Executive Bonus with 10 Pay Whole Life Insurance

From Massachusetts Mutual Life Insurance Company (MassMutual®)

If you have business owner clients looking for a selective benefit plan for themselves and their key employees, an executive bonus plan funded with MassMutual Whole Life 10 Pay policies might be a good fit for them.

CONSIDER THE FOLLOWING EXAMPLE:

Your client, Jan, is the owner of Superior Auto Group, a conglomerate of 5 high-end car dealerships. Jan depends heavily on her dealership managers, who run the day-to-day operations in each location. **She is interested in offering a selective benefit plan for herself and her managers that would help to both reward and retain them.** Jan is 50 years old, and her dealership managers range in age from 47 to 55 years old.

You propose that Superior Auto Group offer an executive bonus plan funded with MassMutual Whole Life 10 Pay policies for Jan and her dealership managers. Whole Life 10 Pay is a participating whole life insurance policy with premiums payable for 10 years. It provides life insurance protection and the potential for strong cash value accumulation.

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Here is how the plan will work:

- Superior will pay the premiums for policies on each employee selected to participate.
- Each employee will own the policy on their life and enjoy all rights and benefits.
- The premium paid for each policy will be considered bonus compensation to the employee insured.
- Superior will receive an income tax deduction for the full amount of the premium paid, subject to reasonable compensation limits.
- The cost to the employee will be limited to the annual income tax due on the bonus amount each year.
- The plan will require minimal administration and recordkeeping by Superior.

The benefits of the plan to each employee include:

- Permanent life insurance protection with a tax-free death benefit paid to the employee's spouse or family.
- The policy cash value accumulates tax-deferred and will never decline in value.
- The ability to take income tax-favored distributions from the policy during retirement.[1]
- The cost of the plan to each employee is limited to the income taxes he or she will need to pay on the annual $20,000 bonus.

As an example, you show Jan a Whole Life 10 Pay policy illustration for her with a $20,000 annual premium. Her initial guaranteed death benefit would be $268,097. You illustrate the policy using dividends[2] to purchase Paid-up Additions, which increase both the total death benefit and cash value over time. The annual after-tax cost to Superior Auto, assuming an income tax rate of 28%, would be $14,400.

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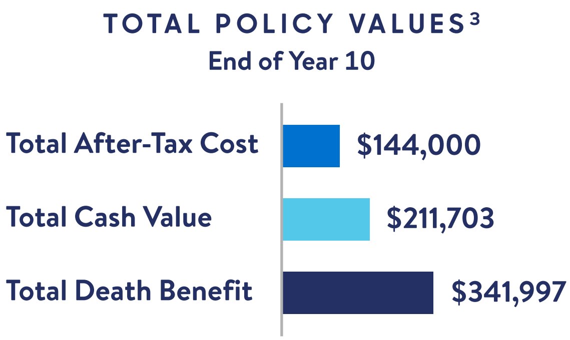
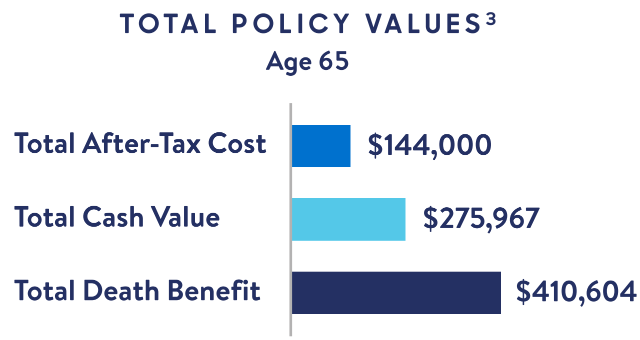
[1] Distributions under the policy (including cash dividends and partial/full surrenders) are not subject to taxation up to the amount paid into the policy (cost basis). If the policy is a Modified Endowment Contract, policy loans and/or distributions are taxable to the extent of gain and are subject to a 10% tax penalty if the policyowner is under age 59½. Access to cash values through borrowing or partial surrenders will reduce the policy's cash value and death benefit, increase the chance the policy will lapse, and may result in a tax liability if the policy terminates before the death of the insured.

[2] Dividends are not guaranteed.

Before Retirement

The following charts show the total after-tax cost of the premiums paid by Superior Auto Group and policy values at the end of 10 and 15 years (age 65):

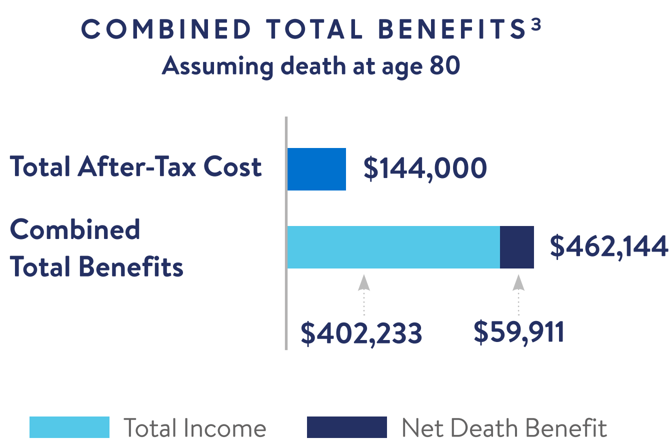




At the end of the 10th policy year, the total after-tax cost of the plan to Superior is $144,000. The illustrated total cash value exceeds the total premiums paid of $200,000, and the total death benefit has grown to almost $342,000. The policy is then paid-up. After year 10, the illustrated total cash value grows at an **annual rate of over 5% to age 65**.

During Retirement

At age 65, Jan is able to take an income tax-favored annual income out of the policy of **$26,816 for 15 years to age 80** by using a surrender to cost basis and borrow strategy.[1] If we assume Jan dies at age 80, the policy will then pay the remaining death benefit of **$59,911** to her spouse or family. The combined total income tax-free benefits (total income plus the net death benefit paid) would equal **$462,144**.



Jan likes the combination of benefits and income tax advantages that the plan provides and decides to go forward with it for herself and her dealership managers.

[3] This hypothetical example is for training purposes only. Policy Illustrated: MassMutual Whole Life 10 Pay, female, issue age 50, Select Preferred Non-Tobacco, initial face amount: $268,097 with the Adjustable Loan Rate. These values include dividends, which are not guaranteed. Dividends in future years may be lower or higher, depending on the company's actual experience. When working with clients, a Basic Illustration must be presented using current assumptions and the current dividend schedule. Clients should be referred to the Basic Illustration for guaranteed elements and other important information.

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All guarantees are subject to the claims paying ability of the insurance company.

The products and/or certain features may not be available in all states. State variations will apply.

Whole Life Legacy series policies ((Policy Forms: MMWL-2018 and ICC18-MMWL in certain states, including North Carolina)/(MMWLA-2018 and ICC18-MMWLA in certain states, including North Carolina)) and MassMutual Whole Life series policies on the digital platform (Policy Forms: WL-2018 and ICC18WL in certain states, including North Carolina) are level-premium, participating, permanent life insurance policies issued by Massachusetts Mutual Life Insurance Company, Springfield, MA 01111-0001.

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