

An **Educational Guide**
for Employers and Executives

Attract. Retain. Succeed.

Executive Bonus Plans funded
with whole life insurance

Business Planning Strategies



We'll help you get there.®



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If your company is like most, its success depends upon the efforts of its best people. That is why it is essential to hire and retain talented, hard-working individuals who can help your business prosper and grow.

Competitive compensation and benefit programs are a fundamental component to attracting these professionals and retaining them for the future success of the business.

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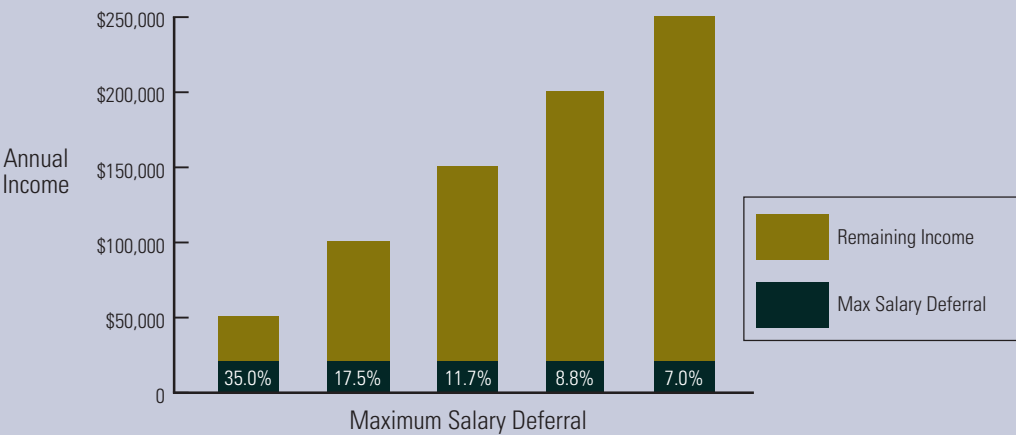
Addressing the needs of businesses and their executives

Many executives feel retirement savings programs are one of the most valuable benefits a company can provide. However, few small to mid-sized businesses offer retirement savings programs specifically for executives.

Executives are interested in supplementing their retirement savings because they are facing a looming retirement income problem on multiple fronts. Higher-earning

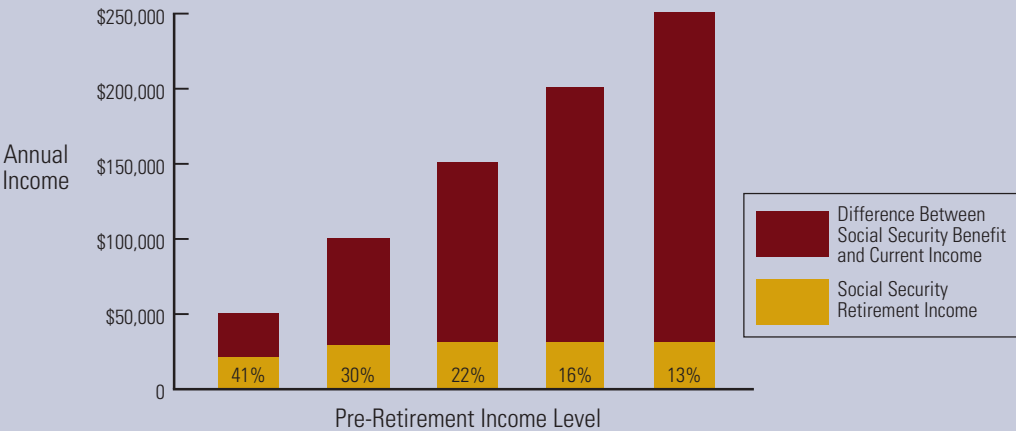
employees may find limitations in the amount they are allowed to defer to a defined contribution plan, such as a 401(k). In addition, they face “compensation discrimination.” This refers to the fact that Social Security replaces a lower percentage of your pre-retirement income as you earn more. The charts below illustrate the maximum percentage of salary deferrals to defined contribution plans and projected Social Security benefits at various levels of income.

Maximum percentage of salary deferral in employer retirement plan



Maximum percentage based on 2014 qualified plan contribution limit of \$17,500. IR-2013-86.

Projected Social Security retirement benefits based on pre-retirement income level



Estimated Social Security retirement income benefit calculated on 1/2/2014 using the Social Security Quick Calculator at www.ssa.gov. Percentages are based on projected benefits for an individual currently age 45 retiring at age 67.

A majority of Americans believe that most people need life insurance, and identify several reasons for owning it such as paying for final expenses, replacing lost wages, and leaving an inheritance. In addition, having enough money for a comfortable retirement tops the list of Americans' financial concerns.¹

Why aren't business owners offering executives more ways to supplement their retirement plans? Many business owners think programs to do so are either too expensive or too difficult to administer.²

There is an easy and effective way to provide executives with the benefits they want. It is called an Executive Bonus Plan. An Executive Bonus Plan is a fringe benefit, funded with life insurance, given to a select group of key employees and/or business owners. In addition to providing protection to the executive's family during their working years, an Executive Bonus Plan funded with whole life insurance can provide tax-advantaged supplemental retirement income.³

Executive Bonus Plans are relatively simple to set up and administer, and can accommodate almost any budget. They give small to mid-sized companies the ability to attract and retain valuable executives by helping provide the additional benefits they seek.



¹ The Facts of Life and Annuities, LIMRA, September 2013 Update.

² Executive Benefits Arena, A Challenging Environment, LIMRA 2012.

³ 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.

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.

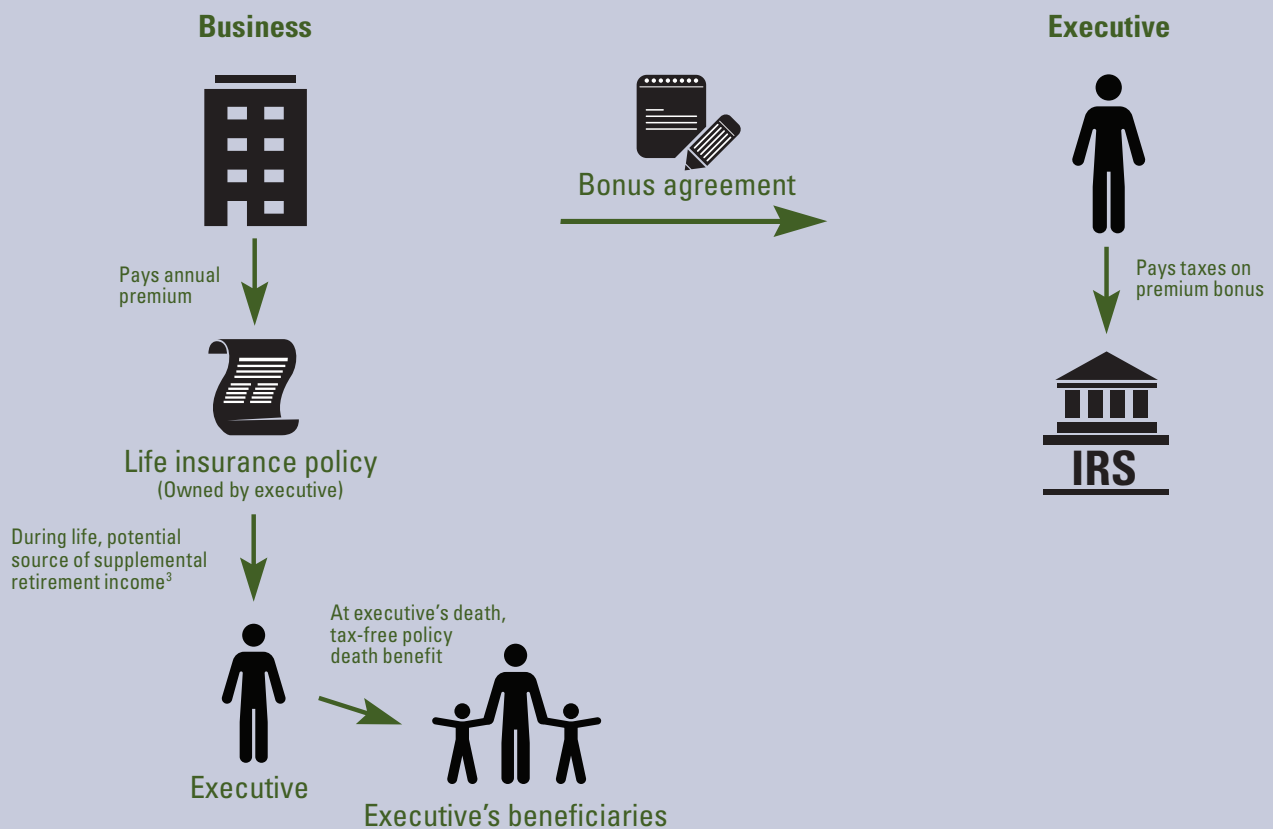
How the plan works

Under an Executive Bonus Plan, the business enters into an agreement with an executive to pay all or part of the premiums for a life insurance policy owned by the executive. The policy provides permanent life insurance protection for the executive and will build cash value over time.

The business selectively chooses which executives will receive this valuable benefit. The bonus amount is fully tax deductible to the business, assuming it represents reasonable compensation, and is taxed as ordinary income to the executive. Plans may be designed to reduce or eliminate the after-tax expense to the executive. The following diagram illustrates how the plan works.



Executive Bonus Plan



Benefits of an Executive Bonus Plan

Benefits to the business

- An Executive Bonus Plan can be an effective recruiting and retention tool that provides benefits over and above a standard compensation package.
- The company may offer the benefit on a discretionary basis and can vary the insurance coverage and premium bonus by employee.
- Increased cost-efficiency by only offering benefits to select employees.
- There are minimal implementation and administrative expenses. A basic plan does not require IRS approval and there are no required ERISA filings.
- The bonus payments provide an immediate income tax deduction, subject to applicable compensation limits.
- The plans are flexible and have the potential to include optional incentives for executives to achieve specific tenure or performance requirements.

Benefits to the executive

- The executive owns the life insurance policy and designates the beneficiaries.
- The life insurance death benefit will generally be paid income tax free to the executive's beneficiaries.
- The policy cash value accrues tax deferred and may be accessed during retirement on a tax-advantaged basis to supplement the executive's retirement income.³
- Since the executive owns the policy, the benefits are not subject to claims of the business' creditors.



Why whole life from MassMutual

Why whole life

Whole life insurance provides an income tax-free death benefit to provide current income protection for the executive's dependents and guaranteed cash values which can be accessed to supplement their own retirement income. There is also the potential for additional cash value funded with policy dividends.⁴

An Executive Bonus Plan funded with whole life insurance can be an attractive part of the total benefits package for employees and employers alike. If you are searching for a benefit that will set your business apart and help you attract and retain the best employees in your industry, an Executive Bonus Plan funded with whole life insurance may be the solution.

The MassMutual Difference

Massachusetts Mutual Life Insurance Company (MassMutual) understands the needs of today's business owners – we've been working with successful people like you for over 160 years. Our financial professionals will take the time to listen, learn about you and your enterprise and help develop strategies that you feel are best suited to your needs. Talk to your MassMutual financial professional about helping you design an Executive Bonus Plan to reward your most important assets – your employees – and help ensure the continued success of your business.



⁴ Dividends are not guaranteed.

MassMutual. We'll help you get there.®

There are many reasons to choose a life insurance company to help meet your financial needs: protection for your family or business, products to provide supplemental income and the confidence of knowing you will be prepared for the future.

At Massachusetts Mutual Life Insurance Company (MassMutual), we operate for the benefit of our participating policyowners. We stand strong in the fundamental belief that every secure future begins with a good decision. And when choosing a life insurance company – ownership, strength and stability matter.

Learn more at www.massmutual.com/mutuality

The Whole Life Legacy Series (WL-2007 and WL-NC-2007 in NC) are level-premium, participating, permanent life insurance policies issued by Massachusetts Mutual Life Insurance Company, Springfield, MA 01111-0001.

