Allianz

Allianz Life Insurance Company of North America

LIFE ADVANCED MARKETS

Executive bonus plan using life insurance (double bonus): Example agreement

Outlines the terms, conditions, and obligations between the employer and key employee regarding the compensation arrangement.

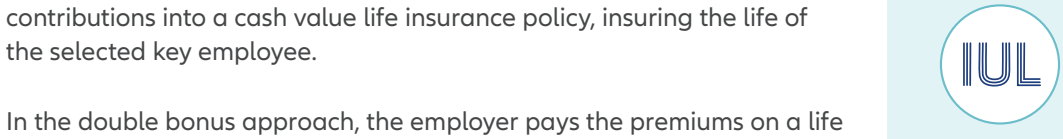
One common alternative to an annual cash bonus is to pay the contributions into a cash value life insurance policy, insuring the life of the selected key employee.

In the double bonus approach, the employer pays the premiums on a life insurance policy owned by the employee. Payments are typically made directly to the insurance carrier and are effectively the first bonus to the selected employee.

Because the premium payments are taxable as ordinary income to the employee at ordinary income rates, the employer pays a second bonus to cover all or a portion of the income tax the employee may incur. (Premiums paid by the employer as well as any additional bonus amounts are treated as a compensation expense and are therefore generally tax-deductible for the employer.)

Keep in mind that any strategy that includes life insurance is contingent on the health underwriting of the insured and financial underwriting. Employers should consult with financial professionals and tax professionals to determine whether it is an appropriate strategy for their specific situation.

All legal agreements need to be drafted by an attorney; this sample document is provided as a reference for your discussions.



Indexed Universal Life (IUL)
With its death benefit protection, accumulation potential, and the opportunity for loans and withdrawals, IUL can be a valuable tool for small businesses to address key-employee compensation, business succession, and business-owner estate-planning strategies.



NEED ADDITIONAL HELP? Call the Life Case Design Team at **800.950.7372.**

This sample document is for general information only and is not intended to be legal, tax, or financial advice. Allianz Life Insurance Company of North America, its affiliates, and their employees do not provide tax or legal advice. We assume no responsibility or liability for any errors or omissions in the content of this document, nor for any actions taken based on it.

Clients should consult their own legal counsel to ensure that any agreements meet their specific needs and comply with applicable laws and regulations. The provision of this specimen document does not imply endorsement or approval of any specific terms or conditions contained within it. It is not adapted to the specific circumstances or objectives clients may have.

Allianz Life Insurance Company of North America does not provide financial planning services.

Indexed universal life (IUL) insurance policies provide a death benefit that is generally paid income-tax-free to beneficiaries, and the potential to build tax-deferred accumulation value. IUL requires qualification through health and financial underwriting.

Policy loans and withdrawals will reduce the available cash value and death benefit and may cause the policy to lapse, or affect guarantees against lapse. Withdrawals in excess of premiums paid will be subject to ordinary income tax. Additional premium payments may be required to keep the policy in force. In the event of a lapse, outstanding policy loans in excess of unrecovered cost basis will be subject to ordinary income tax. If a policy is a modified endowment contract (MEC), policy loans and withdrawals will be taxable as ordinary income to the extent there are earnings in the policy. If any of these features are exercised prior to age 59½ on a MEC, a 10% federal additional tax may be imposed. Tax laws are subject to change, and you should consult a tax professional.

Product and feature availability may vary by state and broker/dealer.

Guarantees are backed solely by the financial strength and claims-paying ability of Allianz Life Insurance Company of North America.

Products are issued by Allianz Life Insurance Company of North America, 5701 Golden Hills Drive, Minneapolis, MN 55416-1297. 800.950.1962 www.allianzlife.com

This content does not apply in the state of New York.

For financial professional use only – not for use with the public.

SECTION 162 BONUS AGREEMENT
(DOUBLE BONUS APPROACH)

This Agreement is made and entered into as of the _____ day of _____, 20___, by and between _____ (the "Employer") and _____ (the "Insured Employee").

RECITALS

A. Insured Employee has performed valuable services to the business of the Employer and Employer desires that Employee continue to do so.

B. The Insured Employee desires to provide life insurance protection for the benefit and protection of the Insured Employee's family and is willing to continue providing services to the Employer.

C. The Employer desires to provide the Insured Employee with an additional incentive to continue employment with Employer and is therefore willing to assist the Insured Employee in providing life insurance for the benefit and protection of the Insured Employee's family by paying such portions of the life insurance premiums on the terms and conditions as set forth in this Agreement.

AGREEMENT

NOW THEREFORE, in consideration of the mutual promises contained below, the parties agree to the foregoing and as follows:

1. **PURCHASE OF LIFE INSURANCE.** The Insured Employee has purchased, or shall apply to Allianz Life Insurance Company of North America, Golden Valley, Minnesota, hereafter referred to as the "Insurer," for a policy of life insurance on the life of the Insured Employee, in the face amount of _____ Dollars ($_____), as more specifically described in the attached Exhibit A, together with any replacement or modification thereof (all of which are collectively referred to herein as the "Policy").

   The Insured Employee has taken, or will take, all necessary action to cause the Insurer to issue the Policy and will take any further action which may be necessary to cause the Policy to conform to the provisions of this Agreement. The parties agree that the Policy shall be subject to the terms of this Agreement.

2. **OWNERSHIP OF POLICY.** The Insured Employee shall be designated as the sole owner of the Policy and, except as otherwise provided in this Agreement, may exercise all rights of ownership with respect to the Policy, including the right to change the ownership of the policy, and the right to pledge or assign the Policy as security for any loan or indebtedness.

SAMPLE

3. **PAYMENT OF PREMIUMS.** The Employer shall timely pay all premiums necessary to keep the Policy in force during the time that the Insured Employee is employed by the Employer. Pursuant to the resolution of the Employer's governing board, the treasurer of the Employer shall pay such premiums when due unless and until otherwise instructed by the Employer's governing board. However, in the event that the Insured Employee's employment with Employer terminates, for whatever reason, then the Employer shall have no further obligation to pay any Policy premiums.

4. **INCOME TAX GROSS UP PAYMENT.** On or before December 31 of each year in which the Employer pays the Policy premium, the Employer will pay to the Insured Employee an additional cash bonus in an amount approximately equal to the additional amount of personal state and federal income taxes that the employee will incur as a result of this Agreement.

   The additional cash bonus shall be equal to

   [select and insert one of the following: Choice A or Choice B:]

   Choice A:

   [$_____].

   Choice B:

   [the percentage of the Policy premium paid by the Employer on behalf of the Insured Employee for that year and which is included in the Insured Employee's taxable income for such year (referred to as the "Includable Bonus Percentage Amount"); provided however, that for the first year of the Policy the Includable Bonus Percentage Amount shall be equal to $_____; and further provided that, for each year following the initial year of the Policy, the Insured Employee shall, no later than December 15 of each year in which Employer pays a Policy premium on behalf of Insured Employee, provide to the Employer an estimate of the Includable Bonus Percentage Amount for such year. In the event the Insured Employee does not provide Employer with an estimate of the Includable Bonus Percentage Amount as required, then the Employer may apply the Includable Bonus Percentage Amount from the previous year.]

5. **INCOME TAX REPORTING OF PREMIUMS PAID.** The Employer shall report either on an Internal Revenue Service Form W-2 or Form 1099 as the Employer in its sole discretion deems appropriate, the amount of any premiums Employer pays on behalf of the Insured Employee under the terms of this Agreement. Amounts paid by the Employer shall be reported as ordinary and necessary expenses paid or incurred in carrying on a trade or business as allowed under Internal Revenue Code Section 162, and as additional compensation to the Insured Employee and not as part of a welfare benefit plan for the employees of the Employer.

6. **POLICY BENEFICIARY DESIGNATION.** Insured Employee shall have the exclusive right to designate, and successively change, one or more beneficiaries to receive the death benefit payable upon the death of the Insured Employee under the terms of the Policy.

7. **DEATH OF INSURED EMPLOYEE.** Upon the death of the Insured Employee while this Agreement is in effect, the death benefit proceeds which are payable under the Policy upon the death of the Insured Employee shall be paid to the beneficiary, or beneficiaries, designated by the Insured Employee, or by the owner of the Policy if ownership of the Policy was transferred by Insured Employee to an owner other than the Insured Employee. Employer shall have no right, title, or interest of any kind in the death benefits which may be payable under the Policy. The Insured Employee shall have no express or implied obligation to designate the Employer, directly or indirectly, as a beneficiary of the Policy.

SAMPLE

8. **LIMITATION ON POLICY REPLACEMENT, SUBSTITUTION, ASSIGNMENT.** Notwithstanding any provision of this Agreement to the contrary, and except as otherwise provided in this Agreement:

   A. **Replacement or Substitution of Policy.** The Insured Employee shall not replace or substitute the Policy, or take any other action which may increase the Policy premiums without the prior express written consent of the Employer, which consent may be withheld in the Employer's sole and absolute discretion.

   B. **Assignment of Policy.** The Insured Employee may irrevocably and gratuitously assign its interest in the Policy (without the express consent of the Employer but with prompt notice to the Employer and subject to all rights of the Employer pursuant to this Agreement) to any trust of which the Insured Employee is the grantor.

9. **POLICY CASH WITHDRAWALS AND LOANS.** The Insured Employee may withdraw cash from the Policy or take a loan from the Policy without the prior express written consent of the Employer.

10. **TERMINATION OF AGREEMENT.** This Agreement shall terminate as follows:

   A. **Termination Without Notice.** This Agreement shall terminate without notice upon the occurrence of any of the following events:
      i. Employer ceases to continue doing business, except in the event of the acquisition of all or substantially all of the assets or equity interest (e.g. stock, membership interest, etc.) by another business entity; or a merger or consolidation with another business if immediately subsequent to such event the Employee is employed by such acquiring business entity or by the surviving business entity in the event of merger or consolidation;
      ii. Employer filing bankruptcy or going into receivership;
      iii. Dissolution of the Employer;
      iv. Mutual written agreement of the Owner and the Employer.

   B. **Termination of Employment.** In the event that the Insured Employee's employment by the Employer is terminated for any reason, the Employer may terminate this Agreement by giving at least ten (10) days written notice to the Insured Employee. Such termination shall be effective as of the date specified in the notice but not sooner than ten (10) days after such notice is actually received by the Insured Employee.

11. **AMENDMENT AND WAIVER.** The Employer shall have the right to amend this Agreement, at any time and from time to time, in whole or in part; however, in no event shall such amendment reduce the benefits to which the Executive is entitled at the time of such amendment. The Employer shall notify the Executive in writing of any amendment of this Agreement. The failure of any party to strictly enforce any provision of this Agreement shall not affect the right of such party to thereafter enforce the same, or any other, provision of this Agreement in accordance with its terms.

12. **SUCCESSORS AND ASSIGNS.** This Agreement shall be binding upon and inure to the benefit of the Employer, its successors and assigns, and the Insured Employee, his/her heirs, and successors; provided however that benefits under this Agreement may not be assigned, sold, transferred, or encumbered, and any attempt to do so shall be void.

SAMPLE

13. **ADMINISTRATION AS EXECUTIVE BONUS ARRANGEMENT.** This Agreement shall be administered by the Employer. The Employer shall have responsibility for the operation and administration of this Agreement as an executive bonus arrangement under Internal Revenue Code Section 162. The Employer shall have the power and authority to adopt, interpret, alter, amend or revoke rules and regulations necessary to administer this Agreement and to delegate ministerial duties and employ such outside professionals as may be required for prudent administration of this Agreement.

14. **NOTICES.** Any notice, consent or demand required or permitted to be given under this Agreement shall be (i) in writing and (ii) signed by the party giving or making the same. If such notice, consent or demand is mailed to a party, it shall be sent by United States certified mail, postage prepaid, addressed to such party's last known address as shown on the records of the Employer. The date of such mailing shall be deemed the date of notice, consent or demand.

15. **SURVIVAL.** The rights and obligations of the parties shall survive the termination of this Agreement and the Insured Employee's death to the extent that any performance is required.

16. **NO GUARANTY OF EMPLOYMENT, LIMITATION OF RIGHTS.** The Insured Employee shall have no guarantee or right to employment by reason of this Agreement. Neither the execution of this Agreement nor any modification thereof, nor the creation of any fund or account, nor the payment of any benefits, shall be construed as giving the Executive or other person any legal or equitable right against the Employer except as provided in this Agreement. In no event shall the terms of employment of the Executive be modified or in any way be affected by the Agreement.

17. **REPRESENTATIONS.** The Employer does not represent or guarantee that any particular federal or state income, payroll, personal property or other tax consequence will result from participation in this Agreement. The Insured Employee should consult with professional tax advisors to determine the tax consequences of his participation in this Agreement.

18. **COOPERATION.** The parties agree to take such actions as are desirable to allow the rights and duties specified in this Agreement to be brought into effect. The parties each agree to execute and deliver all documents which may be desirable to bring into effect the intent of this Agreement or to carry out its provisions.

19. **CONSTRUCTION.** The language used in this Agreement shall be deemed to be the language chosen by the parties to express their mutual intent, and no rule of strict construction shall be applied against any party.

20. **SEVERABILITY.** Whenever possible, each provision of the Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision shall be held to the prohibited by, or invalid under, applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Agreement.

21. **LIABILITY OF INSURER.** The Insurer issuing the Policy shall have no liability except as set forth in the Policy and shall be fully discharged from its obligations under the Policy by payment of all Policy death benefits to the beneficiary or beneficiaries named in the Policy subject to the terms and conditions of the Policy. The Insurer shall have no obligation to inquire into or take notice of any of the covenants herein contained as to the Policy or as to the application of the proceeds of the Policy. In no event shall the Insurer be considered a party to this Agreement or any amendment hereof. No provision of this Agreement, nor of any amendment hereof, shall in any way be construed as enlarging, changing, varying, or in any other way affecting the obligations of the Insurer as expressly provided in the Policy.

SAMPLE

22. **GOVERNING LAW.** This Agreement, and the rights of the parties, shall be governed by, and construed in accordance with, the laws of the state of _____.

23. **HEADINGS.** The headings in this Agreement are for convenience only and shall be ignored in the construction of this Agreement.

24. **COUNTERPARTS; FACSIMILE; ELECTRONIC TRANSMISSION.** This Agreement may be executed in counterparts (each of which shall be deemed an original, but all of which taken together shall constitute one and the same agreement) and shall become effective when one or more counterparts have been signed by each of the parties and delivered to the other parties. The exchange of copies of this Agreement and of signature pages by facsimile or electronic transmissions shall constitute effective execution and delivery of this Agreement as to the parties and may be used in lieu of the original Agreement for all purposes. Signatures of the parties transmitted by facsimile or electronic transmission shall be deemed to be their original signatures for all purposes.

IN WITNESS WHEREOF, the parties hereto have set their hands and seals, the Employer by its duly authorized officer, on the day and year above written.

INSURED EMPLOYEE:

_____

Signature

_____

(Insured employee printed name)

EMPLOYER:

By: _____

Signature of authorized officer

_____

(Authorized officer printed name)

Its: _____

Officer title

SAMPLE

EXHIBIT A

This Exhibit A is part of the Agreement relating to life insurance between _____ ("Employer") and _____ ("Insured Employee"), dated _____, 20___.

LIFE INSURANCE POLICY:

Insurer: **Allianz Life Insurance Company of North America**

Policy number: _____

Name of policy owner: _____

Name of insured: _____

Policy date: _____

Policy face amount: _____

SAMPLE