

## BUSINESS INSURANCE

# Executive bonus plans and indexed whole life

A key to the success of any business is the ability to recruit, retain, and reward outstanding talent. An executive bonus plan funded with cash value life insurance is an easy and effective way to provide a quality fringe benefit for key employees on a tax-deductible basis. AuguStar® Life's Prestige Indexed 10 Pay whole life insurance provides a unique combination of guarantees and accumulation potential well suited for an executive bonus plan.

### How does it work?

An executive bonus plan allows employers to pick and choose the participants in the plan and is typically simple to administer. Under the plan, the key employee owns life insurance on his or her life and selects a policy beneficiary. The business pays the premium directly or indirectly through a salary bonus, in accordance with a written agreement with the executive employee. The employee enjoys the security of life insurance coverage, while having access to the policy's cash value. The premiums paid are a tax-deductible expense to the business, assuming IRS guidelines are met. The employee pays tax each year on the premium bonus amount.

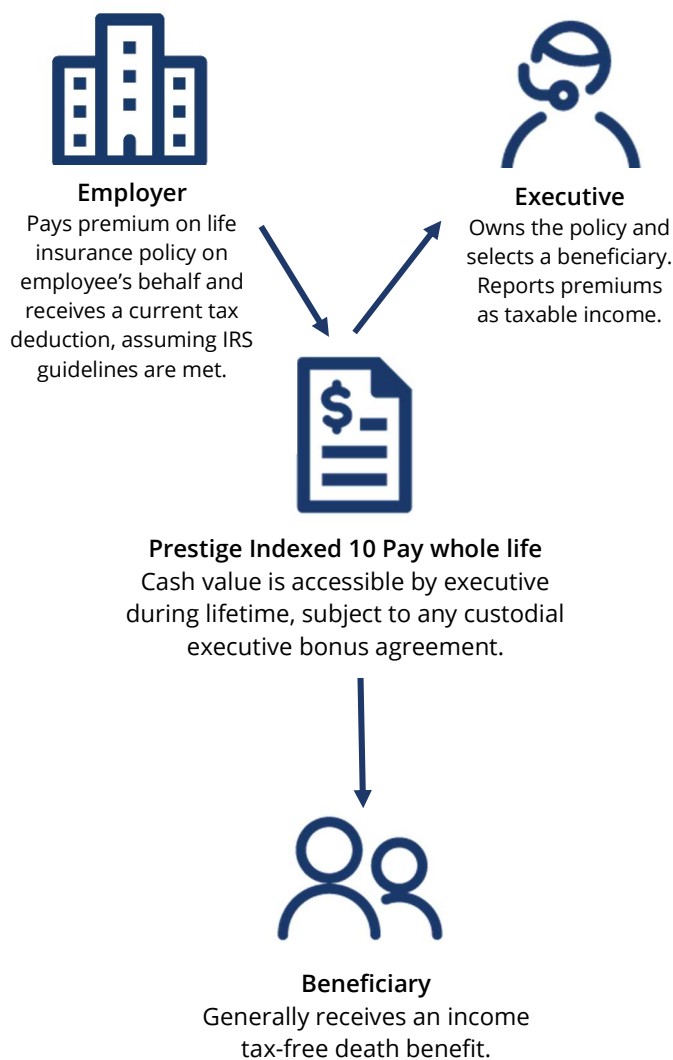
### Double bonus adds an extra perk

A "double bonus" arrangement allows the company to bonus additional funds designed to cover taxes. A double bonus plan provides all of the benefits of a bonus plan without requiring the employee to access personal funds to cover the tax.

### Custodial executive bonus enhances employer control

Companies wishing to maintain an element of control over cash values in the life insurance policy may consider the custodial executive bonus arrangement. This is a separate agreement that restricts the executive's ability to exercise policy ownership rights without the employer's consent – such as borrowing against the cash value – until a stated retirement age or the expiration of a length-of-service requirement. Under a custodial executive bonus, the bonus is still potentially tax-deductible for the business.

Executive bonus offers an attractive fringe benefit



## Indexed whole life: The best of both worlds

AuguStar Life's Prestige Indexed 10 Pay whole life policy offers a powerful combination: the stable, guaranteed premium and growth of a whole life policy combined with indexed-based cash accumulation potential. And because it's built with just 10 years of premiums, a short-term funding period may provide a long-term benefit horizon.

### The benefits

- Prestige Indexed 10 Pay offers the stability and guarantees traditionally associated with whole life insurance.
- As a cash accumulation product, the Prestige Indexed 10 Pay features index-based cash accumulation potential to help generate cash value as a retirement supplement.
- Prestige Indexed 10 Pay is guaranteed to be paid up after 10 years. This can be particularly useful for employers interested in a relatively short time horizon.
- An executive bonus plan is simple to establish and maintain.
- Unlike a qualified retirement plan, employers can be selective when choosing plan participants.
- When properly structured and funded, a bonus plan provides an income tax deduction for the business.
- In addition to death benefit protection, the cash value in permanent life insurance can help meet an executive's financial needs.
- Many states offer creditor protection for personally owned life insurance policies. Employer should discuss state creditor protection concerns with their attorney.

### Additional considerations

- The business should enter into a written agreement with the employee that documents the bonus and any custodial restrictions.
- Bonus amounts must be reasonable and should be designated clearly as compensation for services performed.
- Employers must have no ownership or beneficial interests in the life insurance policy.
- The employee must recognize income each year on the bonus amount.
- Both employers and employees should consult with their tax and legal advisors regarding their particular situations.
- Alternatively, if life insurance is not a fit, the executive bonus strategy can be used with annuities or individual disability insurance premiums.

## Learn more about executive bonus plans by consulting our guide, Executive Bonus Plan Guide for Financial Professionals (Form 1470LMA).

This material provides general information that is designed to be educational in nature and is not intended as specific tax or legal advice to any particular individual nor the law of any particular state. Clients should seek the advice of a qualified tax or legal professional for their specific situation.

If tax-free loans are taken and the policy lapses, a taxable event may occur. Withdrawals (partial surrenders) and loans from life insurance policies classified as modified endowment contracts may be subject to tax at the time the withdrawal or loan is taken and, if taken prior to age 59½, an additional 10% federal tax may apply. Withdrawals and loans reduce the death benefit and cash surrender value.

Products issued by AuguStar Life Insurance Company, member of Constellation Insurance, Inc. family of companies. Product, product features and rider availability vary by state. Guarantees are based on the claims-paying ability of the issuer. Issuer not licensed to do business in New York.

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