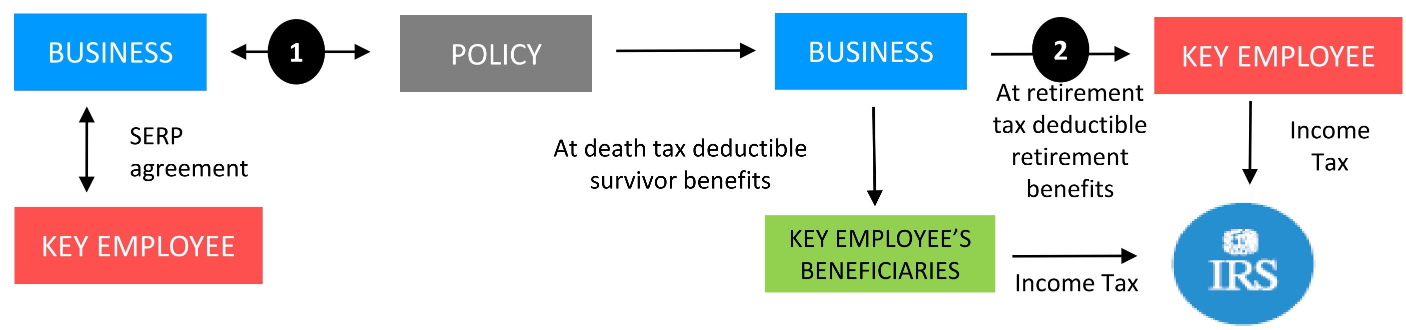
REWARDING TOP EXECUTIVES WITH SUPPLEMENTAL RETIREMENT INCOME

Offering customized benefits to the business and the key employees can be important. Since there are limitations on contributions or benefits received from qualified plans, a SERP can be an attractive benefit. A SERP is an employer paid deferred compensation agreement that provides supplemental retirement to a key employee, based on the employee meeting certain vesting or other specified conditions. A SERP provides a powerful recruitment and retention solution for key employees vital to the business success.

STRATEGY: SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN (SERP)



1 The business enters into a SERP agreement with selected key employees. The business purchases a life insurance policy on the file of the key employee with their written consent.

The business owns the life insurance policy, pays a non-deductible premium, and is named the policy beneficiary.

2 Upon the key employee's retirement, death or disability, the business pays the promised benefit. This payment is generally tax-deductible to the business, and taxable to the employee. Payments may be made from policy loans and/or withdrawals† or current cash flow. If the key employee dies, the business receives the death benefits income tax-free.‡ It may also use the proceeds to pay the promised taxable survivor benefits to the employee's family, creating a tax deduction for the business.

CONSIDERATIONS FOR THE BUSINESS

- Cash values accumulate tax-deferred.§
- A SERP can help you recruit and retain valuable employees.
- Unlike qualified plan, you decide which employees participate
- A SERP requires less administration and funding requirements than traditional qualified plans.**
- The death benefit proceeds may help you recover plan costs.

CONSIDERATIONS FOR THE EMPLOYEE

- The key employee is rewarded for their contributions to the business
- The plan may offer a supplemental death benefit for the key employee's designated beneficiary.
- In the event of the employer's bankruptcy, the employee is considered a general unsecured creditor of the business.

†Policy loans and withdrawals will reduce death benefit and policy values. ‡ If certain requirements under IRC section 101(j) are not met, the death benefits of an employer-owned life insurance contract entered into after August 17, 2006, will generally be taxable income to the employer to the extent the death benefit proceeds exceed the premiums paid. §Annual increase in policy cash values and death benefit proceeds may have corporate alternative minimum tax implications. **This type of plan may need to comply with IRC Sec. 409(a).

For more information contact Hansen Brokerage Services. 616-940-4004

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