

# Episode #191: Using Life Insurance as an Executive-Retention Strategy

## Video Transcription

Hi. Welcome to this week's episode of Money Script Monday. My name is Laurence Williams and I want to thank you so much for being here today. Today, we're going to be talking about how using life insurance as an executive retention strategy just may be the strategy for you.

I think we can all agree that businesses are the lifeblood of America. They're what drives the American economy. If you're a business owner, you want to do everything you can to attract, attain, and retain those top executives. When you think about that, you think, "Well, what can I offer?" Many companies out there offer things that I think we've all heard of: a 401K, medical, dental, vision. You know, now, some days, employers are offering fully remote, which, again, are great benefits. But most companies offer these types of things.

Before we get into this particular strategy, I wanted to share some stats with you. An organization called the Life Insurance Marketing Research Association conducted a study at the beginning of this year. They found that 29% of Americans that had life insurance felt that they were under-insured and that they wanted more. In another study, they found that 59% of Americans didn't have any insurance. I wanted to share that, because, I think, now more than ever people are understanding the value of life insurance. In this particular example, in this strategy we're going to talk about, we're not going to be talking specifically about your, kind of, vanilla insurance that I think most people are accustomed to: your final expense, or your term insurance. We're going to be talking about a policy, or an insurance product, rather, called Index Universal Life.

In an Index Universal Life policy, not only do you have that death benefit that everybody's familiar with, but we could also utilize this product for retirement planning, there's a multitude of tax advantages, such as tax-deferred growth, tax-free distributions, and on some policies, you can add LTC-like benefits in the event that you're ever unable to work. With that, you're asking, "Well, okay, I get it, life insurance, well, what is this strategy?" This strategy is called an Executive Bonus 162 plan. Believe it or not, the name, "162 bonus plan," comes from the IRS guidelines, which, essentially allows companies to compensate employees in the form of a bonus. It just so happens that these bonuses that are being paid to the employees are coming in the form of life insurance. We're going to take a look at the graph here and see exactly how this works. In this graph here, we've titled it, "Never Lose

Another Employee." So, it's simple. The employer has a top executive, who, he or she chooses that they want to insure. That top executive then gets a life insurance policy. Once they're approved, and that policy is bound, the employer then pays the premiums to that policy.

To the executive, the death benefit is transferred tax-free to the beneficiaries if they were to pass away. In an Index Universal Life, you're able to accumulate cash, and the executive has access to all of that cash value and all of those tax advantages that we talked about earlier. As far as the taxing on this, the income tax that the executive will have will be recognized here in the form of those bonuses. If those bonuses do increase, they will have to pay income taxes on there. For the employer, those premiums that are paid into the policy are then tax-deductible. As you can see, there's a win-win. The employer is able to deduct those taxes, or those premiums, in the form of the tax deduction. The executives have access to all of those tax benefits that we talked about that are available in an Index Universal Life policy. We've kind of talked a little bit about how this strategy works. Let's do a little bit of a deeper dive into exactly what the benefits are, not only for the employer, but also the employee.

For the employer, right here, the first thing is it is a retention tool. You know, if a top executive is coming to work for you, and you offer some of the benefits that we talked about before, but you also offer a strategy like this, with all of the tax advantages, the retirement income planning, and that death benefit for their families, that shows that you care. It's separating you from those other businesses out there. We also talked about how those tax premiums that are paid into the policy are completely tax deductible and not recognized to the business at the end of the year. As far as the ease of implementation, now is the best time to get life insurance. When you think about it, with programs like Accelerated Underwriting, oftentimes, clients can get coverage to the tune of \$3 million without having to do a medical exam, without having to obtain medical records. There isn't a better time to get life insurance. Once these policies are enforced, they're very, very easily managed and administrated. We also can talk about the administrative flexibility within these plans. So, what I, like about it is that, in these plans, we're customizing specifically for your top executive. Often times when people think of group insurance, it's more of blanketed insurance advice. You know, you have 10, 15 employees. They each get \$10,000 or \$15,000 of death benefit. That's it. There's no customization going on. With these types of policies, we're able to go in and specifically design a policy for your top executive.

For the employers, you don't have to get consent from the IRS. This has already been approved, and is a very, very effective strategy for employers. Let's take a look at, well, what are some of the benefits for the employee? For the employee, we can customize, specific to their needs, each and every plan. In some cases, again, completely optional, the employer can choose to agree to gross up their bonus payments, so that, if there are any tax liabilities on the employee, they will offset that in the form of a larger bonus. We can also make sure that each top executive solely owns their policy. Unlike group insurance, where you're part of the big plan, you own specifically your policy, and you can do what you'd like to with that policy.

The best is all of that access to the cash value, the growth, that death benefit, and some of those other, long-term care benefits that you may choose to add to your policy. If you're watching this, and you're a business owner, and you're looking to attract, attain, and retain those top executives, I strongly encourage you to reach out to your financial professional and ask them how an Executive 162 Business plan can fit into your business. My name is Laurence Williams and I want to thank you for watching. We'll see you next time.