



Golden Executive Bonus Arrangement

A golden executive bonus arrangement is identical to the Restricted Executive Bonus plan in that it restricts the executive's ability to access the policy's cash value for a period of time plus adds an employment contract. The employment contract details the relationship of the executive to the employer and gives the terms of the GEBA. If the executive violates the employment contract (i.e. quits), the employer can sue the executive to recoup the GEBA costs. This does not amount to a forfeiture of the policy values but does give the employer an option to collect the costs of the plan.

The GEBA is an effort to recruit, reward and/or retain top talent. The employer agrees to pay the premiums on a life insurance policy owned by the executive and the executive agrees to continue working for the employer. The policy's values are not accessible by the executive for a specified period of time. The premium amount is includible in the executive's compensation and is generally deductible to the employer (it would not be deductible to the extent that his or her compensation is not "reasonable" IRC 162).

The policy is under the complete control of the executive with the exception of withdrawing cash

value or receiving loans from the policy for a period of time (the restriction period). The employer has no interest in the policy. The executive can change the beneficiary, take a withdrawal from the policy (after the restriction period), take a loan against the policy (after the restriction period), collaterally assign the policy (after the restriction period), and may consider transferring the policy to an irrevocable trust (ILIT) for estate planning purposes. If the policy is transferred to an ILIT, the transfer will have gift tax implications, three year inclusion implications, and transfer for value implications. All implications can be adequately handled with proper planning (e.g. the executive can make cash gifts to the ILIT using his/her annual exclusions, the ILIT is structured as a "grantor trust", and the ILIT trustee purchases the policy from the executive).

This arrangement is slightly more handcuff than the restricted executive bonus in that the executive cannot access policy values for a set period of time without the employer's consent and he/she has obligations under the employment contract. If a slightly weaker handcuff is desired see "Executive Bonus" or "Restricted Executive Bonus". If a complete handcuff is desired see "Employer Loans" or "Employee Endorsement".

Pros

Simple to understand and administer

Valuable benefit for Executive

Helps recruit, reward, retain – a slightly stronger handcuff than executive bonus without restriction

Generally deductible to Employer

Cons

Still is not much of a handcuff – Executive is free to leave and take policy

Is classified as a welfare benefit plan for ERISA purposes

Entire premium amount is included in Executive's – as opposed to premium sharing arrange

The preceding summary is intended to be a general discussion of the topic presented, and is based on our current understanding of applicable tax laws, regulations and rulings. In actual practice, the transaction discussed may be more complex and will require the attention and expertise of professional advisors. In no way should this summary be construed to constitute tax or legal advice. **For agent use only.**