums from the executive. The executive may reimburse the employer using withdrawals from the life insurance policy or using out-of-pocket funds from an outside source.
5. After termination of the Split Dollar Loan arrangement, the policy's available cash values may be accessed on a tax-preferred basis to supplement the executive's retirement income and the policy death benefit will be paid income tax free* to the executive's beneficiaries. Policy cash values are accessed through loans and withdrawals. Income tax-free distributions are achieved by withdrawing to the cost basis (premiums paid) then using policy loans. Loans and withdrawals may generate an income tax liability, reduce available cash value and reduce the death benefit or cause the policy to lapse. This assumes the policy qualifies as life insurance and is not a modified endowment contract.

Advantages
• Provides potential source of supplemental retirement income
• Not subject to § 409A rules
• Asset not exposed to claims of employer's creditors
• Tax-preferred retirement benefits
• Flexibility on timing of distributions
• Death benefit not taxable as income*
• Permits cost recovery to employer
Disadvantages
• Executive taxed annually on "imputed interest"
• Cash value of policy reduced by premiums paid back to employer
• No "Golden Handcuffing"

* Proceeds from an insurance policy are generally income tax free (e.g., absent a transfer for value), and if properly structured, may also be free from estate tax.

Detailed Analysis

In a Split Dollar Loan arrangement, the employer rewards the executive by advancing the premium costs for a life insurance policy purchased by the executive. The executive owns the policy, but gives the employer a collateral assignment for an interest in the policy equal to the sum of premiums the employer has paid. The employer's premium payments will be reimbursed at the termination of the Split Dollar Loan arrangement. Unless the executive uses outside funds to reimburse the employer, this will reduce the cash value of the policy.

The premium payments made by the employer are treated as a series of "below market" loans and the executive must pay income tax on the "imputed interest." Section 7872 of the Internal Revenue Code provides that where employees are allowed to borrow money at below market interest rates, the amount of interest saved on the transaction should be considered an element of compensation to the employee.

Thus, for example, assume an employer advances $1,000 towards the purchase of life insurance for an executive where the executive pays no interest and the fair market interest rate is 5.0 percent. Since the executive saves $50 in interest costs, the IRS imputes $50 of income to the executive.

While the executive must pay taxes on imputed interest, the cash build-up in excess of the employer's interest in the policy grows tax free. Death benefits coming from Split Dollar Loan arrangements are also generally income tax free.

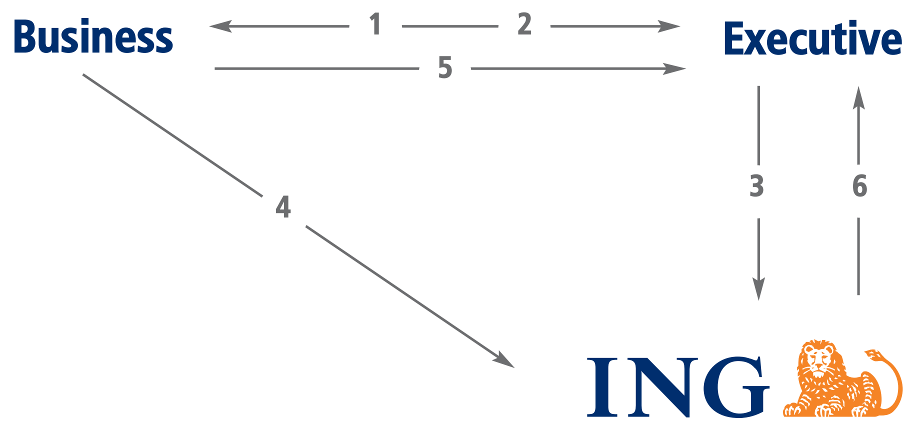
Split Dollar Loan with a Rollout

A Split Dollar Loan with a Rollout is essentially a Split Dollar Loan arrangement where the employer makes an additional promise to release its interest in the split dollar life insurance policy at retirement or some other specified date. This technique is sometimes referred to as a Split Dollar Loan/§ 409A combo arrangement.

These plans will best fit situations where:

- The executive wants flexibility;
- The executive wants control of the funding policy; and
- The employer wants "Golden Handcuffs."

Steps for Implementing Split Dollar Loan with a Rollout



1. The employer identifies a need to retain and reward a key executive. The employer and the executive agree that personal life insurance protection and the related cash value accumulations are important components of the executive's overall compensation package. The parties execute a Split Dollar Loan agreement setting forth their rights and obligations.

2. The employer implements a § 409A arrangement promising to pay the executive a benefit equal to the premiums the employer advanced under the Split Dollar Loan arrangement. If desired, the employer can promise an additional "gross up" benefit to cover the executive's tax costs from the arrangement.

3. The executive acquires a cash value life insurance policy on his or her life and executes a collateral assignment with the ING life company indicating the policy rights reserved to the employer.

4. The employer makes premium payments on the policy.

- The premium payments are treated as below-market loans from the employer to the executive;
- Each year, the executive is taxed under § 7872 on the amount of interest imputed by the IRS on the sum of premiums that have been advanced;
- The employer retains a collateral assignment interest in the policy equal to the sum of premiums advanced.

5. At retirement, the Split Dollar Loan arrangement is terminated. The § 409A arrangement provides the executive with the funds needed to reimburse the employer and release the collateral assignment on the life insurance policy. Of course, should the executive terminate employment prior to retirement, the promised compensation under the second agreement would be forfeited. The executive would then be obligated to repay the loan with other amounts.
6. After termination of the Split Dollar Loan arrangement, the policy's available cash values may be accessed on a tax-preferred basis to supplement the executive's retirement income and the policy death benefit will be paid income tax free* to the executive's beneficiaries. Policy cash values are accessed through loans and withdrawals. Income tax-free distributions are achieved by withdrawing to the cost basis (premiums paid) then using policy loans. Loans and withdrawals may generate an income tax liability, reduce available cash value and reduce the death benefit or cause the policy to lapse. This assumes the policy qualifies as life insurance and is not a modified endowment contract.

Advantages
• Provides potential source of supplemental retirement income
• Asset not exposed to claims of employer's creditors
• Tax-preferred retirement benefits
• Flexibility on timing of distributions
• Death benefit not taxable as income*
• Permits "Golden Handcuffing"
• Executive receives policy with full cash value intact at retirement
Disadvantages
• Executive taxed annually on "imputed interest"
• § 409A benefit is fully taxable to executive at retirement
• No cost recovery for employer

* Proceeds from an insurance policy are generally income tax free (e.g., absent a transfer for value), and if properly structured, may also be free from estate tax.

Detailed Analysis

The employer's dollars are used to fund the purchase of life insurance for a key executive with retention by the employer of an interest in the policy equal to the sum of premiums advanced and where the executive is taxed on the "imputed interest" from treating the employer's premium payments as a series of loans.

Additionally, the employer and the executive enter into a § 409A arrangement that promises the executive a second benefit which the executive can use to repay the premiums owed to the employer at retirement. According to IRS Notice 2007-34, adding a § 409A benefit to the Split Dollar Loan brings the entire arrangement under § 409A. Thus, the entire arrangement should be documented in writing and the timing for the forgiveness of the Split Dollar Loan must meet the requirements for permissible distributions under § 409A.

The premium payments made by the employer are treated as a series of "below-market" loans and the executive must pay income tax on the "imputed interest." Section 7872 of the Internal Revenue Code provides that where employees are allowed to borrow money at below-market interest rates, the amount of interest saved on the transaction should be considered an element of compensation to the employee.

At retirement, the executive uses the § 409A benefit to satisfy his or her obligations under the split dollar collateral assignment. The § 409A benefit (an amount equal to the premiums paid on the policy) will be treated as taxable income to the executive. This rollout arrangement vests the executive in the full cash value of the split dollar life insurance policy at retirement. The life insurance policy can be used by the executive for death benefit protection and as a potential source of supplemental retirement income.

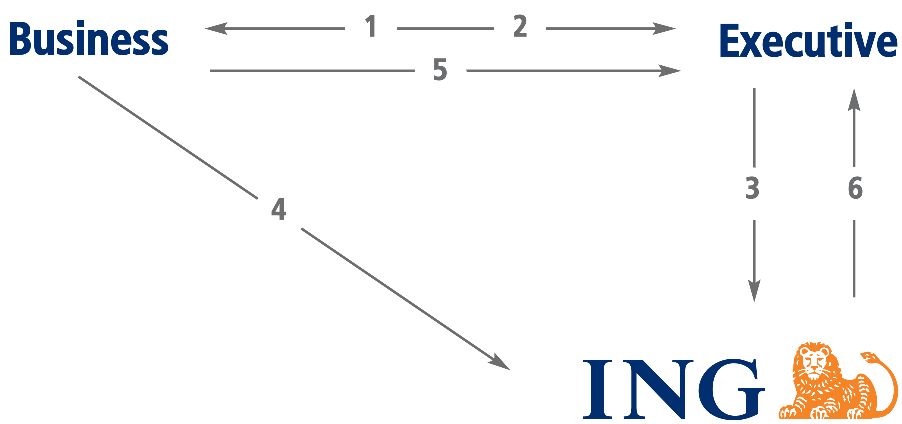
Salary Reduction Split Dollar Loan Arrangement

A Salary Reduction Split Dollar Loan arrangement is identical to a Split Dollar Loan with a Rollout with two changes: (i) the arrangement is funded through an agreement to reduce the executive's salary; and (ii) the employer and executive agree to accrue the interest related to the Split Dollar Loan. This combination of salary reduction and interest accrual allows the arrangement to provide some of the benefits of a deferred compensation plan without subjecting the entire arrangement to the restrictions of § 409A. In particular, the executive will have no out-of-pocket costs prior to retirement and the funding asset will be outside the reach of the employer's creditors.

These plans will best fit situations where:

- The executive wants flexibility;
- The executive is willing to fund the benefit;
- The executive wants control of the funding policy; and
- The employer wants "Golden Handcuffs."

Steps for Implementing a Salary Reduction Split Dollar Loan Arrangement



1. The employer identifies a need to retain and reward a key executive. The executive indicates a desire to allocate some of his or her earnings to saving for retirement needs. The employer and the executive agree that personal life insurance protection and the related cash value accumulations are important components of the executive's overall compensation package. The executive agrees to reduce his or her salary in exchange for the employer's promise to implement a Split Dollar Loan arrangement. The parties execute a Split Dollar Loan agreement setting forth their rights and obligations.
2. The employer implements a § 409A arrangement promising to pay the executive a benefit equal to the premiums the employer will advance in the Split Dollar Loan arrangement. If desired, the employer can promise an additional "gross up" benefit to cover the executive's tax costs from the arrangement.

3. The executive acquires a cash value life insurance policy on his or her life and executes a collateral assignment with the ING life company indicating the policy rights reserved to the employer.
4. The employer makes premium payments on the policy.
   - The premium payments are considered loans from the employer to the executive and the employer charges reasonable interest based on the applicable federal rate ("AFR") in place at the time of each premium payment;
   - Each year, the interest is accrued and added to the principal of the outstanding loan;
   - The employer retains a collateral assignment interest in the policy equal to the sum of premiums advanced.
5. At retirement, the Split Dollar Loan arrangement is terminated. The § 409A arrangement provides the executive with the funds needed to reimburse the employer and release the collateral assignment on the life insurance policy. Of course, should the executive terminate employment prior to retirement, the promised compensation under the second agreement would be forfeited. The executive would then be obligated to repay the loan with other amounts.
6. After termination of the Split Dollar Loan arrangement, the policy's available cash values may be accessed on a tax-preferred basis to supplement the executive's retirement income and the policy death benefit will be paid income tax free* to the executive's beneficiaries. Policy cash values are accessed through loans and withdrawals. Income tax-free distributions are achieved by withdrawing to the cost basis (premiums paid) then using policy loans. Loans and withdrawals may generate an income tax liability, reduce available cash value and reduce the death benefit or cause the policy to lapse. This assumes the policy qualifies as life insurance and is not a modified endowment contract.

Advantages
• Provides potential source of supplemental retirement income
• Asset not exposed to claims of employer's creditors
• Tax-preferred retirement benefits
• Flexibility on timing of distributions
• Death benefit not taxable as income*
• Permits "Golden Handcuffing"
• Executive receives policy with full cash value intact at retirement
Disadvantages
• § 409A benefit is fully taxable to executive at retirement
• No cost recovery for employer
• Complex administration required to track loan interest (may need to use third-party administrator)

* Proceeds from an insurance policy are generally income tax free (e.g., absent a transfer for value), and if properly structured, may also be free from estate tax.

Detailed Analysis

The executive agrees to a salary reduction with the employer. The employer uses the amount of the salary reduction to pay premiums on a life insurance policy owned by the executive. These premium payments, however, will be treated as a series of loans from the employer to the executive.

Additionally, the employer and the executive enter into a § 409A arrangement that promises the executive a second benefit which the executive can use to repay the premiums owed to the employer at retirement. According to IRS Notice 2007-34, adding a § 409A benefit to the Split Dollar Loan brings the entire arrangement under § 409A. Thus, the entire arrangement should be documented in writing and the timing for the forgiveness of the Split Dollar Loan must meet the requirements for permissible distributions under § 409A.

The premium payments made by the employer are treated as a series of loans to the executive. The employer charges interest on the loans using a rate prescribed by the IRS published AFRs. The interest is accrued annually and added to the principal of the loans. Since the loan bears actual interest and the interest is being accrued, the executive is not charged with any taxable compensation for "imputed interest."

At retirement, the executive uses the § 409A benefit to satisfy his or her obligations under the split dollar collateral assignment. The § 409A benefit (an amount equal to the premiums paid on the policy plus interest accrued on the loan) will be treated as taxable income to the executive. This rollout arrangement vests the executive in the full cash value of the split dollar life insurance policy at retirement. The life insurance policy can be used by the executive for death benefit protection and as a potential source of supplemental retirement income.

Appendix 2 - Implementation

To get a better understanding of how Split Dollar Loans work, review ING's Producer Guide on Split Dollar Loan Arrangements (#132931).

For assistance at any stage of the implementation process, call:

Randy Kemnitz 1-866-464-7355, opt. 1, x27070
Manager of Executive Benefits

David Houston 1-866-464-7355, opt. 1, x25520
Advanced Sales Consultant

Stage 1: Marketing

Use the following materials to help present the Split Dollar Loan concept to prospective clients and to gather information needed to design a case.

- Client Brochures – Use one or more of the following brochures to provide the client with an overview of how Split Dollar Loans work:
  - A Split Dollar Loan Using Life Insurance: A Valuable Retirement Income Benefit (#132389)
  - Split Dollar Arrangements: Using Business Dollars to Pay Life Insurance Premiums (#132388)
  - A Split Dollar Loan Arrangement in Action: The James Black Case (#132928)
  - Customizing a Split Dollar Loan Arrangement (#132833)

Stage 2: Case Design

For assistance in designing and illustrating your Split Dollar Loan case, call one of the following members of the Advanced Case Design Team:

Pamela Duncan 1-866-464-7355, opt. 1, x23702
Executive Benefits Specialist

Neil Howe 1-866-464-7355, opt. 1, x27457
Advanced Case Design Consultant

- **Census** – Use the Non-Qualified Plans Census Form (#127142) to get information about selected participants from the employer.
- **ING Presents** – Illustrate a Split Dollar Loan for your client using the ING Presents illustrations software.
  - Open the ING Presents software.
  - Select "Product Illustrations" from the options on the left-hand side of the opening page.
  - Open a case using either the "Individual" or "Multi-life" illustration mode (use individual if only one employee is being offered the benefit; otherwise use multi-life).

Individual Mode

- Select an existing client or create a new client for the case.
- Using the drop-down box, select "Loan Arrangement" as the illustration type.
- Select the type of insurance product to be used for the case under Product Type (Universal Life, Indexed Universal Life, etc.).
- Under "Product," select the specific ING life company product to be illustrated.
  - If you are not sure what type of product to use for the case, click on the "Life Product Selection Wizard."
- Work through each tab of the ING Presents illustration software (Policy Info, Loan Arrangement, Face Amount, Riders, Premiums, Investment Options [if a variable product is being used], Distributions, Output) to create the split dollar loan case.
  - If you are illustrating a Split Dollar Loan arrangement, use the following settings under the "Loan Arrangement" tab:
    - Loan Arrangement Type: "Employment"
    - Loan Type: "Demand Loan"

- Repayment Method: "From Policy Cash Values"
- If you are illustrating a Split Dollar Loan with Rollout, use the following settings under the "Loan Arrangement" tab:
  - Loan Arrangement Type: "Employment"
  - Loan Type: "Demand Loan"
  - Repayment Method: "Sec. 162 Bonus to Executive"
- If you are illustrating a Salary Reduction Split Dollar Loan, use the following settings under the "Loan Arrangement" tab:
  - Loan Arrangement Type: "Employment"
  - Loan Type: "Term Loan – Paid Interest"
  - Interest Paid:
    - Out-of-Pocket 0.00%
    - Interest Accrued 100.00%
    - From Policy 0.00%
  - Repayment Method: "Sec. 162 Bonus to Executive"
- In the "Output" tab, make sure to check the boxes of any items you want to be included in the illustration print-out.
  - Check the "Company Ratings" box in the General section to include a summary of ING life companies' ratings from A.M. Best, Standard & Poor's, and others.
  - Check the "Underwriting Requirements" box in the General section to include a summary of what underwriting requirements and forms will need to be submitted for the case.
  - Check the "Split Dollar Loans" box in the Concept section to include a presentation summarizing Split Dollar Loan arrangements for your client.

- Click on the "Print Preview" button to run the illustration and view the output before printing the case for your client.

Multi-Life Mode

- Using the drop-down box, select "Loan Arrangement" as the illustration type.
- Select the type of insurance product to be used for the case under Product Type (Universal Life, Indexed Universal Life, etc.).
- Under "Product," select the specific ING life company product to be illustrated.
- Work through each tab of the Multi-life interface (Product Info, Loan Arrangement, Death Benefit, Riders, Premiums, Distributions, Multiple Life Census, Output) to create the Split Dollar Loan illustration.
  - If you are illustrating a Split Dollar Loan arrangement, use the following settings under the "Loan Arrangement" tab:
    - Loan Arrangement Type: "Employment"
    - Loan Type: "Demand Loan"
    - Repayment Method: "From Policy Cash Values"
  - If you are illustrating a Split Dollar Loan with Rollout, use the following settings under the "Loan Arrangement" tab:
    - Loan Arrangement Type: "Employment"
    - Loan Type: "Demand Loan"
    - Repayment Method: "Sec. 162 Bonus to Executive"
  - If you are illustrating a Salary Reduction Split Dollar Loan, use the following settings under the "Loan Arrangement" tab:
    - Loan Arrangement Type: "Employment"
    - Loan Type: "Term Loan – Paid Interest"
    - Interest Paid:
      - Out of Pocket 0.00%
      - Interest Accrued 100.00%
      - From Policy 0.00%
    - Repayment Method: "Sec. 162 Bonus to Executive"

- In the "Output" tab, make sure to check the boxes of any items you want to be included in the illustration print-out.
  - Check the "Split Dollar Loans" box in the Individual Output section to include a summary of the benefits from Split Dollar Loans.
- Click on the "Print Preview" button to run the illustration and view the output before printing the case for your client.

  Note: You will not be able to use the "Print Preview" button until you have selected the number of lives to be included in the case under the Multiple Life Census tab.

Stage 3: Application/Underwriting

- **Submit Policy Application(s)** – Use "Forms Wizard" inside of ING Presents to select all forms needed for policy application(s).

For questions about submitting policy applications and what forms to submit with a case, call:

Heather Mayer
Operations Manager
Executive Benefits New Business
(877) 882-5050 ext. 82666

- **Guaranteed Issue/Simplified Issue Request** – If you are submitting the case for GI or SI consideration, submit the "Executive Benefits Guaranteed Issue/Simplified Issue Offer Request Form" (#127602) and census to the Executive Benefits Underwriting Team.

For assistance with underwriting issues for any Executive Benefits case, contact one of the following individuals on ING's Executive Benefits Underwriting Team:

Meg Naylor	800-448-9839, x460-2159
Kathy Stolcis	800-448-9839, x460-2555
Shelley West	800-448-9839, x460-2020

- For more information on Guaranteed Issue & Simplified Issue underwriting requirements, see the brochure "Underwriting Made Easier: A Guide for Your Guaranteed Issue/Simplified Issue Business" (#121455).
- For a list of products that allow GI/SI underwriting, go to the Executive Benefits page on the ING for Professionals website and look under Products.

Stage 4: Implementation/Enrollment

- **Board of Directors Resolution** – The parties may want to have the arrangement approved by the employer's board of directors. You can find a sample "Corporate Resolution for Collateral Assignment Split Dollar" in the Split Dollar Life Insurance section of Advanced Markets Online ("AMO").

For assistance in identifying documents and other materials needed to implement a Split Dollar Loan, call:

Randy Kemnitz 1-866-464-7355, opt. 1, x27070
Manager of Executive Benefits

David Houston 1-866-464-7355, opt. 1, x25520
Advanced Sales Consultant

  - Go to the Executive Benefits portal on the ING for Professionals website; click on the "Forms & Documents" tab; click on the link to AMO documents; then click on "Business Insurance" and find the sample resolution under "Split Dollar Life Insurance."
- **Split Dollar Loan Agreement** – The employer and employee should document the arrangement using a Split Dollar Loan agreement setting forth their rights and obligations. Sample agreements may be found in the Split Dollar Life Insurance section of Advanced Markets Online ("AMO").
  - Go to the Executive Benefits portal on the ING for Professionals website; click on the "Forms & Documents" tab; click on the link to AMO documents; then click on "Business Insurance" and find a sample agreement under "Split Dollar Life Insurance."

- Depending on the design agreed upon by the parties, you may want to consider reviewing either the "Term Loan" or the "Demand Loan" sample agreements for a Split Dollar Life Insurance Agreement.

- **Collateral Assignment** - Use ING's Collateral Assignment Form (#131455) to reserve the employer's interest in the life insurance policy purchased under the Split Dollar Loan arrangement.
  - Go to the Executive Benefits portal on the ING for Professionals website; click on the "Forms & Documents" tab; click on the link for the ING Collateral Assignment Form.

Stage 5: Administration

For assistance at any stage of the implementation process, call:

Randy Kemnitz 1-866-464-7355, opt. 1, x27070
Manager of Executive Benefits

David Houston1-866-464-7355, opt. 1, x25520
Advanced Sales Consultant

- **Tax Reporting** – The parties should consult with their tax advisors to determine the appropriate tax treatment for the Split Dollar Loan. Typically, the employee will pay income taxes annually on the interest imputed under the arrangement assuming the total premiums paid by the employer is the loan principal and applying the applicable federal rate ("AFR") prescribed by the IRS.
  - Selection of the AFR to be applied will depend on whether the Split Dollar Loan is established as a demand loan, a term loan, or "a term loan treated like a demand loan." Your client should consult with tax or legal advisors to determine which AFR should be used to calculate imputed interest under the arrangement in question.

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Minneapolis, MN 55401

ReliaStar Life Insurance Company of New York
1000 Woodbury Road, Suite 208
Woodbury, NY 11797

Security Life of Denver Insurance Company
1290 Broadway
Denver, CO 80203

Log in to ING for Professionals at www.inglifeinsurance.com

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“What About Me?”

Business Owner's Bonus Plan

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LIFE

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Your future. Made easier.SM

Are you a business owner? Is your business organized as an S corporation, partnership, or LLC? If so, you probably have a big question on your mind:

"What about me?"

As a business owner, you spend time, money, and other resources to build your business. This includes the costs of recruiting, rewarding, and retaining key employees. But eventually you need to think about yourself and start saving for retirement.

"What About Me?"

Perhaps you have already helped some of your key employees prepare for retirement by offering supplemental benefits such as nonqualified deferral plans or salary continuation benefits. Or maybe you have offered your key employees 401(k) Look-Alike Plans or some sort of split dollar benefit. But as the owner of a "pass through" entity (S corporation, partnership, or LLC), you have been told that these arrangements are not available to you.

So after helping your key employees save for retirement, you ask again: **"WHAT ABOUT ME?"**

The answer to "What about me?" is the Business Owner's Bonus Plan. The Business Owner's Bonus Plan is a personally owned benefit plan which can help small business owners create a tax-efficient source of supplemental retirement income.

Potential Benefits

The Business Owner's Bonus Plan uses life insurance purchased with after-tax funds to provide both death benefit protection and cash value accumulation which can be used to supplement the business owner's retirement income. This arrangement can be an effective strategy for providing a tax-efficient source of supplemental retirement income along with death benefit protection for the business or the owner's family.

The Business Owner's Bonus Plan can provide the following potential benefits for the business owner:

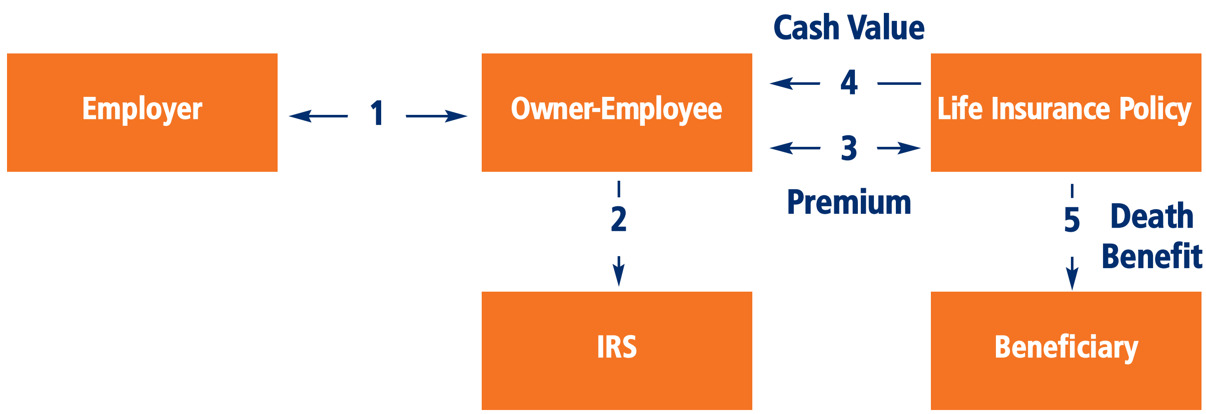
- **Supplemental Retirement Income** – Bonuses are used to purchase a life insurance policy which accumulates cash values.
- **Tax-Deferred Growth** – No income tax is payable while money is accumulating inside the life insurance policy.
- **Tax-Free Income**[1] – Provided the life insurance policy is not structured as a modified endowment contract ("MEC"), the business owner will be able to attain tax-free income through a combination of policy withdrawals and loans.
- **Income Tax-Free Death Benefit**[2] – The life insurance policy provides protection for the executive's family in the event of death.
- **No IRS Distribution Requirements or Penalties** – Distributions from a Business Owner's Bonus Plan can occur before age 59 ½ without a premature distribution penalty from the IRS, and there are no required minimum distributions at age 70 ½ or thereafter.

[1] Income tax-free distributions are achieved by withdrawing to the cost basis (premiums paid) then using policy loans. Withdrawals will reduce the policy's cash value and may reduce the policy's death benefit. Policy loans will reduce the policy's cash value and death benefit. This assumes the policy qualifies as life insurance and does not lapse. If the policy lapses or is surrendered, the IRS will tax distributions received over the life of the policy and at termination that are in excess of total premiums paid.

[2] Proceeds from a life insurance policy are generally income tax free, and if properly structured, may also be free from estate tax.

How it Works

A Business Owner's Bonus Plan is a simple and straightforward method of rewarding an owner-employee over and above traditional salary and other benefits. Under this type of arrangement, the business owner applies for, owns, and names the beneficiaries for a life insurance policy. Through a bonus, the business pays the insurance premium directly to the insurance company or pays the bonus to the owner-employee who then pays the insurance premium. This payment is considered ordinary income for the business owner and, so long as the owner's total compensations is reasonable, is deductible to the business.



1. The business and the owner-employee enter into an arrangement under which the business agrees to pay the owner-employee an annual bonus equal to premium payments on a life insurance policy purchased and owned by the owner-employee or a third party, such as an irrevocable life insurance trust (ILIT). Bonus payments are tax deductible by the employer, assuming compensation is reasonable.
2. The owner-employee pays tax on the bonus as ordinary income.
3. The owner-employee applies for, purchases, and owns a life insurance policy on his or her life.
4. The owner-employee can receive income through withdrawals and loans from the policy's cash value.[1]
5. Income tax-free death benefit proceeds are paid to the owner-employee's beneficiary(ies).

Next Step

Call or meet with your ING financial professional to learn more about the Business Owner's Bonus Plan and see if it might be right for you.

[1] Income tax-free distributions are achieved by withdrawing to the cost basis (premiums paid) then using policy loans. Withdrawals will reduce the policy's cash value and may reduce the policy's death benefit. Policy loans will reduce the policy's cash value and death benefit. This assumes the policy qualifies as life insurance and does not lapse. If the policy lapses or is surrendered, the IRS will tax distributions received over the life of the policy and at termination that are in excess of total premiums paid.

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