



NON-QUALIFIED BENEFIT PLAN

Deferred Compensation

Deferred Compensation is a non-qualified selective benefit plan offered to top management and key executives. This is a general term often used to encompass both:

Salary Continuation – benefits fully funded by the company

Deferred Compensation – deferrals of current compensation

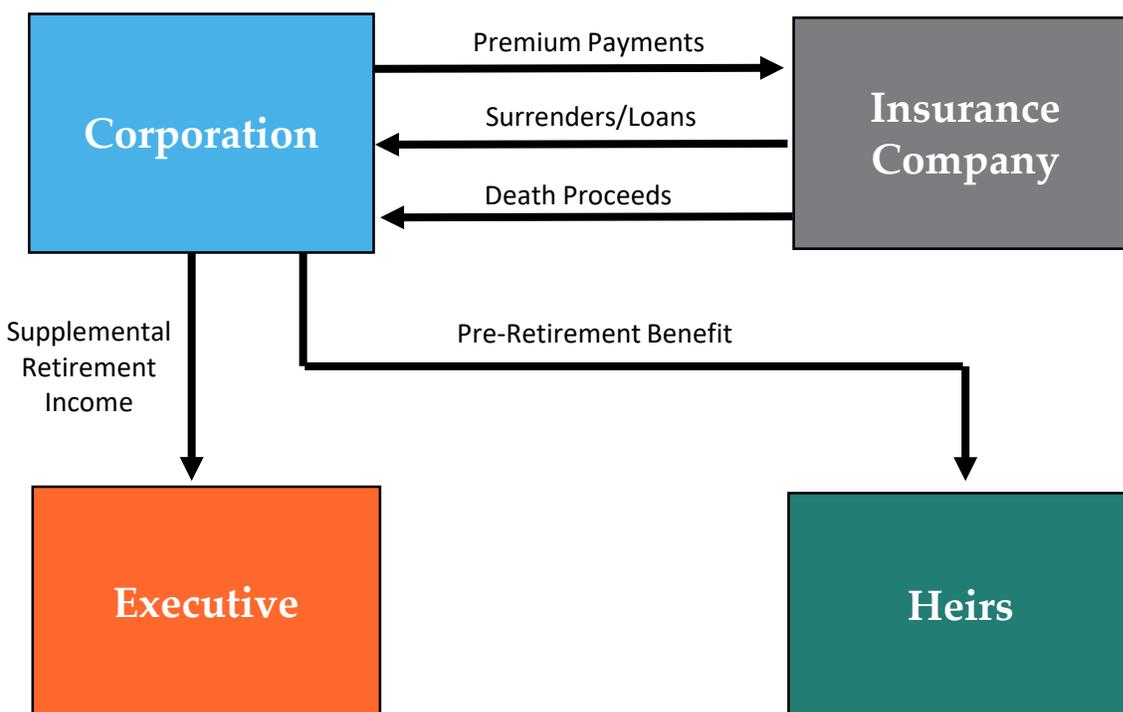
How Salary Continuation Plans Work?

- If the employee satisfies certain requirements of time of service and other requirements, he or she is promised an “unsecured” benefit of specified dollars over a period of years
- Since new rules were imposed under IRC Section 409(A), these rules are fairly stringent and changes after the fact are difficult
- The corporation “may” elect to informally fund the obligation with investments or life insurance. Any life insurance is an asset of the company and subject to claims of creditors
- Life insurance is often used to “informally” fund the benefit because it can uniquely provide:
 1. Tax Deferred Growth of the cash values
 2. Tax-Advantaged distributions through surrenders up to basis and the policy loans (no taxation to the company if done properly)
 3. Pre-Retirement Benefit if executive dies before retirement
 4. Cost recovery to the company upon the death of the executive as the death proceeds may provide recovery of life insurance premiums and net cost of benefit payments



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1. A Salary Continuation or Deferred Compensation Plan is established by agreement between the executive and corporation.
2. Corporation purchases life insurance in order to “informally” fund the obligation.
3. Corporation makes premium payments to the insurance company.
4. Cash Values grow tax deferred on the books of the corporation to somewhat offset the liability for the promised benefit.
5. If the executive dies prior to retirement, the death proceeds are received by the corporation (tax-free except for impact of AMT on C-Corps); Company would then make a payment to the deceased executive’s family (taxable income) per the agreement.
6. If executive lives to agreed upon retirement date, benefits will then begin per agreed upon amount and duration.
7. Corporation “may” elect to withdraw dollars from life insurance policy on a tax-advantaged basis to fund the benefit payments. The most efficient manner to withdraw dollars is to surrender up to basis and then to switch over to policy loans. These distributions are tax-free to the corporation.
8. Alternatively, the corporation may pay the retirement benefits out of current corporate cash flow and maintain the life insurance to offset the hit to earnings and for cost recovery.
9. The corporation then makes tax-deductible benefit payments to the executive. The income received by the executive each year is fully taxable.



Disclosures

The example provided is not representative of all clients' experiences and are not indicative of any future performance or results. This is for informational purposes only.

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