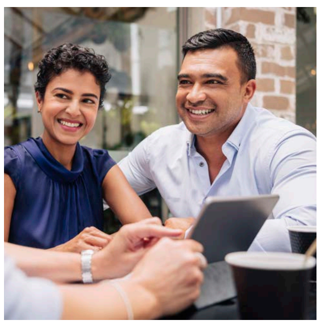
Help businesses reward their valuable employees

An executive bonus strategy to help businesses retain top talent

Business owners understand that one of their most valuable assets is the creative talent of their key employees. Their competitors also understand this and compete for the very same talent.

One way of managing this challenge is to offer an attractive compensation package. But salary alone may not be enough. An executive bonus plan (also known as a Section 162 bonus plan) may provide a simple strategy to help businesses attract and retain key employees.



Meet Phil

Owner of Packaging in Action, a closely held family business

Phil has been in business for more than 25 years. He's got a top-notch plant manager, Greg, age 45. Phil wants to reward Greg with a benefit that will encourage him to stay at Packaging in Action for the rest of his career.

Phil's challenge

He wants a benefit that may provide Greg with:

- **A significant future retirement benefit**
- **An attractive benefit for today**

And provide Packaging in Action with:

- **A simple way for the business to reward and retain employees**
- **A tax reduction for the business**
- **Ease of implementation and administration**

Insurance products issued by:
The Lincoln National Life Insurance Company

How an executive bonus plan works

The business

Pays a tax-deductible bonus to cover premiums for a life insurance policy owned directly by your employee

The employee

Designates a policy beneficiary and pays income tax on the bonus received

Advantages for your business

- Discretion to select which employees can participate
- A plan that's easy to implement and maintain
- An immediate tax deduction for the annual bonus paid[1]

Advantages for your employee

- Policy ownership and control of cash value and beneficiary designation
- Cash value that grows tax-deferred
- A tax-efficient income supplement through policy loans and withdrawals[2]
- A legacy asset that transfers to their beneficiary income tax-free

A strategy with flexibility

To help ensure that Packaging in Action keeps key talent like Greg, Phil's financial professional recommends an executive bonus plan using life insurance. The strategy gives Phil's corporation a cost-efficient way to provide Greg an attractive benefit package with added advantages. Packaging in Action agrees to pay a tax-deductible bonus in the amount of $10,000 annually for a life insurance premium where Greg will be both the insured and policyowner.[1]

An accumulation indexed universal life (IUL) policy is purchased on Greg's life. Greg names his wife, Karen, as the policy beneficiary. In addition to valuable death benefit protection, an accumulation IUL can offer growth and cash value distribution potential, which can supplement Greg's retirement income.[2] If available, Greg can get added protection by choosing an accelerated benefit rider as a source of supplemental funds if he develops a permanent chronic or terminal illness.[3]

The advantages for Greg

- Knowing that his loved ones can be financially secure.
- Indexed accounts tied to stock market performance (excluding dividends) — providing access to market opportunity and varying levels of protection to meet client needs and preferences.
- Accessing the policy's cash value as a financial resource.[2] When properly designed, there are no required distributions at age 70½ and no early withdrawal penalties before age 59½.
- The opportunity for added coverage from unexpected health expenses.[3]
- Obtaining life insurance coverage with no out-of-pocket expense other than the cost of the taxes paid on the bonuses he received.

Total out-of-pocket expense over 20 years to pay taxes on his bonus	–$64,000*
Cumulative policy loans taken income tax-free to supplement Greg's retirement from ages 66 to 85	+$775,360
Greg's death benefit at age 85	+$309,773
Net benefit to Greg at age 85	**$1,021,133**

*Greg's assumed tax rate is 32%. Packaging in Action assumed tax rate is 21%.

The hypothetical example assumes a male, age 45, standard nontobacco, *Lincoln WealthAccumulate®* IUL, solve for a minimum non-MEC death benefit with a $10,000 annual premium paid for 20 years, increasing by cash value death benefit option for 20 years then switch to a level death benefit option, solve for maximum annualized participating loans from ages 66 through 85 with $1 at maturity. 100% premium allocation to Perform Indexed Account, 5.67% assumed index crediting. **At 0% guaranteed interest crediting and maximum annualized policy loans beginning at age 66, policy lapses at age 67.**

The advantages for Phil's business

- A strategy to retain a valuable key employee
- A plan that is easy to establish and administer, with no IRS approval needed
- The freedom to choose which employees to reward, and the business will have a current tax reduction for the bonus paid[1]
- A flexible and cost-effective plan

Bonus paid per year	$10,000
Current tax reduction for bonus paid per year[1,5]	$2,100
Total bonus paid to Greg to age 65	$200,000
Total tax reductions for bonuses paid[1]	–$42,000
Total after-tax cost of the benefit[1]	**$158,000**

Strengthen and protect the future of your business

Ask your financial professional how Lincoln Business Insurance Solutions can help you succeed.

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

[2] Distributions are through loans and withdrawals, which will reduce a policy's cash value and death benefit. Loans are not considered income and are not taxable while withdrawals are tax-free up to the policy's cost basis, provided the policy is not a MEC.

[3] Subject to certain requirements and availability. Accelerated death benefits may be taxable and may affect public assistance eligibility. Other account values are reduced proportionately with each acceleration payment. Only one accelerated death benefit is allowed per policy.

[4] Policy charges remain in effect and could reduce your policy value.

[5] Assuming a 21% C-corp tax bracket.

Not a deposit
Not FDIC-insured
Not insured by any federal government agency
Not guaranteed by any bank or savings association
May go down in value

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