

Funding an executive bonus arrangement with life insurance

Case study

Problem

Your client owns a tech support company and is concerned about how dependent he is on his dynamic Vice President of Sales. His VP of Sales is well known in the industry for his success and is frequently approached by recruiters from competitors.

The company wants to provide an extra incentive to help ensure that the sales executive remains with the company until his planned retirement in 20 years.

A solution

Your client decides to offer the VP of Sales an executive bonus using life insurance. With this solution, the employee receives death benefit protection, tax-deferred cash value accumulation potential, and a generally tax-free income stream.¹

A double bonus arrangement is used so the employee doesn't have out-of-pocket costs. This means the company pays for both the life insurance premium and an extra amount to help cover income tax that would ordinarily be paid by the employee in a single bonus arrangement.

Benefits for business owners:

- Incentivizes employee retention with an attractive benefit
- Premiums paid by the business are tax-deductible
- Can be offered to select employees
- No IRS approval required
- Easy to implement and administer

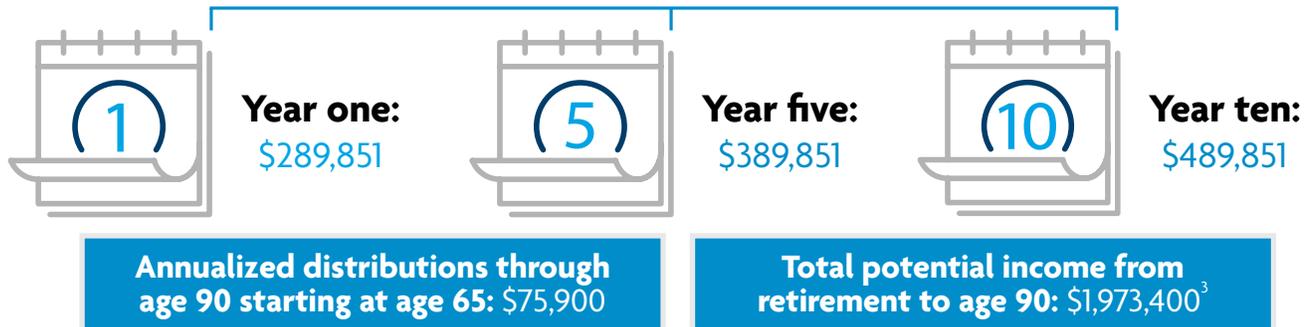
Benefits for employees:

- Death benefit protection
- Attractive compensation package
- Cash value of the policy is tax-deferred²
- Build a generally tax-free retirement income stream
- Employee retains control of the policy as the owner

Case study

The company pays a \$20,000 annual premium (a 5% bonus) through age 65 (20 years) on an indexed universal life (IUL) insurance policy.

Death benefit protection



Hypothetical examples and illustrations are not intended to predict future performance. The use of alternate assumptions could produce significantly different results. Illustrations are not complete unless all pages are included. (July 24, 2024, Midland National ExactIllustrations). Male, 45, preferred non-tobacco, Strategic Accumulator® IUL 3 with its default index, return of premium death benefit option⁴, non-guaranteed assumed, illustrated at 6.55%, using a Fixed Interest Participating Policy Loan Annual interest rate of 5.70% all years. Strategic Accumulator 3 was chosen in this example for its potential long-term cash value accumulation. Midland National offers several indexed universal life insurance products.

Case design tips

Be sure the specified amount is enough to meet the client's pre-retirement life insurance needs.

A minimum death benefit solve with Return of Premium death benefit option⁴ can help control policy charges, which can increase the cash value of the policy.

For cases with a short period until distributions begin, **consider taking loans rather than withdrawals¹** during the surrender charge period to avoid surrender charges.

Combining a term and IUL policy may be a more affordable way to reach total death benefit needs.

Be sure to discuss with clients that performance is not guaranteed and depending on funding, life insurance may not guarantee avoiding the loss of premium.

NEXT STEPS

1. Make a list of clients that own businesses or hold leadership positions within their organization
2. Reach out to them to see if they are looking for ideas to help with employee retention
3. Share how executive bonus arrangements funded by life insurance offer a unique way to reward and retain key employees

1. In some situations loans and withdrawals may be subject to federal taxes. Midland National does not give tax or legal advice. Clients should be instructed to consult with and rely on their own tax advisor or attorney for advice on their specific situation. Income and growth on accumulated cash values is generally taxable only upon withdrawal. Adverse tax consequences may result if withdrawals exceed premiums paid into the policy. Withdrawals or surrenders made during a Surrender Charge period will be subject to withdrawal charges, processing fees, or surrender charges, and may reduce the ultimate death benefit and cash value. Surrender charges vary by product, issue age, sex, underwriting class, and policy year.

2. The tax-deferred feature of the indexed universal life policy is not necessary for a tax-qualified plan. In such instances, your client should consider whether other features, such as the death benefit and optional riders make the policy appropriate for their needs. Before purchasing this policy, your client should obtain competent tax advice both as to the tax treatment of the policy and the suitability of the product. Midland National and its agents do not give tax advice. Please advise your customers to consult with and rely on a qualified legal or tax advisor before entering into or paying additional premiums with respect to such arrangements.

3. The net cost of a Fixed Interest Participating Policy Loan could be negative if the credits earned are less than the interest charged. The net cost of the loan could also be larger than under standard policy loans if the amount credited is less than the interest charged. In the extreme example, the amount credited could be zero and the net cost of the loan would equal the maximum interest rate charged less any guaranteed bonus. In brief, fixed interest rate loans have more uncertainty than standard policy loans in the interest rate credited.

4. Return of premium death benefit option is subject to eligibility requirements.

Indexed universal life insurance products are not an investment in the "market" or in the applicable index and are subject to all policy fees and charges normally associated with most universal life insurance. Strategic Accumulator® IUL 3 is issued on the state version of policy form P100/ICC22P100 including all applicable endorsements and riders, by Midland National® Life Insurance Company, West Des Moines, IA. Products, features, riders, endorsements, or issues ages may not be available in all jurisdictions. Limitations or restrictions may apply.

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