

BUSINESS INSURANCE

Executive bonus plan

A key to the success of your business is the ability to recruit, retain, and reward outstanding talent. An executive bonus plan funded with permanent life insurance is an easy and effective way to provide a quality fringe benefit for your key employees on a potentially tax-deductible basis.

How does it work?

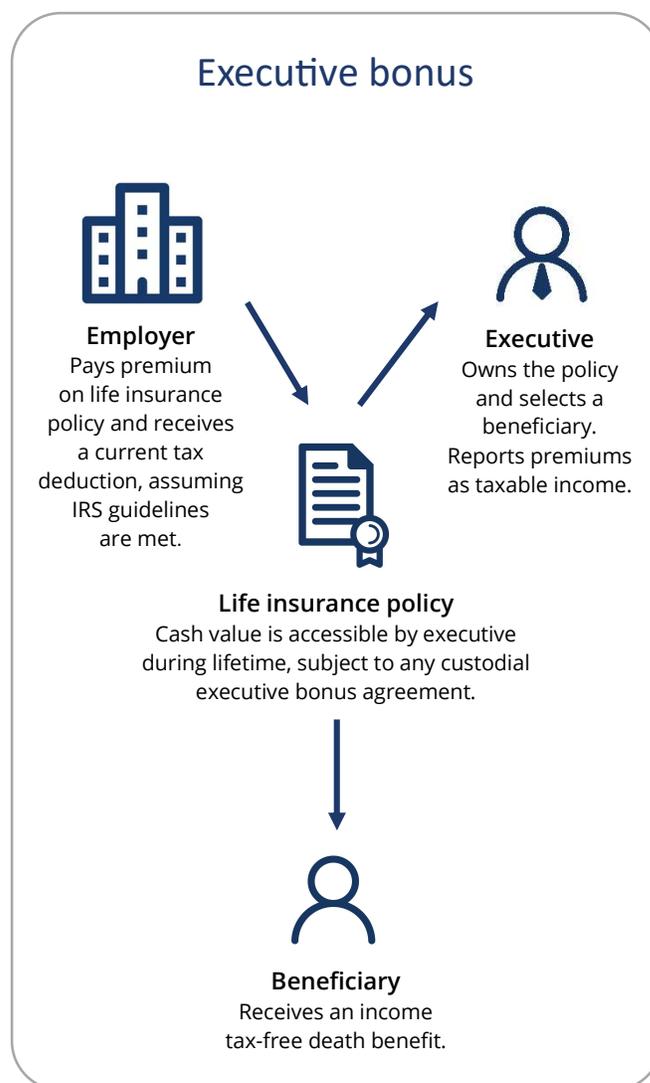
An executive bonus plan allows you to choose the participants in the plan and is typically simple to administer. Under the plan, the key employee owns life insurance on his or her life and selects a policy beneficiary. The business pays the premium directly or indirectly through a salary bonus, in accordance 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 your business, assuming IRS guidelines are met. The employee pays tax each year on the bonused premium amounts; however, a "double bonus" arrangement allows the company to bonus additional funds designed to cover taxes.

The custodial executive bonus:

Maintaining control

Companies wishing to maintain an element of control over cash values in the 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 your business.



The benefits?

- The executive bonus plan can be simple to establish and maintain.
- Unlike a qualified retirement plan, you can be selective when choosing plan participants.
- You may receive a current tax deduction for premiums paid.
- 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. You should discuss state creditor protection concerns with your attorney.
- Alternatively, if life insurance is not a fit, the executive bonus strategy can be used with annuities or individual disability insurance premiums.

Additional considerations

- For maximum flexibility and asset protection, trust distributions are often at the trustee's discretion.
- Your company should enter into a written agreement with the employee that documents the bonus and any custodial restrictions.
- An executive bonus arrangement should only be extended to key employees. Bonused amounts must be reasonable and should be designated clearly as compensation for services performed.
- Employers must have no ownership or beneficial interests in the policy.
- Executives pay ordinary income tax each year on bonused premium payments.
- Both employers and employees should consult with their tax and legal advisors regarding their particular situation.

You can learn more about executive bonus plans by requesting our informative guide (Form 2300LMP) from your financial professional.

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. Please seek the advice of a qualified tax or legal professional for your 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.

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AuguStar Life Insurance Company
One Financial Way | Cincinnati, Ohio 45242
513.794.6100 | augustarfinancial.com

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