Focus on

Key Employee Planning

Protect Your Business. Reward Your Employees.

As a successful business owner, you likely already know that the most critical ingredient to your company's success is you and your team. Regardless of how big or small your business is, you probably have at least one employee that you can't function without. Perhaps you have a manager, salesperson, designer, or engineer whose leaving would significantly impact your business. These are your key employees—and the cost to replace them could be far more than simply financial.

Key employee benefit plans can help you reward and retain your key employees, including yourself. These plans can not only help keep employees happy, productive, and employed by you, but they can also be great tools to help you recruit top talent.

If one of your key employees went down the street to work for your competitor or even to start their own business, would your clients follow them? How would that impact your current or future revenue?

Rewarding Your Employees—and Yourself

If you already offer traditional qualified retirement plans like 401(k), SEP IRA, or Simple IRA plans, you understand the importance of providing employee retirement benefits. But for higher earners or executives, these plans do not allow enough savings per year to help meet their retirement goals. Key employee benefit plans let you go further, providing bigger benefits for the employees that make the biggest difference to your company, and providing an effective way to recruit, reward, and retain top talent.

For the Select Few

Sometimes referred to as "top hat" or "golden handcuffs," key employee benefit plans provide much more flexibility than traditional qualified plans. In fact, these non-qualified plans enable you to tailor the benefit to the select few (or one) that you would like to reward. You can provide benefits to these employees—or just yourself—without having to worry about ERISA.

Go for the Win-Win

While individual plan features and benefits may vary, all key employee plans provide a number of attractive benefits for the business and employees alike.

Benefits for the Business	Benefits for Key Employees
Simplicity—The plans are not subject to the restrictions of qualified plans	**Additional retirement income**—These plans enable employees to supplement their retirement income
Cost effectiveness—The benefits will be tax-deductible when they are paid to your employee (and you may even be able to recover costs)	**Feeling valued**—Providing these types of benefits can help employees feel more valued and encourage loyalty
Selectivity—You decide who participates and what types of benefits will be provided	**Potential to reduce current income taxes**—Employees may be able to reduce their current adjusted gross income, which may reduce their taxes
Flexibility—Each plan can be tailored to meet the needs of your business and each of your employees—and you can set specific terms that can increase loyalty and retention through "golden handcuffs"	**Potential access to cash prior to retirement**—Employees may be able to access cash prior to retirement without penalties
Attractiveness—Key Employee Plans are great tools for recruiting, rewarding and retaining key employees	**Potential death and disability benefits**—Employees may be able to gain disability and death benefits

60% of business professionals believe a strong benefits package is very important in attracting and retaining quality employees, while only 38% believe a high base salary is very important.[1]

[1] Harvard Business Review Analytic Services, 2011

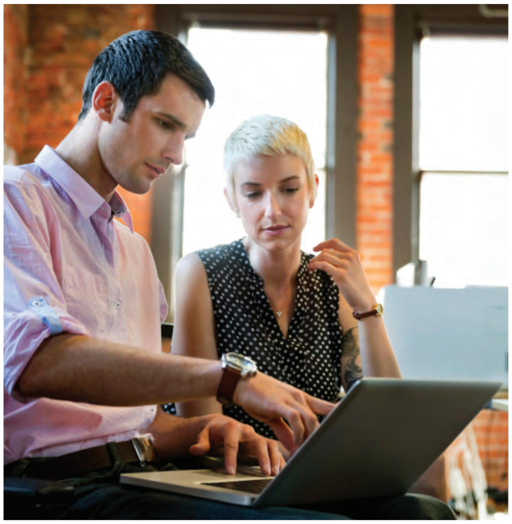
Key Employee Plans

There are a number of plans you can use to reward your key employees. The right one for you will depend on the goals and budget for your business, as well as the needs of your employees.

Executive Bonus

Sometimes referred to as a 162 plan, an executive bonus plan is one of the simplest ways to provide your key employees—and yourself—with additional benefits. Instead of paying a cash bonus to your employee, you use the bonus to purchase a life insurance policy that can provide impressive benefits for both of you.

The Real Cost of Losing an Employee



The Society for Human Resource Management estimates that it costs an average of 6-9 months' salary to replace an employee. And the Center for American Progress puts the number as high as 213% of salary for a high earner. But as significant as these financial burdens are, consider that the true costs go beyond them. You may in fact have to step in to do the job in the meantime. What will happen to your talent search, company productivity, and your own work/life balance while you do this? And remember, when you find a replacement, it could take up to 2 years and 10-20% of salary in training costs until he or she is as productive as your previous employee.[2]

[2] Employee Retention Now a Big Issue: Why the Tide Has Turned, Deloitte 8/16/13

Case in Point

Steve owns a small company that designs and builds custom websites. Steve would like to incent Kathi, his senior engineer, to stay while also providing additional benefits for himself. With the help of his financial professional, Steve chooses an executive bonus plan funded with life insurance. Steve decides to pay Kathi a 20% bonus for every year she stays. He will also pay himself a 20% bonus.

Here's how it could work*:

1. Steve and Kathi apply for their own life insurance policies. The company pays the premiums as their "bonuses."
2. Steve's company can deduct the premium payments, but Steve and Kathi will owe income taxes, as the bonuses are compensation.

   a. If a "single bonus" is selected, Steve and Kathi will pay taxes out of their regular income. Under certain circumstances, a "premier bonus" can be chosen which would allow Steve and Kathi to take loans from their respective policy cash values to pay the taxes.**

   b. Using a "double bonus," the company could bonus additional dollars to cover the taxes.
3. Steve and Kathi each own their respective policies, enabling them to retain control and protect their loved ones with a death benefit.
4. Steve and Kathi can access the cash value of their policies prior to retirement (in a tax-favored manner)—and can also use it to supplement their retirement income.**

Benefits for the Business	Benefits for Key Employees
▪ Tax deduction of bonus paid*** ▪ Ability to tie bonus to performance or other standards ▪ Can select who is included in the plan ▪ No complex contracts ▪ Encourages employee loyalty	▪ Income tax-deferred growth of policy cash value ▪ Potential source for supplemental retirement income ▪ Access to cash value prior to retirement ▪ Income tax-free death benefits ▪ Potential disability benefits

Split Dollar Plans

Designed specifically to be funded with life insurance, split dollar plans allow you to provide benefits with a low cost to the employees and the potential for your business to recoup its costs. Essentially, you will share the premium payments and some of the policy benefits as well.

Case in Point

John owns an accounting firm and Kim is one of his top CPAs. John wants to help incent Kim to stay—and help her build her retirement assets—but would like it to be cost effective. They agree to a split dollar plan.

Here's how it could work*:

1. John's firm or Kim could own the policy.
2. John's firm and/or Kim could make contributions to cover the premium costs.
3. Kim may be able to use the cash value to supplement her retirement income or access it in advance, if needed.
4. Down the road, Kim's beneficiaries will receive the agreed upon death benefit.
5. John's business recovers some or all of the funding costs from the death benefit.

Benefits for the Business	Benefits for Key Employees
▪ Ability to completely customize the agreement and tie premium payments to performance, retention, or other standards ▪ Option to recover premium payments from the policy proceeds ▪ Encourages loyalty and employee retention	▪ Income tax-deferred growth of policy cash value ▪ Potential source for supplemental retirement income ▪ Potential access to cash value prior to retirement ▪ Income tax-free death benefits

* All case studies are for demonstration only. Actual results will depend on the owner's unique circumstances and products purchased. Information provided is not intended or should not be interpreted as providing tax advice. You should consult with your tax advisor regarding tax implications.

** Assumes the policy is not a Modified Endowment Contract (MEC). Policy loans are not taxable, regardless of the amount received, provided the policy is not surrendered, lapsed, or otherwise terminated during the lifetime of the insured. Policy withdrawals are taxable to the extent that the total amounts received exceed the basis. Withdrawals taken within the first 15 years may also be taxable even if the amount does not exceed basis.

*** Assuming overall compensation is considered reasonable

Deferred Compensation

Want to help employees reduce their taxable income? Interested in offering company paid retirement income? Deferred compensation plans offer the flexibility to save additional money toward—or provide salary continuation after—retirement. They can help employees reduce their current adjusted gross income and potentially their current taxes.

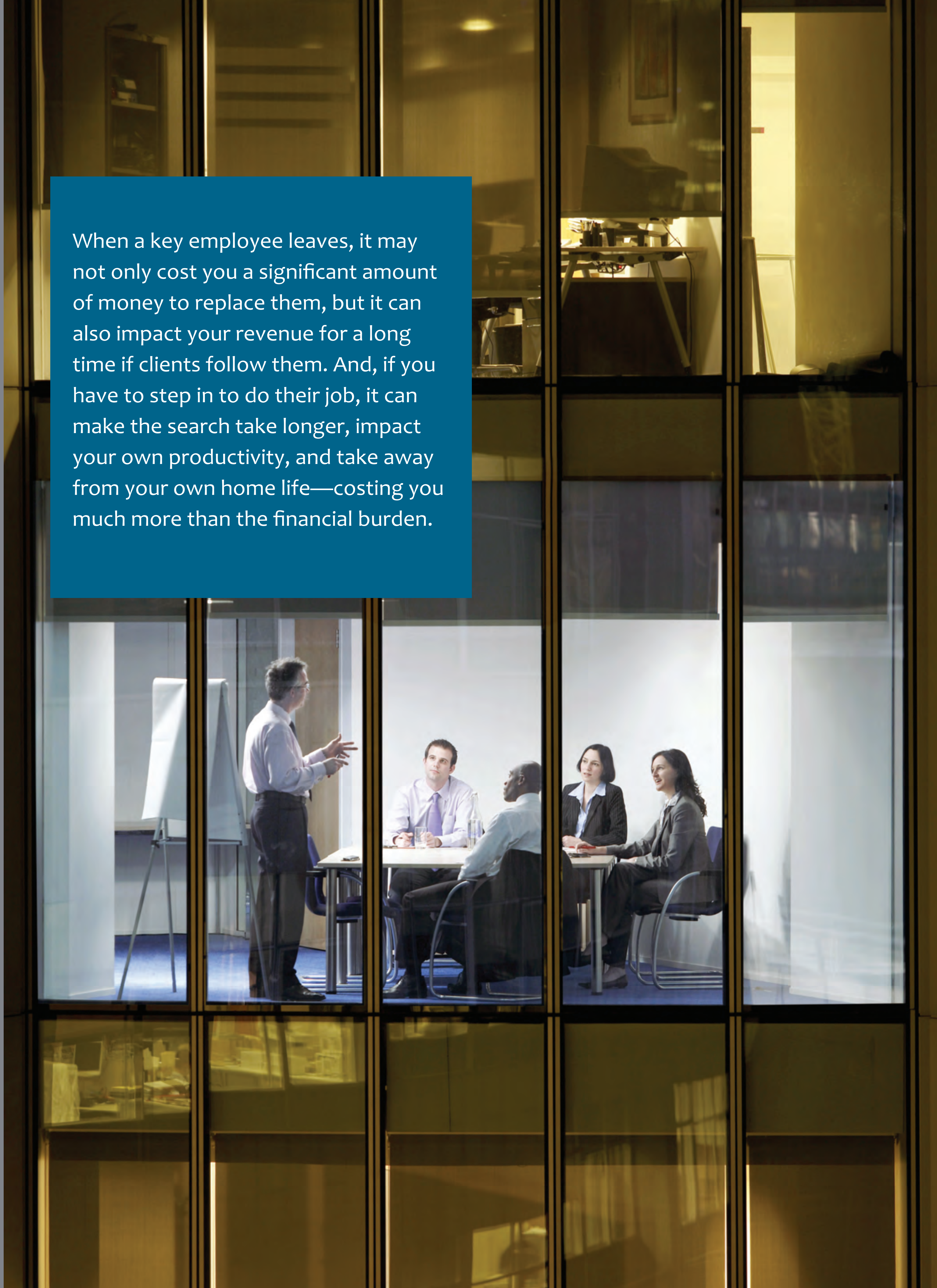
Case in Point

Julia owns Park Street Pediatrics. Dave is her physician's assistant. To reward him for the great contributions he makes—and to help ensure he doesn't leave before retirement—Julia offers Dave a defined contribution plan funded with life insurance. Park Street Pediatrics will contribute 20% of his salary to the plan for each year he stays and has set a 10-year vesting schedule.

Here's how it could work*:

1. Park Street Pediatrics applies for, pays the premiums on—and is the owner of—a life insurance policy on Dave's life.
2. Dave won't owe taxes on the money until plan benefits are paid to him at retirement.
3. The business can deduct the benefit payments once they are made to Dave at retirement.
4. Park Street Pediatrics will use the cash value from the policy to supplement Dave's retirement benefits.
5. Prior to retirement, Park Street Pediatrics is protected by the policy's death benefit and Dave's loved ones are protected by the death benefit he and Julia agreed upon. After retirement, Dave's family would receive any remaining retirement benefits at the time of his death.

Benefits for the Business	Benefits for Key Employees
▪ Ability to completely customize the agreement and tie premium payments to performance, retention, or other standards ▪ Ability to deduct benefit payments once they are made ▪ Option to recover premium payments from the policy proceeds ▪ Create "golden handcuffs" to help retain key employees ▪ Income tax-free death benefits	▪ Plan contributions are not considered current income and are not taxable ▪ Income tax-deferred growth of policy cash value ▪ Potential source for supplemental retirement income ▪ Pre-retirement death benefit protection for beneficiary



When a key employee leaves, it may not only cost you a significant amount of money to replace them, but it can also impact your revenue for a long time if clients follow them. And, if you have to step in to do their job, it can make the search take longer, impact your own productivity, and take away from your own home life—costing you much more than the financial burden.

Maximize the Benefits with Life Insurance

There are many options for funding key employee plans, including cash and investment accounts, to name just a few. Life insurance, however, may be an optimal choice for these types of plans. Consider that life insurance not only enables the investments to grow on a tax-deferred basis, but can also let plan participants build up and access cash values prior to retirement, gain additional retirement income, and—if something happens down the road—it offers a death benefit for the beneficiaries.

Selecting the Right Plan to Protect Your Business

Your key employees are critical to your business. And whether you want to help build their retirement savings, lower their current income taxes, ensure their loyalty to your company—or all of the above—key employee benefit plans may offer the solutions you need. These simple, cost-effective plans can be customized to the needs of your business and each individual employee, and let you provide bigger benefits for the employees making the biggest difference to your business.

Of course, with so many good options, it can be challenging to determine which one is right for your situation. Your financial professional can help you find the right solution for your business to help you attract, reward—and retain—key employees.

Key employee plans do not put specific "limits" on how much you can bonus to an employee, assuming compensation is reasonable. You may truly be able to help employees reduce current taxes and close the retirement income gap, helping to make these plans even more powerful.

THE VALUE OF

Working With A Financial Professional

The need for a financial professional has never been greater. Today's financial climate is more complex than ever before, with a wide variety of products and resources available to you. To help get you on track, you will need the help of a financial professional who can build a plan tailored to your unique objectives; guide you in making critical financial decisions for your financial future; and help you achieve your financial goals through all life's stages.

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