



Greg T. Bailey & Associates, Inc.

Fighting for the Results You Deserve



They say that a company is only as good as its product and services, but we have to include its staff. A company's executives can have a major impact on a company's success. Recruiting top notch candidates for executive positions can be the difference between growth and stagnation.

However, bringing on-board top-quality candidates is usually more complicated than attracting individuals for lower and mid-level positions. Usually for executive level candidates, just having a 401(k) plan and health insurance is not enough. It will require your company to go the extra mile and create an offer that stands out against your competition. Therefore, adopting an executive bonus plan has proven to be an effective way to demonstrate to potential candidates how important they are to the company's success and show them your company's track to personal financial growth.

What is an executive bonus plan?

Also known as a Section 162 plan, it is a compensation strategy that provides additional benefits to key employees or executives. It is similar to a life insurance policy where the employer pays the premiums as a bonus. It incentivizes employees and executives to perform at their best, and hence, contributing to the company's success. Executive bonus plans can be structured in a variety of ways, are usually tied to performance, and can cover both the premium and taxes. With this structure, the employee owns the life insurance policy even though the employer funds it. They can designate the beneficiary and may access other benefits, such as the cash value and accelerated benefits. The plan has all the same benefits as an individually owned life insurance policy.

Executive bonus plans are typically offered to C-suite employees such as chief executives, chief operations executives, and chief financial officers. Premium payments are usually tax deductible for the employer and considered an additional taxable compensation for the employee.



CAN AN EXECUTIVE BONUS PLAN HELP YOUR COMPANY?



These plans are very popular with top-level employees. In addition, they provide benefits to your company because they are a more tax-efficient way to reward your top talent. It is an opportunity for your company to give employees additional compensation with a lower current cost to you than some other types of benefits. And since they usually apply to top-level employees, they are often a less expensive benefit for the employer to add.

This sets a win-win situation. Your top employees will appreciate knowing that they and their families are protected if anything unexpected happens. They will also have more peace of mind and financial security. Lastly, they will appreciate the long-term financial incentives and the access to a financial vehicle that is not subject to qualified plan limits. An executive bonus plan can help your company reinforce a mutually beneficial relationship with your key employees. This kind of benefit is easy to communicate, well-appreciated, and simple to maintain.

The job market has changed. From entry-level employees to experienced executives, employees and job seekers recognize that it is an employee market in which they are ready to take advantage of all the opportunities available to them.

So, what does this mean? Your company needs to provide extra benefits to attract, retain, and engage top talent. This is especially true for companies that have highly valuable people who would be hard to replace, giving them plenty of incentives to stay.

Implementing an executive bonus plan will help during your recruiting process to provide an additional incentive to come on board.

HOW EXECUTIVE BONUS PLANS WORK?

Typical Executive Bonus Plan Implementation:

1. Your company will take out a universal or permanent life insurance policy for your key employees, such as an executive or a top sales rep, etc.
2. Your company will either make tax-deductible bonus payments to fund the policy premiums or give the employee the funds for the premium.
3. Once your company has taken out the life insurance policy under your employee's name, the employee becomes the owner of the policy. This means, that the employee will determine who will be the beneficiaries of the policy.
4. When the employee retires, they or their beneficiary can use the policy cash value to address personal needs

THE MAIN PLAN VARIATIONS

Single bonus arrangements. This plan has the employer paying the employee a bonus to cover their life insurance premiums. The employee is responsible for paying the taxes on the premium amounts paid by the employer.

Double bonus arrangements. With this plan, the employer pays both the employee's life insurance premium and the premium's income tax. The employee will not need to pay for any of the policy's expenses.

Controlled executive bonus plans. This plan allows employers to have more control over the policy. The company can set up a predetermined vesting schedule on the policy's cash value accumulation. The company can set up terms and conditions by which the employee can access the cash value of the policy.

IS YOUR COMPANY READY TO SET UP AN EXECUTIVE BONUS PLAN?

At Greg T. Bailey and Associates we provide benefits consulting services to assist your company recruit and retain high-caliber employees. We can help you set up a wide range of benefits, including executive bonus plans, retirement plans, health savings programs, and more.