

# Lincoln *MoneyGuard*® solutions for business owners

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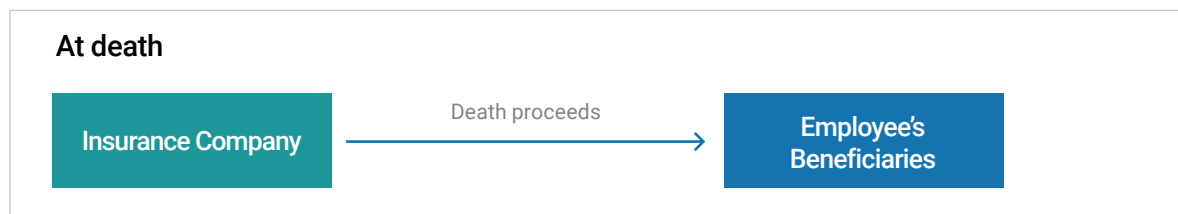
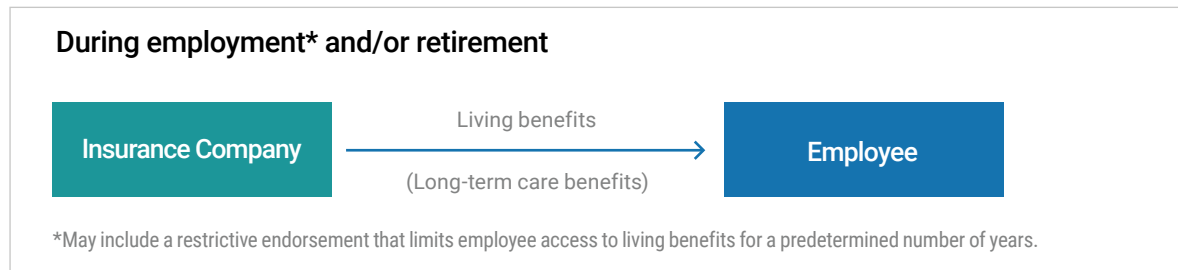
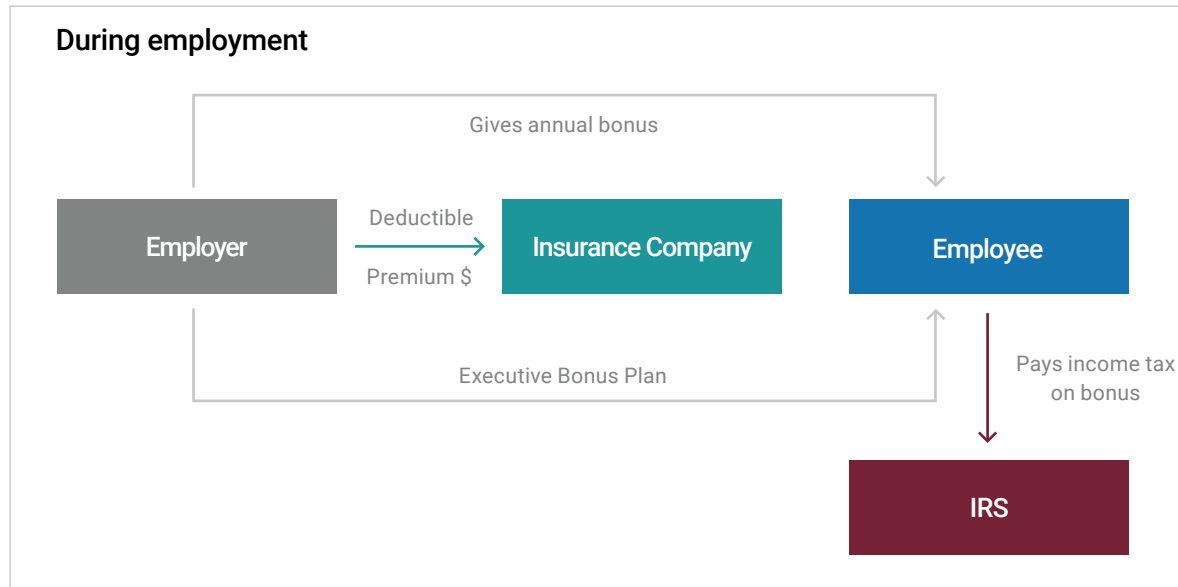
## Executive Bonus (Section 162 Bonus Plan)

For most employers, an executive bonus program is a simple way to reward its top or key employees and pay premiums for their long-term care protection. One way that employers retain and attract top talent is through compensation – most commonly we think of bonuses. A bonus tells an employee that they are a valuable partner and contributor to the success of the organization, and it is a powerful incentive for the employee to push harder to help the company meet performance goals.

### How it works

The key employee owns the *MoneyGuard* policy, which will require the employee to pay income taxes on each year's premium paid by the employer. In most cases, the employer uses a "double bonus" approach that provides the employee with cash needed to pay the income taxes on the entire bonus.

As a rule, an executive bonus arrangement can work for almost any type of business organization. Executive bonus arrangements with *MoneyGuard* have been used by C-corporations, S-corporations, limited liability companies (LLCs) partnerships, and even tax-exempt organizations. If the employer wants to use the program to encourage key employees to stay with the employer, then the *MoneyGuard* premiums can be spread out over five, 10 or even more years. If the employer simply wants to reward a long-time key person, a single premium approach might be the ideal choice. The point is that the employer can customize the amount of long-term care coverage, and the premium paying period for each key employee.



### Tax considerations

- Bonus amounts are generally tax-deductible to an employer
- Bonus is considered taxable to the employee
- Reimbursement of long-term care benefits are income tax-free
- Death benefit is income tax-free to the beneficiary
- Death benefit amount may be included in employee's estate for federal estate tax purposes

## C-corporations and tax-exempt entities

Protecting key executives from the risk of a long, expensive long-term care event makes *MoneyGuard*® a valuable fringe benefit. In addition to using an executive bonus arrangement, the owners of C-corporations and tax-exempt entities (e.g., charities, credit unions, etc.) have several other interesting approaches to consider.

If the owner is willing to postpone its corporate tax deductions until benefits are actually paid, having the C-corporation and tax-exempt entity own the *MoneyGuard* contract may be particularly attractive because the long-term care protection and benefits are received income tax-free by the employee (including the spouses of employees).

### How it works

The fringe benefit tax rules for C-corporations and tax-exempt entities are identical except that tax-exempt entities don't care about tax deductions for *MoneyGuard* premiums and/or LTC benefits. The long-term care benefits are considered as accident and health benefits (IRC §7702B), and accident and health coverage and LTC benefits are received income tax-free by W-2 employees, including their spouses (IRC §§105 and 106). This tax-free treatment continues into retirement.

The C-corporation or tax-exempt entity can decide if they want the *MoneyGuard* death benefit to go to the employee's beneficiaries, or whether the corporation or entity would like to keep the death benefit for cost recovery. If the employer wants to retain the death benefit, then the employer must comply with the notice and consent requirements of IRC §101(j). Because IRC §101(j) does not envision the business owning life insurance on a nonemployee spouse, best practice would be to allow the employee to name the beneficiary of the spouse's policy.

An S-corporation, LLC or partnership should not own *MoneyGuard* on any of the owners or family members. Because the reimbursement of any LTC expenses are accident and health benefits, any LTC benefits received are taxable to the 2% or greater owner of an S-corporation and any LTC benefits received by LLC members or partners.

*MoneyGuard* coverage and benefits are a particularly effective fringe benefit for a tax-exempt entity because it is not subject to the IRC §457(f) rules on deferred compensation plans. The LTC benefits are accident and health benefits, and death benefit plans are excluded from the definition of deferred compensation in IRC §457(f).

## S-corporations, LLCs and partnerships

Pass-through entities (S-corporations, LLCs and partnerships) generally favor an executive bonus approach for key employees because the compensation deduction flows through to the business owners each year. By contrast, if the pass-through entity owned a *MoneyGuard*® contract ensuring a nonowner, the business owner will increase his taxable income because the premiums are not deductible.

### How it works

The preferred approach for the primary owners of a pass-through entity is to have the owners make an ownership distribution of current or prior year's business income, and then purchase *MoneyGuard* individually. This approach works because the owners of a pass-through business pay current income taxes on their business' net income even if they leave some or all the earnings inside the business. Under the tax rules, they can distribute income taxed in earlier years without incurring any additional income taxes.

There are some situations where an executive bonus approach for certain owners may make sense. For example, assume that there are three members of an LLC where one member owns 80%, and the other two members own 10% each. The 80% member might take an ownership distribution and buy *MoneyGuard* individually, and use an executive benefit approach for the two 10% members. Remember, if the 80% member used an executive bonus approach for his or her own policy, the bonus would generate additional employment taxes.

A pass-through entity should not own *MoneyGuard* on an LLC member, partner, or 2% or greater shareholder of an S-corporation. If the business owns the *MoneyGuard* contract, any LTC reimbursements to the business owners will be fully taxable.



Contact your Lincoln MoneyGuard® representative for more information.

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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LCN-4780216-060822

PDF ADA 8/22 **Z02**

**Order code: MG-CORP-BRC001**



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#### Policies:

*MoneyGuard Market Advantage*® is a variable universal life insurance policy issued on policy forms ICC20-MGV892/20-MGV892 with a Long-Term Care Benefits Rider (LTCBR) on Rider Form ICC20LTCBR-892/LTCBR-892, a Value Protection Rider on Form ICC20VPR-892/VPR-892 and a Benefit Transfer Rider on Form ICC22BTR-895/BTR-895.

*MoneyGuard Fixed Advantage*™ is a universal life insurance policy with a long-term care rider issued by The Lincoln National Life Insurance Company, Fort Wayne, IN, on Policy Form ICC19-MG890/19-MG890 with the following riders: Value Protection Endorsement (VPE) on form ICC19END-10534/END-10534; Terminal Illness Acceleration of Death Benefit Rider (TIR) on form ICC19TIR-891/TIR-891; Long-Term Care Benefits Rider (LTCBR) on form ICC19LTCBR-890/LTCBR-890; Benefit Transfer Rider on form ICC21BTR-894/BTR-894.

Lincoln MoneyGuard® II, universal life insurance policy form LN880/ICC13LN880 with the Value Protection Rider (VPR) on form LR880 and state variations/ ICC15LR880 Rev, Long-Term Care Acceleration of Benefits Rider (LABR) on form LR881/ICC13LR881, and optional Long-Term Care Extension of Benefits Rider (LEBR) on form LR882/ICC13LR882.

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