

# Alternative solutions to reward key employees

Learn how one company used deferred comp as a tax-efficient alternative to corporate stock bonuses



## Deferred comp success story



### Results

A deferred comp plan was established with six key employees designated as eligible participants

**\$2.7 million**

recurring COLI premium

**\$594,000**

first-year commissions

### Company profile

- Profitable, growing manufacturing company
- Existing 401(k) plan

### Sales process steps

An advisor used these three sales process steps for selling a nonqualified deferred compensation plan.

#### Step 1: Establish that a deferred comp plan is the right fit (50-60% of the sales process)

Initial discussions between an advisor and a company revealed that the company was performing very well - and the parent company in another country was granting bonuses in corporate stock. But unlike the country where the parent is based, these bonuses were taxed as income in the U.S. And this created more than two million dollars of taxable bonus payments.

The advisor asked questions to determine if a deferred comp plan would meet their needs - were they comfortable with delayed tax deductions, creditor risk and excluding owners? They were. And careful planning was done to make sure all the money was captured and maximum dollars were put into the plan.

#### Step 2: Choose the product/financing that meets organizational objectives (10-20% of the sales process)

Corporate-owned life insurance (COLI) was selected as the funding vehicle - mostly because of its balance sheet and P&L impact. Taxes aren't paid on growth and the balance sheet isn't impacted because the product has very high cash values.

Once the financing option was figured out, then implementation began. Underwriting was one of the first steps since it was using life insurance.

#### Step 3: Educate participant(s) (30% of the sales process)

This step is important because if eligible employees don't participate, the plan won't be effective.

Eligible plan participants were confused about the plan and its tax benefits. One-on-one consultation took place with individual employees to explain how deferrals can impact their tax brackets - bringing some down four tax brackets in this case.



Contact your regional vice president – nonqualified plans to discuss potential sales opportunities.



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