

Business Solutions

Funding an Executive Bonus Arrangement with Life Insurance

Case Study



MEET DANIEL

Daniel is a key employee at GoGolf Inc., a growing company that produces and distributes golf carts across the U.S. The company is set up as an S-Corporation and employs close to 400 people. Daniel is a non-shareholder employee that oversees sales and marketing efforts in 12 states. Over the past 10 years, Daniel has consistently grown market share in his sales territory, and has produced numbers that exceed the executive committee's expectations. While Daniel's region is doing exceptionally well, other sales regions of the company are producing more modest results.

In a quarterly shareholder meeting, the president of GoGolf, Inc. decides that Daniel's invaluable expertise could be used to train select employees to achieve better results. The company will add to Daniel's compensation for these extra responsibilities with a bonus arrangement. After a conversation with his insurance agent, Daniel is interested in an executive bonus funded through life insurance. Daniel's agent advised him that he is underinsured and could use the extra death benefit protection for his loved ones. He is currently making maximum contributions to the company 401(k) plan and wants additional financial security in his retirement years. Overall, Daniel feels that he can accomplish his life insurance and supplemental retirement income goals at minimal out-of-pocket costs with an executive bonus life insurance arrangement.

Daniel advises the company that he is interested in this type of compensation and would like a double bonus arrangement tied to a vesting schedule. With a double bonus arrangement, Daniel will not have any out-of-pocket costs. The company will pay Daniel's life insurance premium, as well as the amount of income tax due. Both parties agree and are happy with this arrangement and set up a Rapid Builder indexed universal life (IUL) insurance policy. Daniel gets to take advantage of having death benefit protection, tax-deferred cash value accumulation, and a potentially tax-free income stream all in one solution. GoGolf is happy because the double bonus arrangement provides an incentive for Daniel to stay with the company, and GoGolf's bottom line will ultimately benefit by having Daniel around for years to come.



Scenario 1 – Death

Daniel is now in his late 50's and plans on retiring in the next 5 years. The unexpected happens and he suffers a fatal heart attack. This is a difficult moment for Daniel's family, friends, and co-workers, but having additional life insurance helps to make the process easier. Daniel's surviving spouse (beneficiary) is able to use the death benefit proceeds from the Rapid Builder® IUL as a form of income replacement.



Scenario 2 – Employee Retention

It's been 5 years since the executive bonus plan was put in place. Daniel has been approached by a headhunter to work for a rival company and he now finds himself analyzing his options. A quick review of his life insurance policy shows how much cash value he has already accumulated through the executive bonus arrangement. The competing company cannot match the package that GoGolf is already providing him. Daniel decides to stay and GoGolf has retained a valuable employee.

Scenario 3 – Retirement

Daniel is now 64 and is ready to retire. Over the years, his life insurance policy has accumulated cash value on a tax-deferred basis. Daniel plans to take tax-deferred distributions from the policy using variable interest rate loans as a form of supplemental retirement income. Market conditions are favorable at the time of his retirement, and Daniel receives an attractive variable interest rate on his loans. Simultaneously, the cash value of his policy continues to earn interest, making this a desirable source of supplemental retirement income.





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