

Controlled Executive Bonus Plan Including Disability Income

For: Tom Hamilton



Presented By: _____

[Licensed user's name appears here]

Controlled Executive Bonus Plan Using Indexed Universal Life

Presented By: [Licensed user's name appears here]

Insured: Tom Hamilton

Summary of Costs and Benefits

Employer: Acme Ford, LLC
Limited Liability Co

Employer's Tax Bracket 40.00% Executive's Tax Bracket 40.00% Indexed UL Interest Rate 7.50% Initial Payment 60,000 Initial Death Benefit 2,600,000

Year	Male Age	Employer's Costs		Executive's Costs				Executive's Values		
		(1) Bonus to the Executive	(2) Cost of the Bonus (Net Payment)	(3) Policy Premium	(4) Bonus from Employer	(5) Income Tax on Column (4)	(6) Executive's Net Payment	(7) Dis. Premiums and Retirement Net Loan Proceeds	(8) Year End Cash Value*	(9) Death Benefit
1	40	112,000	67,200	60,000	112,000	44,800	-7,200	0	16,645	2,600,000
2	41	100,000	60,000	60,000	100,000	40,000	0	7,200	65,184	2,592,440
3	42	100,000	60,000	60,000	100,000	40,000	0	7,200	117,046	2,584,502
4	43	100,000	60,000	60,000	100,000	40,000	0	7,200	172,479	2,576,167
5	44	100,000	60,000	60,000	100,000	40,000	0	7,200	231,718	2,567,415
6	45	100,000	60,000	60,000	100,000	40,000	0	7,200	295,727	2,558,226
7	46	100,000	60,000	60,000	100,000	40,000	0	7,200	364,995	2,548,578
8	47	0	0	0	0	0	0	7,200	378,666	2,538,446
9	48	0	0	0	0	0	0	7,200	393,978	2,527,809
10	49	0	0	0	0	0	0	7,200	411,058	2,516,639
11	50	0	0	0	0	0	0	7,200	438,019	2,504,911
12	51	0	0	0	0	0	0	7,200	463,634	2,492,597
13	52	0	0	0	0	0	0	7,200	491,307	2,479,667
14	53	0	0	0	0	0	0	7,200	521,176	2,466,090
15	54	0	0	0	0	0	0	7,200	553,407	2,451,834
16	55	0	0	0	0	0	0	7,200	588,129	2,436,866
17	56	0	0	0	0	0	0	7,200	625,573	2,421,149
18	57	0	0	0	0	0	0	7,200	665,960	2,404,647
19	58	0	0	0	0	0	0	7,200	709,531	2,387,319
20	59	0	0	0	0	0	0	7,200	756,554	2,369,125
21	60	0	0	0	0	0	0	7,200	807,282	2,350,021
22	61	0	0	0	0	0	0	7,200	861,988	2,329,962
23	62	0	0	0	0	0	0	7,200	920,939	2,308,901
24	63	0	0	0	0	0	0	7,200	984,453	2,286,786
25	64	0	0	0	0	0	0	7,200	1,052,877	2,263,565
26	65	0	0	0	0	0	0	125,000	1,002,269	2,114,826
27	66	0	0	0	0	0	0	125,000	951,288	1,958,651
28	67	0	0	0	0	0	0	125,000	900,196	1,794,667
29	68	0	0	0	0	0	0	125,000	849,314	1,622,483
30	69	0	0	0	0	0	0	125,000	799,064	1,441,691
		712,000	427,200	420,000	712,000	284,800	-7,200	797,800		

30 Year Summary

Employer's Cumulative Net Payments	427,200
Executive's Cumulative Net Payments	-7,200
Executive's Cum. A/T Dis. Premiums and Retirement	797,800
Cash Value	799,064
Executive's Death Benefit	1,441,691

*This illustration assumes the nonguaranteed values shown continue in all years. This is not likely, and actual results may be more or less favorable. This illustration is not valid unless accompanied by a proposal from .

Controlled Executive Bonus Plan Using Indexed Universal Life

Presented By: [Licensed user's name appears here]

Insured: Tom Hamilton

Summary of Costs and Benefits

Employer: Acme Ford, LLC
Limited Liability Co

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Year	Male Age	Employer's Costs		Executive's Costs				Executive's Values		
		(1) Bonus to the Executive	(2) Cost of the Bonus (Net Payment)	(3) Policy Premium	(4) Bonus from Employer	(5) Income Tax on Column (4)	(6) Executive's Net Payment	(7) Dis. Premiums and Retirement Net Loan Proceeds	(8) Year End Cash Value*	(9) Death Benefit
31	70	0	0	0	0	0	0	125,000	749,969	1,251,859
32	71	0	0	0	0	0	0	125,000	702,686	1,052,535
33	72	0	0	0	0	0	0	125,000	658,013	923,637
34	73	0	0	0	0	0	0	125,000	616,495	849,865
35	74	0	0	0	0	0	0	125,000	577,554	772,491
36	75	0	0	0	0	0	0	125,000	541,849	691,418
37	76	0	0	0	0	0	0	125,000	509,102	669,753
38	77	0	0	0	0	0	0	125,000	479,759	652,299
39	78	0	0	0	0	0	0	125,000	454,298	639,588
40	79	0	0	0	0	0	0	125,000	433,239	632,200
41	80	0	0	0	0	0	0	125,000	417,091	630,706
42	81	0	0	0	0	0	0	125,000	406,368	635,681
43	82	0	0	0	0	0	0	125,000	401,646	647,768
44	83	0	0	0	0	0	0	125,000	403,529	667,643
45	84	0	0	0	0	0	0	125,000	412,565	695,924
46	85	0	0	0	0	0	0	125,000	429,202	733,125
47	86	0	0	0	0	0	0	125,000	453,921	779,799
48	87	0	0	0	0	0	0	125,000	487,078	836,369
49	88	0	0	0	0	0	0	125,000	528,853	903,075
50	89	0	0	0	0	0	0	125,000	579,289	980,019
51	90	0	0	0	0	0	0	125,000	638,196	1,067,055
52	91	0	0	0	0	0	0	125,000	714,811	1,082,117
53	92	0	0	0	0	0	0	125,000	813,897	1,109,009
54	93	0	0	0	0	0	0	125,000	941,666	1,152,623
55	94	0	0	0	0	0	0	125,000	1,105,545	1,218,785
		712,000	427,200	420,000	712,000	284,800	-7,200	3,922,800		

55 Year Summary

Employer's Cumulative Net Payments	427,200
Executive's Cumulative Net Payments	-7,200
Executive's Cum. A/T Dis. Premiums and Retirement	3,922,800
Cash Value	1,105,545
Executive's Death Benefit	1,218,785

*This illustration assumes the nonguaranteed values shown continue in all years. This is not likely, and actual results may be more or less favorable. This illustration is not valid unless accompanied by a proposal from .

Controlled Executive Bonus Plan Using Indexed Universal Life

Presented By: [Licensed user's name appears here]

Insured: Tom Hamilton

Executive's Repayment Obligations

Employer: Acme Ford, LLC
Limited Liability Co

		Male Age 40	Indexed UL Interest Rate 7.50%	Initial Death Benefit 2,600,000					
Year	Male Age	(1) Bonus Paid to the Executive	(2) Cumulative Bonus Paid to the Executive	(3) % of Bonus Due if Executive Terminates	(4) Amount of Repayment Due by Executive	(5) Executive's Policy Cash Value*	(6) Executive's Net Gain/Loss** (5) - (4)	(7) Executive's Policy Death Benefit †	
1	40	112,000	112,000	100.00%	112,000	16,645	-95,355	2,600,000	
2	41	100,000	212,000	100.00%	212,000	65,184	-146,816	2,592,440	
3	42	100,000	312,000	100.00%	312,000	117,046	-194,954	2,584,502	
4	43	100,000	412,000	100.00%	412,000	172,479	-239,521	2,576,167	
5	44	100,000	512,000	100.00%	512,000	231,718	-280,282	2,567,415	
6	45	100,000	612,000	100.00%	612,000	295,727	-316,273	2,558,226	
7	46	100,000	712,000	100.00%	712,000	364,995	-347,005	2,548,578	
8	47	0	712,000	0.00%	0	378,666	378,666	2,538,446	
9	48	0	712,000	0.00%	0	393,978	393,978	2,527,809	
10	49	0	712,000	0.00%	0	411,058	411,058	2,516,639	
11	50	0	712,000	0.00%	0	438,019	438,019	2,504,911	
12	51	0	712,000	0.00%	0	463,634	463,634	2,492,597	
13	52	0	712,000	0.00%	0	491,307	491,307	2,479,667	
14	53	0	712,000	0.00%	0	521,176	521,176	2,466,090	
15	54	0	712,000	0.00%	0	553,407	553,407	2,451,834	
16	55	0	712,000	0.00%	0	588,129	588,129	2,436,866	
17	56	0	712,000	0.00%	0	625,573	625,573	2,421,149	
18	57	0	712,000	0.00%	0	665,960	665,960	2,404,647	
19	58	0	712,000	0.00%	0	709,531	709,531	2,387,319	
20	59	0	712,000	0.00%	0	756,554	756,554	2,369,125	
21	60	0	712,000	0.00%	0	807,282	807,282	2,350,021	
22	61	0	712,000	0.00%	0	861,988	861,988	2,329,962	
23	62	0	712,000	0.00%	0	920,939	920,939	2,308,901	
24	63	0	712,000	0.00%	0	984,453	984,453	2,286,786	
25	64	0	712,000	0.00%	0	1,052,877	1,052,877	2,263,565	
26	65	0	712,000	0.00%	0	1,002,269	1,002,269	2,114,826	
27	66	0	712,000	0.00%	0	951,288	951,288	1,958,651	
28	67	0	712,000	0.00%	0	900,196	900,196	1,794,667	
29	68	0	712,000	0.00%	0	849,314	849,314	1,622,483	
30	69	0	712,000	0.00%	0	799,064	799,064	1,441,691	
		712,000							

**Negatives in Column (6) are in excess of the policy cash value.

† Assumes the executive's death waives the repayment obligation.

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34	73	0	712,000	0.00%	0	616,495	616,495	849,865
35	74	0	712,000	0.00%	0	577,554	577,554	772,491
36	75	0	712,000	0.00%	0	541,849	541,849	691,418
37	76	0	712,000	0.00%	0	509,102	509,102	669,753
38	77	0	712,000	0.00%	0	479,759	479,759	652,299
39	78	0	712,000	0.00%	0	454,298	454,298	639,588
40	79	0	712,000	0.00%	0	433,239	433,239	632,200
41	80	0	712,000	0.00%	0	417,091	417,091	630,706
42	81	0	712,000	0.00%	0	406,368	406,368	635,681
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46	85	0	712,000	0.00%	0	429,202	429,202	733,125
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49	88	0	712,000	0.00%	0	528,853	528,853	903,075
50	89	0	712,000	0.00%	0	579,289	579,289	980,019
51	90	0	712,000	0.00%	0	638,196	638,196	1,067,055
52	91	0	712,000	0.00%	0	714,811	714,811	1,082,117
53	92	0	712,000	0.00%	0	813,897	813,897	1,109,009
54	93	0	712,000	0.00%	0	941,666	941,666	1,152,623
55	94	0	712,000	0.00%	0	1,105,545	1,105,545	1,218,785

712,000

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Repayment of the Bonus

Employer: Acme Ford, LLC
Limited Liability Co

Background

A Controlled Executive Bonus Plan is a fringe benefit in which an executive is paid a recurring taxable bonus which is used to purchase a life insurance policy with an emphasis on maximizing cash value accumulation. Subject to the terms of a separate Employment Agreement, the executive is required to repay the bonus under certain circumstances such as voluntary termination of employment by the executive prior to a certain date or event described in the Agreement or termination by the employer for cause.

Question

Can the executive deduct the repayment if it occurs?

Comments

The executive may be able to deduct the repayment under IRC Sec. 1341 (computation of tax where taxpayer restores an amount held under a claim of right). If the executive's bonus repayment is not deductible, and a policy loan is used to provide all or part of the funds for the bonus repayment, there is meaningful tax leverage available as tax free cash flow will have been accessed from the policy's tax deferred assets as the source of funds for repayment.

The employer must recognize any amount repaid as income under IRC Sec. 61.

Important Note: This information is for educational purposes only. In all cases, the approval of a client's legal and tax advisers must be secured regarding the implementation or modification of any planning technique as well as the applicability and consequences of new cases, rulings, or legislation upon existing or impending plans.