

An executive bonus plan for your top talent

MultiLife strategy using Guaranteed or Simplified Issue underwriting

In a thriving economy, many successful business owners make talent retention a top priority. To retain, reward and motivate their key talent to remain with their business for the rest of their careers, owners offer an exclusive bonus for these employees.

An executive bonus plan is a simple way to provide enhanced benefits to a select group of key employees. The business uses tax-deductible funds to reward their top executives with life insurance. The executive bonus can supplement their retirement income and provide financial security for their loved ones.

How an executive bonus plan works

The employer agrees to pay their employee an annual bonus, which pays the premium on a life insurance policy. The employee applies for and owns the policy.



Your business

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



Your 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 paid¹

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 withdrawals²
- A legacy asset that transfers to their beneficiary income tax-free

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

² Loans and withdrawals reduce policy value and death benefit, may cause the policy to lapse and may have tax implications.



Meet George and his key executives

- George is the owner of Phase3 Science, Inc., a pharmaceutical research company
- George's most valuable resource: his top 15 executives

To help ensure that George's key executives remain with Phase3 Science, Inc. until their retirement, George wants to offer an extra incentive program exclusively for them. So, George meets with his financial professional to discuss his company's options.

The company's goal



A simple way to reward and retain its top 15 executives



An attractive executive benefit that offers benefits now and in retirement



A benefit program that could provide tax benefits for Phase3 Science, Inc.



A plan that's easy to implement and administer



The business protection strategy

George's financial professional recommends that Phase3 Science, Inc. establish an executive bonus plan using Guaranteed or Simplified Issue underwriting and indexed universal life (IUL) policies for each executive.

It can be very easy for the key executives to get insured. They may not have to answer any medical questions, because the company's financial professional worked with the carrier's business insurance solutions team to place \$375,802 of coverage on each of them using a Guaranteed Issue underwriting platform.

George will pay a bonus of \$25,000 annually to the selected executives through age 65. This amount will be used to pay the policy premiums, and Phase3 Science, Inc. will have a tax deduction for the benefits paid. Each executive will need to pay income tax on the benefit they receive each year. George agrees with his financial professional that an IUL is an excellent choice for his executives because it offers:

- Significant growth opportunities with clear choices to help them increase wealth over time
- Access to potential cash value to supplement retirement income
- Downside protection to help shield them from market losses
- The financial security of death benefit protection
- Flexibility to meet their changing needs throughout their lives

The outcome for the business

Annual summary		Cumulative summary (over first 20 years of the policy)	
Cumulative bonus paid each year	\$375,000	Total cumulative bonus paid	\$7,500,000
Total tax deductions for bonuses paid ^{1,2}	-\$78,750	Total tax deductions for bonuses paid ³	-\$1,575,000
Total annual after-tax cost of the benefit	\$296,250	Total after-tax cost of the benefit ¹	\$5,925,000

Composite illustration assumes 15 males, age 45, Guaranteed Issue underwriting, tax bracket 32%, *Lincoln WealthAccumulate*® 2 IUL, 100% premium allocation to S&P 500 Traditional Indexed Account \$375,802 death benefit with a \$25,000 annual premium paid for 20 years, increasing by cash death benefit option for 20 years then switch to a level death benefit option, solve for maximum annualized fixed loans from ages 66 through 85 with \$1 at maturity and 6% assumed indexed crediting.

At 0% guaranteed interest crediting and solving for maximum annualized policy loans beginning at age 66, policy lapses at age 70.

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

² Assuming a 21% C-corp tax bracket.

³ Based on 32% tax bracket.

Outcome for each key executive

Annual summary	
Annual bonus received each year	\$25,000
Annual out-of-pocket costs	\$8,000
Annual distributions taken via policy loans from ages 66 to 85	\$64,262

Summary at age 85	
Death benefit	\$218,286
Cumulative distributions taken via policy loans taken to supplement their retirement income from ages 66 to 8	\$1,285,239
Cumulative distributions from ages 66 to 85, less executive's out-of-pocket costs	\$1,285,239

Cummulative summary (over first 20 years of the policy)	
Total bonuses received	\$500,000
Total out-of-pocket costs	\$160,000

Life insurance offers opportunities to build and help protect your financial goals

Life insurance can offer

- Cash value growth potential, often linked to a market index performance
- Access to this cash value through loans to help protect your other portfolio assets if the market declines
- Downside protection on some accounts, so you won't face market losses
- Chronic care riders not available with Guaranteed Issue

See prior page for assumptions.





Talk with your financial professional about rewarding and retaining your key employees with Lincoln life solutions.

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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Important information

Distributions are taken through loans and withdrawals, which reduce a policy's cash value and death benefit and may cause the policy to lapse. Loans are not considered income and are tax-free. Withdrawals and surrenders are tax-free up to your cost basis, provided your policy is not a modified endowment contract (MEC). A MEC policy is one in which the life insurance limits exceed certain high levels of premium or the cumulative premium payments exceed certain amounts specified under the Internal Revenue Code. For policies that are MECs, distributions during the life of the insured, including loans, are first treated as taxable to the extent of income in the contract, and an additional 10% federal income tax may apply for withdrawals made prior to age 59½.

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It is possible coverage will expire when either no premiums are paid following the initial premium, or subsequent premiums are insufficient to continue coverage.

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