



**North American Company**  
for Life and Health Insurance  
Since 1886

*Life*

# Business Solutions

**Funding an Executive Bonus Arrangement with Life Insurance**

*Case Study*



## MEET DANIEL

Daniel is a key employee at GoGolf Inc., a growing company that produces and distributes golf carts across the U.S. The company is set up as an S-Corporation and employs close to 400 people. Daniel is a non-shareholder employee who oversees sales and marketing efforts in 12 states. Over the past 10 years, Daniel has consistently grown market share in his sales territory, and has produced numbers that exceed the executive committee's expectations. While Daniel's region is doing exceptionally well, other sales regions of the company are producing more modest results.

In a quarterly shareholder meeting, the president of GoGolf decides that Daniel's invaluable expertise could be used to train select employees to achieve better results. The company will add to Daniel's compensation for these extra responsibilities with a bonus arrangement. After a conversation with his insurance agent, Daniel is interested in an executive bonus funded through life insurance. Daniel's agent advised him that he is underinsured and could use the extra death benefit protection for his loved ones. He is currently making maximum contributions to the company 401(k) plan and wants additional financial security in his retirement years. Overall, Daniel feels that he can accomplish his life insurance goal and help supplement retirement income at minimal out-of-pocket costs with an executive bonus life insurance arrangement.

Daniel advises the company that he is interested in this type of compensation and would like a double bonus arrangement. With a double bonus arrangement, Daniel will not have any out-of-pocket costs. After Daniel applies and qualifies for the policy, the company will pay Daniel's life insurance premium, as well as the amount of income tax due.<sup>1</sup> Both parties agree with this arrangement and set up a Rapid Builder IUL<sup>®</sup> indexed universal life (IUL) insurance policy. Daniel gets to take advantage of having death benefit protection, tax-deferred cash value accumulation, and a potentially tax-free income stream all in one solution.<sup>2</sup> GoGolf is happy because the double bonus arrangement provides an incentive for Daniel to stay with the company, and GoGolf's bottom line will ultimately benefit by having Daniel around for years to come.



## Scenario 1 – Death

Daniel is now in his late 50s and plans on retiring in the next five years. The unexpected happens, and he suffers a fatal heart attack. This is a difficult moment for Daniel's family, friends, and coworkers, but having additional life insurance helps to make the process easier. Daniel's surviving spouse (beneficiary) is able to use the death benefit proceeds from the Rapid Builder IUL as a form of income replacement.



## Scenario 2 – Employee Retention

It's been five years since the executive bonus plan was put in place. Daniel has been approached by a headhunter to work for a rival company, and he now finds himself analyzing his options. A quick review of his life insurance policy shows how much cash value he has already accumulated through the executive bonus arrangement. The competing company cannot match the package that GoGolf is already providing him. Daniel decides to stay, and GoGolf has retained a valuable employee.

## Scenario 3 – Retirement

Daniel is now 64 and is ready to retire. Over the years, his life insurance policy has accumulated cash value on a tax-deferred basis.<sup>2</sup> Daniel plans to take tax-deferred distributions from the policy using variable interest rate loans to help supplement retirement income.<sup>3</sup> Market conditions are favorable at the time of his retirement, and Daniel receives an attractive variable interest rate on his loans.<sup>4</sup> Simultaneously, the cash value of his policy continues to earn interest, making this a desirable source of supplemental retirement income.





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1 Neither North American Company nor its agents give tax advice. Please advise your customers to consult with and rely on a qualified legal or tax advisor before entering into or paying additional premiums with respect to such arrangements.

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2 The tax deferred feature of the indexed universal life policy is not necessary for a tax qualified plan. In such instances, your client should consider whether other features, such as the death benefit and optional riders make the policy appropriate for your client's needs. Before purchasing this policy, your client should obtain competent tax advice both as to the tax treatment of the policy and the suitability of the product.

3 In some situations loans and withdrawals may be subject to federal taxes. North American does not give tax or legal advice. Clients should be instructed to consult with and rely on their own tax advisor or attorney for advice on their specific situation.

Income and growth on accumulated cash values is generally taxable only upon withdrawal. Adverse tax consequences may result if withdrawals exceed premiums paid into the policy. Withdrawals or surrenders made during a Surrender Charge period will be subject to surrender charges and may reduce the ultimate death benefit and cash value. Surrender charges vary by product, issue age, sex, underwriting class, and policy year.

4 The net cost of a variable interest rate loan could be negative if the credits earned are greater than the interest charged. The net cost of the loan could also be larger than under standard policy loans if the amount credited is less than the interest charged. In the extreme example, the amount credited could be zero and the net cost of the loan would equal the maximum interest rate charged on variable interest loans. In brief, Variable Interest Rate Loans have more uncertainty than Standard Policy Loans in both the interest rate charged and the interest rate credited.

Index Universal Life products are not an investment in the "market" or in the applicable index and are subject to all policy fees and charges normally associated with most universal life insurance.

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