

Supplemental Executive Retirement Plan (SERP)

Client Profile

- A successful small business owner would like to retain and reward his key employees by offering an executive benefit plan.
- Business is a C-Corporation with four key employees.

FACT FINDING

- The business owner wants to offer an incentive for key employees so they will continue to work for him.
- He wants to explore a plan that would provide 50% of current salary to each key employee at retirement for 20 years.
- Comfortable with variable universal life (VUL) insurance.

UNDERWRITING CONSIDERATIONS

- Four key employees are all younger and healthy non smokers.

Designing a Case & Creating a Plan

Based upon the plan facts, a SERP was suggested, structured as follows:

- Corporation will purchase a life insurance policy using Accumulation VUL on the lives of each of the key employees.
- They will receive retirement benefits equal to 50% of their current salaries for 20 years. Moreover, should an employee die before retiring, his/her heirs will receive the same death benefit.
- Distributions equal to the after-tax cost of the retirement benefit will be taken from the projected cash values.
- Corporation will then pay the retirement benefit to the employee. This will be income taxable compensation to the employee and tax deductible to the corporation.
- The death benefit was designed to cover corporate costs as well as maximize the policy cash values.

Why it Works

The SERP plan was implemented for the following reasons:

- The promise of the future retirement benefits acts as a “golden handcuff” and provides incentive to the key employee to stay at the corporation.
- The corporation owns the policy and is in complete control of the asset, recording the policy values as an asset on their books to offset the plan liability.
- The death benefit provides for financial protection to the corporation and allows the corporation to recoup the premiums it has paid should the employee die pre-retirement.
- After the retirement benefit obligation is met, the corporation can surrender the policy and use the cash value to recover costs, or wait until the employee dies to collect the death benefit.

Contact our sales team to discuss ideas and opportunities for your business owner clients.