



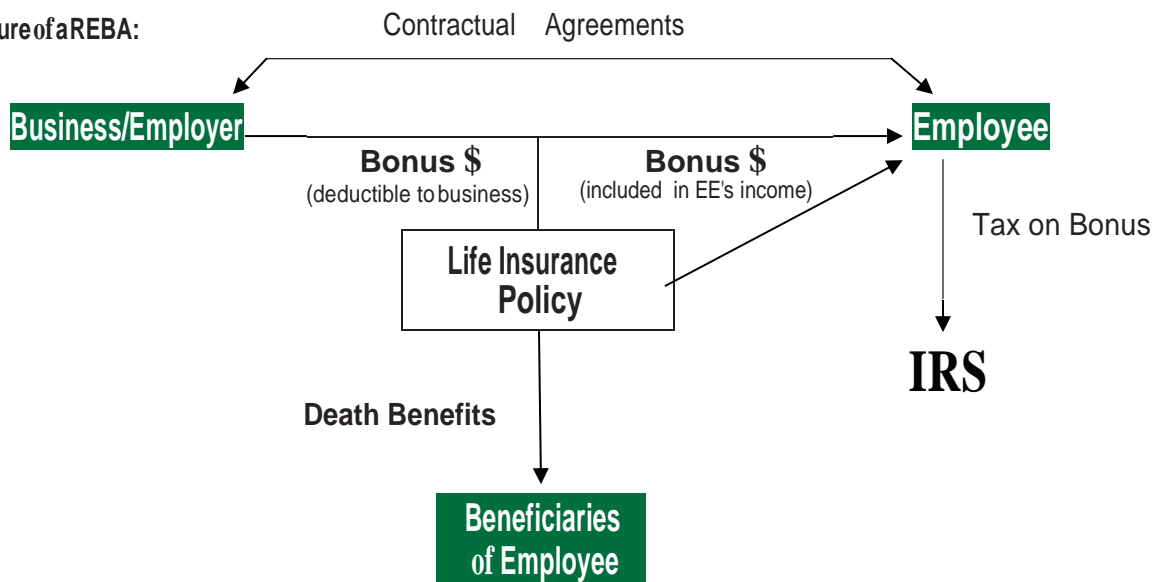
Executive Compensation

Restrictive Bonus Arrangement (REBA)

A Restrictive Executive Bonus Arrangement (REBA) is a combination of two planning tools - a Section 162 bonus plan and a restrictive endorsement. The combination of these two elements creates a very attractive executive benefit for key employees while providing the employer with control. Benefits provided by this arrangement include:

- > Tax-free death benefit coverage for the employee
- > Cash values that the employee may use to supplement their retirement benefits
- > No administrative costs for the employer
- > No ERISA participation, reporting, or disclosure requirements
- > Protection of employee benefits from corporate bankruptcy and merger/acquisitions
- > Executive control of the financial investment
- > Provides financial "handcuffs" as a means of retaining key employees

Structure of a REBA:



The Bonus Agreement

The Employer agrees to make annual contributions to a cash value life insurance policy owned by the employee. Contributions are deductible for the employer and the employee incurs an income tax liability on the amount of the bonus. To increase the true benefit of such an agreement the employer may bonus the employee an amount sufficient to pay the tax liability (a "double" bonus). The employer typically reserves the right to discontinue the program at anytime. There are no ERISA participation, reporting, or disclosure requirements and no administrative costs. Unlike qualified retirement plans the employer may discriminate in favor of highly compensated employee.

Creating Employee Retention Incentives

Restrictive Endorsement

Part of the agreement requires the employee to execute a restrictive endorsement (provided by the carrier). The endorsement's role is to limit the employee's rights under the insurance contract, creating the financial "handcuffs" desired by the employer. Typically the endorsement will restrict the employee's rights to surrender the policy, take policy loans, withdraw cash value, assign the policy as collateral, etc. The employee retains the sole right to change the beneficiary but before the employee can exercise any other rights he or she must obtain the written consent of the employer.

Employment Contract - optional

The employment contract is an additional agreement between the employer and employee that grants the employer the right to recover contributions should the employee violate the terms of the employment contract. The restrictive endorsement does not give the employer any rights in the policy's cash value. Therefore, in order to recover contributions on the employee's early termination, the employer must enforce the employment contract.

Advantages of Using Cash Value Life Insurance

- > Cash values accumulate on a tax-deferred basis
- > Cash values may be used to create tax-favorable supplemental retirement income for the employee*
- > Tax free death benefit for the employee
- > Numerous investment options give the employee the ability to create a diversified portfolio
- > Employees may reallocate their investment allocation without triggering capital gains tax
- > Cash values may be accessed prior to age 59 without the 10% penalty that applies to qualified retirement plans and IRAs
- > Many states offer a level of creditor protection for life insurance cash values and death benefits

*Withdrawals and loans from life insurance which are classified as modified endowment contracts may be subject to the tax at the time the withdrawal or loan is made