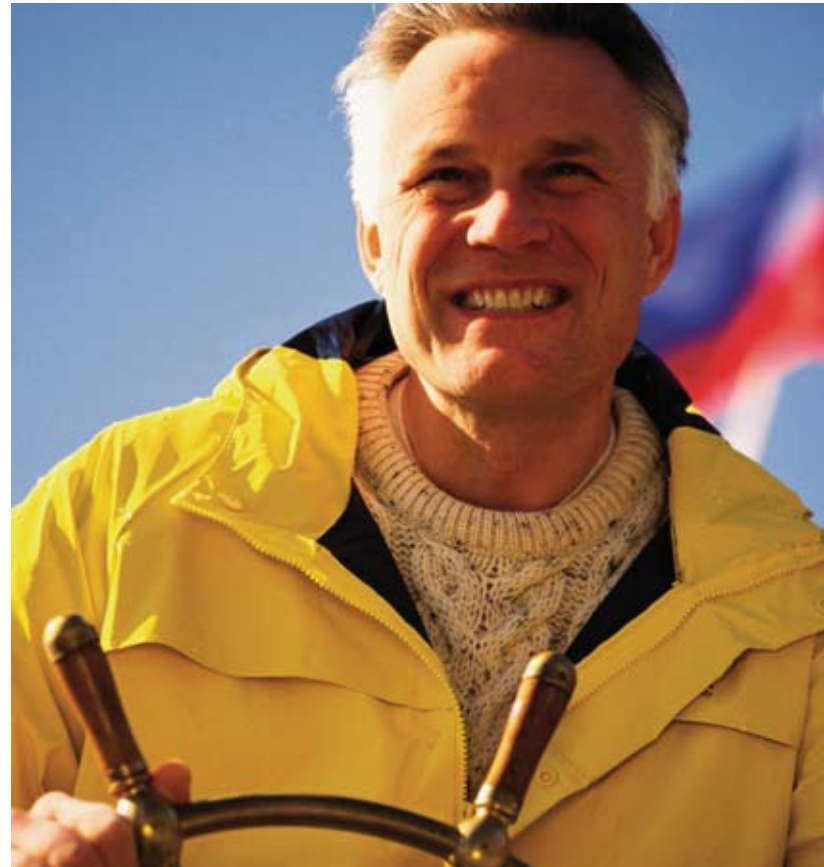


# What They Want



**Planning for Business Owners,  
Their Key Executives, and  
Their Employees Using Life Insurance**



## 3 EASY STEPS TO USE “WHAT THEY WANT”

Business owners are always looking for ways to extract value from their business. Many times, however, these business owners have difficulty in determining how to get that value from their business. The problem is often a lack of clearly defined goals. More to the point, these business owners often are not sure what they want from their business. This quick reference guide is intended to help you help the business owners extract value from their business by focusing on specific planning goals and what to look for when considering those goals. Additionally, the guide provides information on planning for a business' key executives and employees.

1. Match the business owner's goal in charts.
2. Review the possible solution.
3. Turn to the solution page to find out more information.

Uncovering what a business owner “wants” involves asking a lot of questions. Here are some sample questions that may help. They may give you more information about what the business owner wants to accomplish.

### BUSINESS OWNER

Tell me about your business? How did you get started?

What is your legal form of business?

What is the tax bracket?

How many owners are there?

If something happened to you, would your business partners want your spouse as their business partner?

If you were selling your business today, how much would you ask for it?

Do you have a buy-sell agreement? Is it funded?

Tell me more about the provisions of your buy-sell agreement. What happens at retirement? What happens if someone dies? What if someone is disabled and unable to work?

What is your five year plan for the business?

What about long term? Where do you want to get to?

### BUSINESS OWNER RETIREMENT

When you retire, what will you do with your business?

When you retire, where will your retirement income come from?

How much of your total net worth is made up by your business?

### EMPLOYEES

How many employees do you have?

Who besides yourself do you rely on for the success of the business?

What do they do?

Tell me about the retirement benefits you offer.

If you were to increase or provide additional benefits, who would you want to benefit most? Owner-employees/Non-owner employees?

What supplemental programs (if any) do you offer to help retain “key” employees? Examples are Executive Bonus, Nonqualified Deferred Compensation, and Salary Continuation.

Which is most important to you:

- Tax-deductible to the business
- Not currently taxable as income to the participant
- Pick and choose who benefits

# PLANNING FOR BUSINESS OWNERS

Business Owner's Goal	Possible Solution	What To Look For
Buy-Sell Planning	Cross Purchase	<ul style="list-style-type: none"> <li>• 3 or fewer shareholders</li> <li>• When step-up in basis is crucial</li> <li>• Business only has one current owner</li> </ul>
	Stock Redemption	<ul style="list-style-type: none"> <li>• 4 or more shareholders</li> <li>• Business needs access to policy cash value</li> </ul>
	Family Buy-Sell	<ul style="list-style-type: none"> <li>• Family-owned businesses</li> <li>• Desire to pass business to next generation</li> </ul>
	Insured Controlled Cross Purchase	<ul style="list-style-type: none"> <li>• Partnerships or LLCs</li> <li>• 3 or fewer partners</li> </ul>
	One-Way Buy-Sell	<ul style="list-style-type: none"> <li>• Single business owner</li> <li>• Desire to sell to key executive</li> </ul>
Cash Accumulation	Executive Bonus	<ul style="list-style-type: none"> <li>• High tax bracket C Corporations</li> <li>• Companies without a stable financial history</li> </ul>
	Life Insurance Retirement Strategy (LIRS)	<ul style="list-style-type: none"> <li>• Pass-through entities</li> </ul>
	Voluntary Deferral	<ul style="list-style-type: none"> <li>• Low tax bracket C Corporations</li> <li>• Stable companies</li> </ul>
	Accounts Receivable Financing	<ul style="list-style-type: none"> <li>• High risk businesses (e.g. doctors and dentists)</li> <li>• Partnerships and LLCs</li> </ul>
Key-Person Protection	Key-Person Life Insurance	<ul style="list-style-type: none"> <li>• Business would be hurt by death of a key executive</li> </ul>
Personal Life Insurance Protection	Endorsement Split Dollar	<ul style="list-style-type: none"> <li>• Low tax bracket C Corporations</li> <li>• Business owners under age 65</li> </ul>
	Executive Bonus	<ul style="list-style-type: none"> <li>• High tax bracket C Corporations</li> <li>• Desire to combine life insurance protection with cash accumulation</li> </ul>
Estate Planning	ILIT-Owned Non-Equity Collateral Assignment Split Dollar	<ul style="list-style-type: none"> <li>• Low tax bracket C Corporations</li> <li>• 2nd-to-Die Policy</li> </ul>
	7872 Term Loans	<ul style="list-style-type: none"> <li>• C Corporations</li> <li>• Insured age 60+</li> </ul>



## PLANNING FOR KEY EXECUTIVES

Business' Goal	Possible Solution	What To Look For
Executive Retention	Supplement Executive Retirement Plan (SERP)	<ul style="list-style-type: none"> <li>• C Corporations</li> <li>• Business wants to control funds</li> <li>• Need for key-person life insurance</li> </ul>
	401(k) Mirror Voluntary Deferral Plan	<ul style="list-style-type: none"> <li>• C Corporations</li> <li>• Stable companies</li> <li>• Need for key-person life insurance</li> </ul>
	Controlled Executive Bonus	<ul style="list-style-type: none"> <li>• Pass-through entities</li> </ul>
Cash Accumulation for the Executive	Voluntary Deferral Plan	<ul style="list-style-type: none"> <li>• C Corporations</li> <li>• Stable companies</li> <li>• Need for key-person life insurance</li> </ul>
	Executive Bonus	<ul style="list-style-type: none"> <li>• Pass-through entities</li> </ul>
Personal Life Insurance Protection for the Executive	Endorsement Split Dollar	<ul style="list-style-type: none"> <li>• C Corporations</li> <li>• Business requires cost recovery</li> </ul>
	Executive Bonus	<ul style="list-style-type: none"> <li>• Pass-through entities</li> </ul>

# PLANNING FOR EMPLOYEES

Business' Goal	Possible Solution	What To Look For
Welfare Benefits	419(e) Welfare Benefit Plans	<ul style="list-style-type: none"> <li>• Small businesses (10 or fewer employees)</li> <li>• Need for welfare benefits planning</li> <li>• Business does not have a defined contribution qualified plan</li> </ul>
	Permanent Benefit Section 79 Plans	<ul style="list-style-type: none"> <li>• C Corporations</li> <li>• Need for group term life insurance</li> <li>• Business likes permanent benefit aspect of the arrangement</li> </ul>
Retirement Income	Split-Funded Defined Benefit Plan	<ul style="list-style-type: none"> <li>• Small businesses (10 or fewer employees)</li> <li>• Seeking defined retirement income benefits</li> </ul>
Personal Life Insurance Protection	Qualified Plans with Life Insurance	<ul style="list-style-type: none"> <li>• Qualified plans that allow life insurance</li> </ul>



# PLANNING FOR BUSINESS OWNERS

## BUY-SELL PLANNING

### CROSS PURCHASE

Shareholder-owned life insurance policies are applied towards the purchase of the other participating shareholder's business interests upon the occurrence of a triggering event (e.g. death, retirement, and disability).

#### What to look for:

- **3 or fewer shareholders** – A cross purchase generally requires that each shareholder purchases a life insurance policy on all the other participating shareholders.
- **When step-up in basis is crucial** – In a cross purchase, the purchasing shareholder will receive basis in the purchased stock equal to the consideration paid. This may reduce the purchasing shareholder's capital gains tax exposure upon a subsequent sale of the business.
- **Business only has one current owner** – A cross purchase may be utilized to transition a business from its current owner to a key executive or a group of key executives.

### Materials Available

Title	Form Number	Client Use?
Business Continuation Planning (brochure)	15-17907/85-22106	Yes
A Practical Guide to Business Continuation Planning	15-23584	No
Planning for Business Owners Fact Finder	15-28228/85-28229	Yes
Buy-Sell Case Design Wizard	Lifeline Only	No
Business Succession Planning Client PowerPoint	Lifeline Only	Yes

### STOCK REDEMPTION

A life insurance policy owned by the business<sup>1</sup> may be utilized by the business to purchase a shareholder's interest upon the occurrence of a triggering event (e.g. death, retirement, and disability).

#### What to look for:

- **4 or more shareholders** – A stock redemption generally requires only one policy per participating shareholder.
- **Business needs access to policy cash value** – The business, as owner of the policy has access to any available policy cash value.

### Materials Available

Title	Form Number	Client Use?
Business Continuation Planning (brochure)	15-17907/85-22106	Yes
A Practical Guide to Business Continuation Planning	15-23584	No
Planning for Business Owners Fact Finder	15-28228/85-28229	Yes
Buy-Sell Case Design Wizard	Lifeline Only	No
Business Succession Planning Client PowerPoint	Lifeline Only	Yes

<sup>1</sup> For federal income tax purposes, life insurance death benefits generally pay income tax-free to beneficiaries pursuant to IRC Sec. 101(a)(1). In certain situations, however, life insurance death benefits may be partially or wholly taxable. Situations include, but are not limited to: the transfer of a life insurance policy for valuable consideration unless the transfer qualifies for an exception under IRC Sec. 101(a)(2)(i.e. the "transfer-for-value rule"); arrangements that lack an insurable interest based on state law; and an employer-owned policy unless the policy qualifies for an exception under IRC Sec. 101(j).

## FAMILY BUY-SELL

The family members that are active in the business purchase a life insurance policy on the business owner's life. At the business owner's death, the active family members will apply the death benefit proceeds toward the purchase of the business from the business owner's estate.

### *Materials Available*

Title	Form Number	Client Use?
Family Buy-Sell Succession Strategy (brochure)	15-23663/85-23666	Yes
A Practical Guide to Business Continuation Planning	15-23584	No
Planning for Business Owners Fact Finder	15-28228/85-28229	Yes
Succession Planning for the Family Owned Business	Lifeline Only	Yes

## INSURED CONTROLLED CROSS PURCHASE

A life insurance policy owned by the insured on his or her life is used to fund a cross purchase buy-sell. Under the terms of a split dollar agreement, a non-insured shareholder is endorsed a portion of or all of the death benefit proceeds in excess of the policy's cash value. The insured shareholder and the endorsee must be partners in a bona fide partnership to avoid violating the transfer-for-value rule.

### *Materials Available*

Title	Form Number	Client Use?
Insured Controlled Cross Purchase (brochure)	15-25472/85-25509	Yes
A Practical Guide to Business Continuation Planning	15-23584	No
Planning for Business Owners Fact Finder	15-28228/85-28229	Yes
Buy-Sell Case Design Wizard	Lifeline Only	No

## ONE-WAY BUY-SELL BUSINESS SUCCESSION STRATEGY

The business owner and the key executive enter into an agreement stating that the key executive will buy the business at the owner's death or retirement. The arrangement is funded by a life insurance policy on the owner that is owned by the key executive.

### *Materials Available*

Title	Form Number	Client Use?
One-Way Buy-Sell Business Succession Strategy (brochure)	15-28201/85-28202	Yes
Business Continuation Planning (brochure)	15-17907/85-22106	Yes
A Practical Guide to Business Continuation Planning	15-23584	No
Planning for Business Owners Fact Finder	15-28228/85-28229	Yes
Buy-Sell Case Design Wizard	Lifeline Only	No

### **What to look for:**

- **Family-owned businesses** — The family buy-sell is a strategy that is designed to transition a business from one generation to the next.
- **Desire to pass business to next generation** — A family buy-sell may ensure that a business survives the transition from one generation to the next.

### **What to look for:**

- **Partnerships or LLCs** — The insured controlled cross purchase should only be implemented by partners in a partnership (or members in a LLC that is taxed as a partnership) or the arrangement may violate the transfer-for-value rule.
- **3 or fewer partners** — The structure (i.e. the split dollar arrangements) becomes very complicated if more than three partners are involved in the arrangement.

### **What to look for:**

- **Single business owner** — The one-way cross purchase is designed for single-owner businesses.
- **Desire to sell to key executive** — The one-way cross purchase may allow for a smooth transition from a single owner to a key executive.

# PLANNING FOR BUSINESS OWNERS

## CASH ACCUMULATION

### EXECUTIVE BONUS

The business owner uses taxable bonuses provided by the business to pay life insurance premiums on a personally owned policy.

#### What to look for:

- **High tax bracket C Corporations** – Executive bonuses may be deductible for the business which may decrease the business' tax outlay.<sup>2</sup>
- **Companies without a stable financial history** – An executive bonus may be an attractive alternative to nonqualified deferred compensation plans in companies without a stable financial history.

#### Materials Available

Title	Form Number	Client Use?
Executive Bonus (brochure)	15-17906/85-22110	Yes
A Practical Guide to Executive Benefits	15-25748	No
Executive Bonus Producer's Guide	15-27776/85-27777	No
Planning for Business Owners Fact Finder	15-28228/85-28229	Yes
Executive Benefits Case Design Wizard	Lifeline Only	No
Executive Bonus Client PowerPoint	Lifeline Only	Yes

### LIFE INSURANCE RETIREMENT STRATEGY (LIRS)

The business owner purchases a personally owned life insurance policy with his or her after-tax dollars. The policy is structured to accept maximum premium payments in relation to the desired death benefit so that, over time, the policy cash values have the potential to grow to a substantial level. The policy cash value may be accessed by the business owner for emergencies or other financial needs.

#### What to look for:

- **Pass-through entities** – Owner's of pass-through entities generally do not gain any tax leverage by participating in a nonqualified deferred compensation plan or an executive bonus arrangement.

#### Materials Available

Title	Form Number	Client Use?
Life Insurance Retirement Strategy (brochure)	15-19400/85-26157	Yes
Life Insurance Retirement Strategy for Women (brochure)	15-26626/85-26656	Yes
Planning for Business Owners Fact Finder	15-28228/85-28229	Yes
Life Insurance Retirement Strategy Client PowerPoint	Lifeline Only	Yes
Life Insurance Retirement Strategy-Planning Considerations for Women Client PowerPoint	Lifeline Only	Yes

<sup>2</sup> The deductibility of compensation paid to the business owner is subject to the reasonable compensation limits established by Internal Revenue Code Section 162(a).

## VOLUNTARY DEFERRAL

The business owner defers salary to provide supplemental income upon retirement or another specified date. The business uses a key-person life insurance policy to informally fund the plan.

### What to look for:

- **Low tax bracket C Corporations** – Contributions to nonqualified deferred compensation plans (such as a voluntary deferral) are not a tax-deductible expense for the business. If the C Corporation is in a low tax bracket, the salary deferral may not substantially increase the business' tax outlay.
- **Stable companies** – The business owner's deferral balance will be considered a general asset of the business and will be reachable by its creditors.

### Materials Available

Title	Form Number	Client Use?
Voluntary Deferral Plan (brochure)	15-17787/85-22114	Yes
Nonqualified Deferred Compensation Plans (primer)	15-26470	Yes
A Practical Guide to Executive Benefits	15-25748	No
Planning for Business Owners Fact Finder	15-28228/85-28229	Yes
Executive Benefits Case Design Wizard	Lifeline Only	No
Voluntary Deferral Plan Client PowerPoint	Lifeline Only	Yes

### Business owners considering a voluntary deferral plan may also consider the following strategies:

- SERP (see page 9 for more information)
- 401(k) mirror plan (see page 10 for more information)
- Endorsement split dollar (see page 6 for more information)
- Key-person life insurance (see page 6 for more information)



# PLANNING FOR BUSINESS OWNERS

## ACCOUNTS RECEIVABLE FINANCING

**Business Loan Design** – A business receives a loan from a third-party lender. The business pledges a portion of its accounts receivable as primary collateral for the loan. The business makes a taxable distribution of the borrowed money to the executive. The executive uses these funds to pay premiums on a personally owned life insurance policy. The policy is considered secondary collateral for the loan.

**Personal Loan Design** – An executive receives a loan from a third-party lender. The business pledges a portion of its accounts receivable as primary collateral for the loan. The executive uses these funds to pay premiums on a personally owned life insurance policy. The policy is considered secondary collateral for the loan.

### *Materials Available*

Title	Form Number	Client Use?
Accounts Receivable Financing Business Loan Design (brochure)	15-26638/85-26939	Yes
Accounts Receivable Financing Personal Loan Design (brochure)	15-26747/85-26940	Yes
Accounts Receivable Financing Producers Guide	15-26921/85-26977	No
Leveraged Strategies Using Life Insurance (white paper)	15-27039/85-27040	No
Planning for Business Owners Fact Finder	15-28228/85-28229	Yes

### **What to look for:**

- **High risk businesses (e.g. doctors and dentists)** – An accounts receivable financing plan may provide protection of the assets pledged as security for the loan from unwanted creditors.<sup>3</sup>
- **Pass-through entities** – The distribution in the business loan design from a pass-through to an owner may be considered a return of the owner's basis in the business.<sup>4</sup>

<sup>3</sup> The protection that is afforded to the business' accounts receivable through the filing of the form UCC-1 is affected by both federal and state law. The determination of what protection is afforded to those accounts receivable for both the business and the third party lender should be made solely by the their legal counsel. The protection afforded to the accounts receivable through the filing of UCC-1 does not perfect the third party lender's claim in that property if there has been a fraudulent conveyance of the accounts receivable pledged.

<sup>4</sup> The taxation of the distribution will vary depending on how the distribution is treated. If the distribution is a dividend, it is taxable at the capital gains rate under IRC Sec. 316 (Pursuant to the Jobs and Growth Tax Reconciliation Act of 2003, dividend taxation will return to ordinary income rates as of January 1, 2009) If the distribution is considered a bonus, it is taxable as ordinary income under IRC Sec. 61. If the distribution reduces the business owner's basis in the business, the business owner will not have to pay taxes on the distribution but it will reduce business owner's basis in the business (for an S Corporation, the reduction in basis comes under IRC Sec. 1367(a)(2)(A), for a partnership, it comes under IRC Sec. 752).

## KEY-PERSON PROTECTION

### KEY-PERSON LIFE INSURANCE

The business purchases a life insurance policy on a key executive. If the executive dies while the business owns the policy, the business, will receive the policy death benefit.<sup>5</sup>

#### What to look for:

- Business would be hurt by death of a key executive.

#### Materials Available

Title	Form Number	Client Use?
Key-Person Life Insurance (brochure)	15-22091/85-22115	Yes
Planning for Business Owners Fact Finder	15-28228/85-28229	Yes

Business owners considering a key-person life insurance policy may also consider the following strategies:

- Voluntary deferral plan (see page 4 for more information)
- Endorsement split dollar (see below for more information)

## PERSONAL LIFE INSURANCE PROTECTION

### ENDORSEMENT SPLIT DOLLAR

The business owner is endorsed a portion of the death benefit of a policy owned by the business. The business retains an interest in the policy equal to at least the policy's cash value. As consideration for the endorsed death benefit, the business owner must either pay or report as taxable income a reportable economic benefit (REB).

#### What to look for:

- **Low tax bracket C Corporations** – Endorsement split dollar does not provide any tax leverage for owners of pass-through entities.
- **Business owners under age 65** – The REB cost for an individual over age 65 may be very costly.

#### Materials Available

Title	Form Number	Client Use?
Endorsement Split Dollar (brochure)	15-18765/85-22109	Yes
A Practical Guide to Executive Benefits	15-25748	No
Planning for Business Owners Fact Finder	15-28228/85-28229	Yes
Executive Benefits Case Design Wizard	Lifeline Only	No
Endorsement Split Dollar Client PowerPoint	Lifeline Only	Yes

Business owners considering endorsement split dollar may also consider the following strategies:

- Voluntary deferral plan (see page 4 for more information)

<sup>5</sup> For federal income tax purposes, life insurance death benefits generally pay income tax-free to beneficiaries pursuant to IRC Sec. 101(a)(1). In certain situations, however, life insurance death benefits may be partially or wholly taxable. Situations include, but are not limited to: the transfer of a life insurance policy for valuable consideration unless the transfer qualifies for an exception under IRC Sec. 101(a)(2) (i.e. the "transfer-for-value rule"); arrangements that lack an insurable interest based on state law; and an employer-owned policy unless the policy qualifies for an exception under IRC Sec. 101(j).

# PLANNING FOR BUSINESS OWNERS

## EXECUTIVE BONUS

The business owner uses taxable bonuses provided by the business to pay life insurance premiums on a personally owned policy.

### What to look for:

- **High tax bracket C Corporations** – Executive bonuses may be deductible for the business which may decrease the business' tax outlay.<sup>6</sup>
- **Desire to combine life insurance protection with cash accumulation** – As owner of the life insurance policy, the business owner has the ability to name the beneficiary of the life insurance death benefit and has access to any available policy cash value for emergencies or other financial needs.

### Materials Available

Title	Form Number	Client Use?
Executive Bonus (brochure)	15-17906/85-22110	Yes
A Practical Guide to Executive Benefits	15-25748	No
Executive Bonus Producer's Guide	15-27776/85-27777	No
Planning for Business Owners Fact Finder	15-28228/85-28229	Yes
Executive Benefits Case Design Wizard	Lifeline Only	No
Executive Bonus Client PowerPoint	Lifeline Only	Yes

## ESTATE PLANNING

### ILIT-OWNED NON-EQUITY COLLATERAL ASSIGNMENT SPLIT DOLLAR

An ILIT-owned policy is funded pursuant to a premium sharing arrangement between the ILIT and the business. The business retains an interest in the policy equal to the policy cash value. The agreement requires the ILIT to pay REB and the business to pay the balance of the premium. The business owner may gift funds to the ILIT to pay the REB to the business.

### What to look for:

- **C Corporations** – Business provided split dollar does not provide any tax leverage for owners of pass-through entities.
- **2nd-to-die policy** – The REB for a 2nd-to-die policy may be much lower than the REB for a single life policy.

### Materials Available

Title	Form Number	Client Use?
ILIT-Owned Non-Equity Collateral Assignment Split Dollar (brochure)	15-19368/85-22856	Yes
A Practical Guide to Employer-Provided Split Dollar Life Insurance Arrangements	15-26958	No
Planning for Business Owners Fact Finder	15-28228/85-28229	Yes
Estate Planning Case Design Wizard	Lifeline Only	No

<sup>6</sup> The deductibility of compensation paid to the business owner is subject to the reasonable compensation limits established by Internal Revenue Code Section 162(a).

## 7872 TERM LOANS

An ILIT-owned policy is funded through term loans from the business. The ILIT must pay the business loan interest every year the loan is outstanding. The policy will generally be considered the collateral for the loan.

### What to look for:

- **C Corporations** – Business provided 7872 term loans do not provide any tax leverage for owners of pass-through entities.
- **Insured age 60+** – The loan interest in a 7872 loan for an insured over the age of 60 may be less than the REB would be in a split dollar arrangement.

### Materials Available

Title	Form Number	Client Use?
A Practical Guide to Employer-Provided Split Dollar Life Insurance Arrangements	15-26958	No
Planning for Business Owners Fact Finder	15-28228/85-28229	Yes
Estate Planning Case Design Wizard	Lifeline Only	No



# PLANNING FOR KEY EXECUTIVES

## EXECUTIVE RETENTION

### SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN (SERP)

The business funds an agreed upon amount (beyond the qualified plan limits) into a nonqualified plan to promote loyalty and provide the executive with supplemental income upon retirement. The retirement benefits may be subject to a vesting schedule. The business uses a key-person life insurance policy to informally fund the plan.<sup>7</sup>

#### What to look for:

- **C Corporations** – Nonqualified deferred compensation plans (such as a SERP) are not generally established in pass-through entities since contributions to these plans are not a deductible expense.
- **Business wants to control funds** – The business has full control over the executive's SERP balance until it is distributed.
- **Need for key-person life insurance**

### Materials Available

Title	Form Number	Client Use?
Supplement Executive Retirement Plan (SERP) (brochure)	15-18167/85-22112	Yes
Nonqualified Deferred Compensation Plans (primer)	15-26470	Yes
A Practical Guide to Executive Benefits	15-25748	No
Planning for Business Owners Fact Finder	15-28228/85-28229	Yes
Executive Benefits Case Design Wizard	Lifeline Only	No
Defined Contribution SERP Client PowerPoint	Lifeline Only	Yes

**Business owners considering the implementation of a SERP for their key executives may also consider the following strategies:**

- Key-person life insurance (see page 6 for more information)
- Endorsement split dollar (see page 12 for more information)

<sup>7</sup> For federal income tax purposes, life insurance death benefits generally pay income tax-free to beneficiaries pursuant to IRC Sec. 101(a)(1). In certain situations, however, life insurance death benefits may be partially or wholly taxable. Situations include, but are not limited to: the transfer of a life insurance policy for valuable consideration unless the transfer qualifies for an exception under IRC Sec. 101(a)(2)(i.e. the "transfer-for-value rule"); arrangements that lack an insurable interest based on state law; and an employer-owned policy unless the policy qualifies for an exception under IRC Sec. 101(j).

## 401(k) MIRROR VOLUNTARY DEFERRAL PLAN

The executive defers salary and the business may match to provide supplemental income to the executive upon retirement or some other specified date. The business matches may be subject to a vesting schedule. The business uses a key-person life insurance policy to informally fund the plan.<sup>7</sup>

### Materials Available

Title	Form Number	Client Use?
401(k) Voluntary Deferral Plan (brochure)	15-19840/85-22105	Yes
Nonqualified Deferred Compensation Plans (primer)	15-26470	Yes
A Practical Guide to Executive Benefits	15-25748	No
Planning for Business Owners Fact Finder	15-28228/85-28229	Yes
Executive Benefits Case Design Wizard	Lifeline Only	No
401(k) Voluntary Deferral Client PowerPoint	Lifeline Only	Yes

### What to look for:

- **C Corporations** – Nonqualified deferred compensation plans (such as a 401(k) Mirror plan) are not generally established in pass-through entities since contributions to these plans are not a deductible expense.
- **Stable companies** – The executive’s deferral balance will be considered a general asset of the business and will be reachable by its creditors.
- **Need for key-person life insurance**

**Business owners considering the implementation of a 401(k) mirror voluntary deferral plan for their key executives may also consider the following strategies:**

- Key-person life insurance (see page 6 for more information)
- Endorsement split dollar (see page 12 for more information)

## CONTROLLED EXECUTIVE BONUS

The business provides bonuses to the executive to make life insurance premium payments on a personally-owned policy. A direction form is filed with the life insurance policy which states the exercise of all policy ownership rights (except for beneficiary designation) requires the signature of both the executive and the business. This direction form allows the business to control the executive’s access to the policy cash value until the end of a vesting period.

### Materials Available

Title	Form Number	Client Use?
Controlled Executive Bonus (brochure)	15-18131/85-22108	Yes
A Practical Guide to Executive Benefits	15-25748	No
Planning for Business Owners Fact Finder	15-28228/85-28229	Yes
Executive Bonus Producer’s Guide	15-27776/85-27777	No
Executive Benefits Case Design Wizard	Lifeline Only	No
Controlled Executive Bonus Client PowerPoint	Lifeline Only	Yes

### What to look for:

- **Pass-through entities** – A controlled executive bonus is an attractive alternative for a pass-through entity to a SERP because the bonuses are potentially tax-deductible.<sup>8</sup>

<sup>8</sup> The deductibility of compensation paid to the business owner is subject to the reasonable compensation limits established by Internal Revenue Code Section 162(a).

# PLANNING FOR KEY EXECUTIVES

## CASH ACCUMULATION FOR THE EXECUTIVE

### VOLUNTARY DEFERRAL PLAN

The executive defers salary to provide supplemental income upon retirement or another specified date. The business uses a key-person life insurance policy to informally fund the plan.<sup>9</sup>

#### What to look for:

- **Low tax bracket C Corporations** – Contributions to nonqualified deferred compensation plans (such as a voluntary deferral) are not a tax-deductible expense for the business. If the C Corporation is in a low tax bracket, the deferral may not substantially increase the business' tax outlay.
- **Stable companies** – The executive's deferral balance will be considered a general asset of the business and will be reachable by its creditors.
- **Need for key-person life insurance**

### Materials Available

Title	Form Number	Client Use?
Voluntary Deferral Plan (brochure)	15-17787/85-22114	Yes
Nonqualified Deferred Compensation Plans (primer)	15-26470	Yes
A Practical Guide to Executive Benefits	15-25748	No
Planning for Business Owners Fact Finder	15-28228/85-28229	Yes
Executive Benefits Case Design Wizard	Lifeline Only	No
Voluntary Deferral Plan Client PowerPoint	Lifeline Only	Yes

**Business owners considering the implementation of a voluntary deferral plan for their key executives may also consider the following strategies:**

- Key-person life insurance (see page 6 for more information)
- Endorsement split dollar (see page 12 for more information)

### EXECUTIVE BONUS

The executive uses taxable bonuses provided by the business to pay life insurance premiums on a personally owned policy.

#### What to look for:

- **Pass-through entities** – An executive bonus may be an attractive alternative for a pass-through entity to a nonqualified deferred compensation plan because the bonuses are potentially tax-deductible.<sup>10</sup>

### Materials Available

Title	Form Number	Client Use?
Executive Bonus (brochure)	15-17906/85-22110	Yes
A Practical Guide to Executive Benefits	15-25748	No
Executive Bonus Producer's Guide	15-27776/85-27777	No
Planning for Business Owners Fact Finder	15-28228/85-28229	Yes
Executive Benefits Case Design Wizard	Lifeline Only	No
Executive Bonus Client PowerPoint	Lifeline Only	Yes

<sup>9</sup> For federal income tax purposes, life insurance death benefits generally pay income tax-free to beneficiaries pursuant to IRC Sec. 101(a)(1). In certain situations, however, life insurance death benefits may be partially or wholly taxable. Situations include, but are not limited to: the transfer of a life insurance policy for valuable consideration unless the transfer qualifies for an exception under IRC Sec. 101(a)(2)(i.e. the "transfer-for-value rule"); arrangements that lack an insurable interest based on state law; and an employer-owned policy unless the policy qualifies for an exception under IRC Sec. 101(j).

## PERSONAL LIFE INSURANCE PROTECTION

### ENDORSEMENT SPLIT DOLLAR

The executive is endorsed a portion of the death benefit of a policy owned by the business on his or her life.<sup>9</sup> The business retains an interest in the policy equal to at least the policy's cash value. As consideration for the endorsed death benefit, the owner/executive must either pay or report as taxable income a reportable economic benefit (REB).

#### What to look for:

- **C Corporations** – Premiums paid as part of a split dollar plan are not a deductible expense for the business. These premiums paid could create additional taxable income for pass-through entity owners.
- **Business requires cost recovery** – The business will have an interest in the policy equal to at least the policy cash value. This interest in the policy may allow the business to recover its costs incurred in conjunction with the split dollar plan.

#### Materials Available

Title	Form Number	Client Use?
Endorsement Split Dollar (brochure)	15-18765/85-22109	Yes
A Practical Guide to Executive Benefits	15-25748	No
Planning for Business Owners Fact Finder	15-28228/85-28229	Yes
Executive Benefits Case Design Wizard	Lifeline Only	No
Endorsement Split Dollar Client PowerPoint	Lifeline Only	Yes

**Business owners considering the implementation of an endorsement split dollar arrangement for their key executives may also consider the following strategies:**

- SERP (see page 9 for more information)
- 401(k) mirror (see page 10 for more information)
- Voluntary deferral (see page 11 for more information)

### EXECUTIVE BONUS

The executive uses taxable bonuses provided by the business to pay life insurance premiums on a personally owned policy.

#### What to look for:

- **Pass-through entities** – An executive bonus may be an attractive alternative for a pass-through entity to a split dollar arrangement because the bonuses are potentially tax-deductible.<sup>10</sup>

#### Materials Available

Title	Form Number	Client Use?
Executive Bonus (brochure)	15-17906/85-22110	Yes
A Practical Guide to Executive Benefits	15-25748	No
Executive Bonus Producer's Guide	15-27776/85-27777	No
Planning for Business Owners Fact Finder	15-28228/85-28229	Yes
Executive Benefits Case Design Wizard	Lifeline Only	No
Executive Bonus Client PowerPoint	Lifeline Only	Yes

<sup>10</sup> The deductibility of compensation paid to the business owner is subject to the reasonable compensation limits established by Internal Revenue Code Section 162(a).

# PLANNING FOR EMPLOYEES

## WELFARE BENEFITS

### 419(e) WELFARE BENEFIT PLANS

The business establishes a 419(e) plan for the benefit of its employees. The plan provides the employees with welfare benefits such as post-retirement medical expense reimbursement and life insurance death benefit protection.

#### What to look for:

- **Small businesses (10 or fewer employees)** – Welfare benefit plans that provide post-retirement benefits may not discriminate in favor of highly compensated employees.
- **Need for welfare benefit planning** – 419(e) plans are not plans that provide retirement income.
- **Business does not have a defined contribution qualified plan** – Contributions to a business' defined contribution qualified plan will reduce the amount that a business may contribute to a 419(e) plan.

#### Materials Available

Title	Form Number	Client Use?
419(e) Welfare Benefit Plans (brochure)	15-27153/85-27154	Yes
419(e) Welfare Benefit Plan (white paper)	15-27059/85-27060	No

Business owners considering the implementation of a 419(e) welfare benefit plan for their employees may also consider the following strategy:

- Split-funded defined benefit plan (see page 14 for more information)

### PERMANENT BENEFITS SECTION 79 PLANS

The business establishes a Section 79 plan to provide group-term life insurance death benefit protection for its employees. In addition to the death benefit protection, cash value policies may be utilized to provide a permanent benefit (i.e. the policy's cash value) which may be accessed by the employees in the future for emergencies or other financial needs.

#### What to look for:

- **C Corporations** – Owners of pass-through entities generally may not participate in a Section 79 plan.
- **Need for group-term** – A Section 79 plan may provide a significant group-term death benefit to its participants.
- **Business likes permanent benefit aspect of the arrangement** – In addition to the group-term death benefit, a Permanent Benefit Section 79 plan may provide the participants with the ability to access any available policy cash value for their financial needs.

#### Materials Available

Title	Form Number	Client Use?
Permanent Benefit Section 79 Plan (brochure)	15-26731/85-26732	Yes

## RETIREMENT INCOME

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### SPLIT-FUNDED DEFINED BENEFIT PLAN

The business establishes a split-funded defined benefit plan to provide a promised defined retirement benefit to its employees. A portion of the contributions to the plan are used to pay life insurance premiums.

**What to look for:**

- **Small Businesses (10 or fewer employees)** – A split-funded defined benefit plan may not discriminate in favor of highly compensated employees.
- **Seeking defined retirement income benefits**

*Materials Available*

Title	Form Number	Client Use?
Split-Funded Defined Benefit Plans (brochure)	15-27885/85-27886	Yes
A Professional's Guide to Qualified Pension Plans and Life Insurance	15-20932	No

Business owners considering the implementation of a split-funded defined benefit plan for their employees may also consider the following strategy:

- 419(e) welfare benefit plan (see page 13 for more information)

## PERSONAL LIFE INSURANCE PROTECTION

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### QUALIFIED PLANS WITH LIFE INSURANCE

The participants in a qualified plan elect to have a portion of their qualified plan contributions be used to pay life insurance premiums. The participant will pay or report as taxable income a REB cost for the life insurance protection they receive.

**What to look for:**

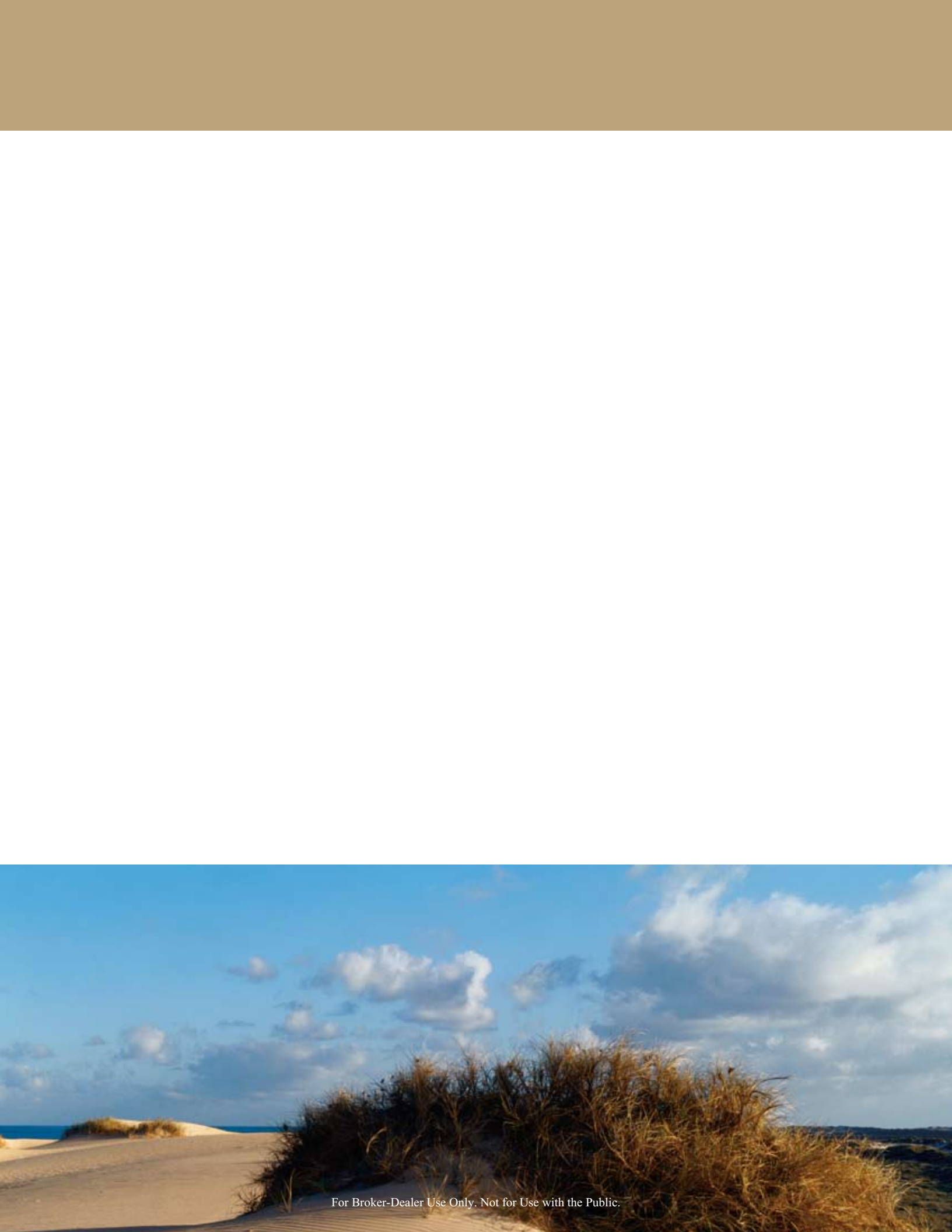
- **Qualified plans that allow life insurance** – Not all qualified plans allow the participants to purchase life insurance inside the plan.

*Materials Available*

Title	Form Number	Client Use?
Qualified Plans with Life Insurance (brochure)	15-26488/85-26489	Yes
A Professional's Guide to Qualified Pension Plans and Life Insurance	15-20932	No

**NOTES**





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