



# “What About Me?”

## Business Owner's Bonus Plan

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Are you a business owner? Is your business organized as an S corporation, partnership, or LLC? If so, you probably have a big question on your mind:

## “What about me?”

As a business owner, you spend time, money, and other resources to build your business. This includes the costs of recruiting, rewarding, and retaining key employees. But eventually you need to think about yourself and start saving for retirement.

### “What About Me?”

Perhaps you have already helped some of your key employees prepare for retirement by offering supplemental benefits such as nonqualified deferral plans or salary continuation benefits. Or maybe you have offered your key employees 401(k) Look-Alike Plans or some sort of split dollar benefit. But as the owner of a “pass through” entity (S corporation, partnership, or LLC), you have been told that these arrangements are not available to you.

So after helping your key employees save for retirement, you ask again: **“WHAT ABOUT ME?”**

The answer to “What about me?” is the Business Owner's Bonus Plan. The Business Owner's Bonus Plan is a personally owned benefit plan which can help small business owners create a tax-efficient source of supplemental retirement income.

### Potential Benefits

The Business Owner's Bonus Plan uses life insurance purchased with after-tax funds to provide both death benefit protection and cash value accumulation which can be used to supplement the business owner's retirement income. This arrangement can be an effective strategy for providing a tax-efficient source of supplemental retirement income along with death benefit protection for the business or the owner's family.

The Business Owner's Bonus Plan can provide the following potential benefits for the business owner:

- **Supplemental Retirement Income** – Bonuses are used to purchase a life insurance policy which accumulates cash values.
- **Tax-Deferred Growth** – No income tax is payable while money is accumulating inside the life insurance policy.
- **Tax-Free Income<sup>1</sup>** – Provided the life insurance policy is not structured as a modified endowment contract (“MEC”), the business owner will be able to attain tax-free income through a combination of policy withdrawals and loans.
- **Income Tax-Free Death Benefit<sup>2</sup>** – The life insurance policy provides protection for the executive's family in the event of death.
- **No IRS Distribution Requirements or Penalties** – Distributions from a Business Owner's Bonus Plan can occur before age 59 ½ without a premature distribution penalty from the IRS, and there are no required minimum distributions at age 70 ½ or thereafter.

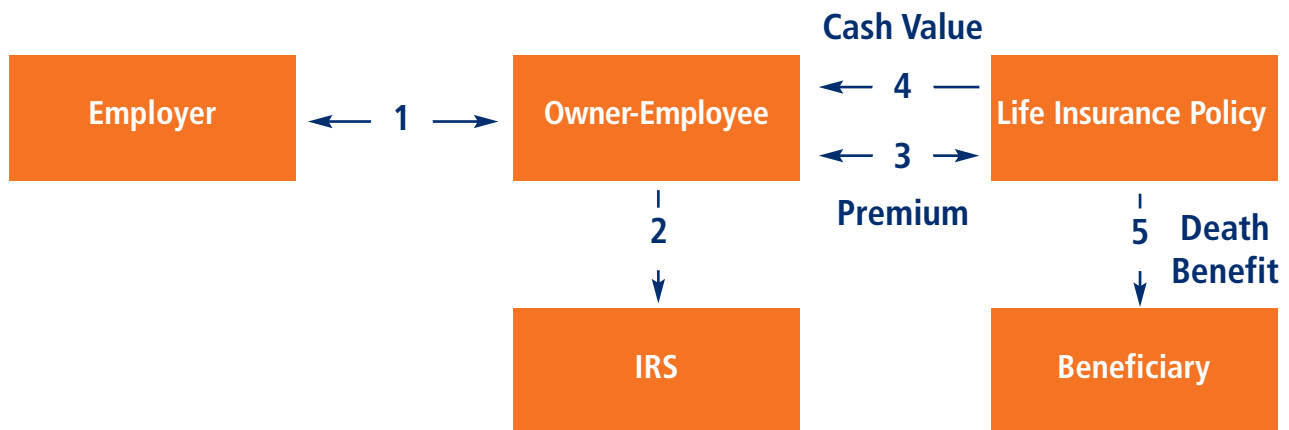
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<sup>1</sup> Income tax-free distributions are achieved by withdrawing to the cost basis (premiums paid) then using policy loans. Withdrawals will reduce the policy's cash value and may reduce the policy's death benefit. Policy loans will reduce the policy's cash value and death benefit. This assumes the policy qualifies as life insurance and does not lapse. If the policy lapses or is surrendered, the IRS will tax distributions received over the life of the policy and at termination that are in excess of total premiums paid.

<sup>2</sup> Proceeds from a life insurance policy are generally income tax free, and if properly structured, may also be free from estate tax.

## How it Works

A Business Owner's Bonus Plan is a simple and straightforward method of rewarding an owner-employee over and above traditional salary and other benefits. Under this type of arrangement, the business owner applies for, owns, and names the beneficiaries for a life insurance policy. Through a bonus, the business pays the insurance premium directly to the insurance company or pays the bonus to the owner-employee who then pays the insurance premium. This payment is considered ordinary income for the business owner and, so long as the owner's total compensations is reasonable, is deductible to the business.



1. The business and the owner-employee enter into an arrangement under which the business agrees to pay the owner-employee an annual bonus equal to premium payments on a life insurance policy purchased and owned by the owner-employee or a third party, such as an irrevocable life insurance trust (ILIT). Bonus payments are tax deductible by the employer, assuming compensation is reasonable.
2. The owner-employee pays tax on the bonus as ordinary income.
3. The owner-employee applies for, purchases, and owns a life insurance policy on his or her life.
4. The owner-employee can receive income through withdrawals and loans from the policy's cash value.<sup>1</sup>
5. Income tax-free death benefit proceeds are paid to the owner-employee's beneficiary(ies).

## Next Step

Call or meet with your ING financial professional to learn more about the Business Owner's Bonus Plan and see if it might be right for you.

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