



EQUITABLE

Give your employees a reason to stay with a stay bonus

Advanced Markets

Your business took years to build. Vital to the success of your business are your key employees. But what if you died or became disabled and the business struggled? Will your key employees stay long enough to help your family realize the true value of the business?



With the stay bonus plan, you can help ensure key personnel will remain with your business and that your family may be able to maintain the business, and its value, through a difficult transition period.

Best of all, the stay bonus is simple to execute and implement with support from Equitable.

Ideal client

- Established business with key executives in addition to the owner.
- An owner who plans to transfer the business to family or other identified owners. (The owner should be insurable.)
- A risk that the key person(s) may leave before a business can be stabilized after the death of an owner.

Meet Paul

- Late 60s
- Married with one son
- High-profile business owner

Paul grew his cabinet and hardware enterprise from a small one-person shop to a three-state business over nearly 30 years.

Springfield Cabinets & Hardware is transitioning to a second generation

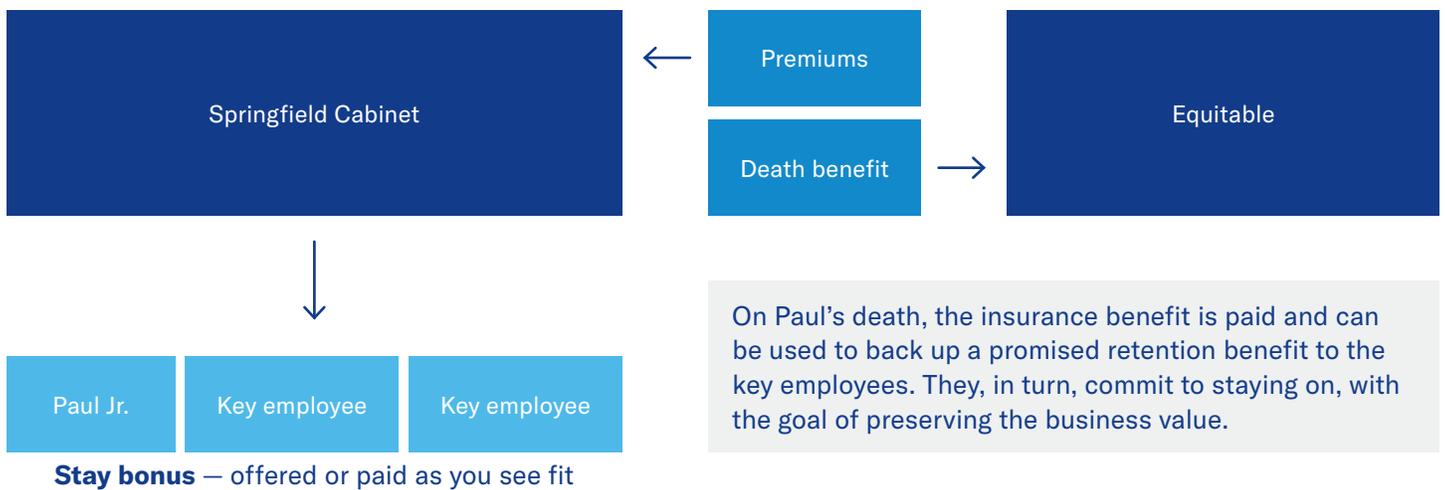
Paul's son and daughter-in-law, Paul Jr. and Kristen, have worked with him for the past 10 years and will be taking over the business in the near future. However, they are dependent on three key executives — a sales person with strong contractor relations, a shipping manager and their own staff accountant. They're concerned that if Paul dies, the executives might move to competitors or on other paths. Paul has always assured them that they'll be taken care of, but nothing formal has ever been put in place.

A stay bonus strategy for Paul and his family

The stay bonus strategy is a retention plan for key employees. It's an agreement between Paul's business and the employees that can be put in place while he is alive or after his death. It offers the employee a meaningful bonus to stay on for a period of time (for example, a year) to stabilize the business after an owner's death. Life insurance, usually owned and paid for by the business, offers the source of funds to help cover the costs. Without it, employees may become concerned about the stability of the business and promised benefit. They may leave the firm, further destabilizing the business.

By implementing a properly structured stay bonus plan, Paul's family can collect the life insurance death proceeds at Paul's death, usually income tax-free. They can then identify the key individuals needed to stabilize the business. A retention bonus can then be offered to these select employees and Paul's family can make it known that there are sufficient funds, from life insurance proceeds, to back up the offer. The chart below shows how this will work.

Case study — stay bonus



Advantages of a stay bonus

Life insurance-funded stay bonus

A life insurance-funded stay bonus can offer a family or successor management team a source of funds to retain key employees during a period of transition, where there's a risk individuals might leave.

Stay bonus

A stay bonus can offer a family or management team both peace of mind and considerable flexibility. The business can have a plan in place but may elect not to inform the key employees until there is a death. This allows the family, or business, the ability to move the benefit among employees once there is a triggering event.

- Alternatively, the business can announce the stay bonus to selected employees as a golden handcuff to retain employees with a company, even before a death.
 - Or, a family may later decide to liquidate the business, sell it for its assets and retain the death benefit.
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Cash value life insurance

Using cash value life insurance can provide an asset that has a positive impact on the balance sheet by providing an offset against the premium payments, and can be accessed by the business as a source of funds, if needed.

Other considerations

Requirement

The stay bonus will require life insurance premiums that may draw from other business needs. If the business later determines it will eliminate the life insurance, the premium amounts may not be recovered.

- If the business uses cash value life insurance or Equitable's CVPlus Rider, there may be cash surrender value to help offset any loss of premium funds. Additionally, the cash values can act as a balance sheet asset to offset premium expenses. Generally, access to cash value is limited because it reduces both the death benefit and cash value of the contract. The client may have to find additional premiums in later years to keep the policy from lapsing.
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Amount

The amount of life insurance that can be issued may vary from one situation to another. The overall amount of life insurance may be limited based on underwriting the policy as a key person benefit, the client's age, health and other factors. If there are other key person needs, such as covering debt or operating expenses, the funds available to the stay bonus could be reduced.

Payment

The stay bonus should be paid no later than 2½ months after the close of the latter of either the employer's or employee's tax year in which the employee's right to the bonus is vested. The business will be able to deduct the bonus as compensation, as long as it is reasonable, and the employee will receive taxable income in the year of payment. Payment within 2½ months of the company's tax year is important, otherwise the agreement may be considered a nonqualified deferred compensation agreement subject to the rules and regulations of IRC § 409A.

Why Equitable?

Strong portfolio

A strong life insurance portfolio, including a line of high-potential cash value product options, to help offer your business access to cash, if needed. A line of term products with flexible conversion privileges.

Illustration support

Illustration support capability to show how your key person plan might work for you.

Rider selections

A wide selection of riders to choose from, including:¹

An enhanced cash value rider that allows the life insurance cash value on your business's books to offset the premium expense.

Long-Term Care ServicesSM Rider. If your key person cannot work because of a qualifying long-term care triggering event, you can accelerate the death benefit to help your business without having to wait for a death.

The Charitable Legacy Rider[®], which offers an additional death benefit to the charity(ies) of your choice at no added cost.

Financial strength

The financial strength of Equitable Financial Life Insurance Company or Equitable Financial Life Insurance Company of America.

Under current federal tax rules, you generally may take federal income tax-free withdrawals up to your basis (total premiums paid) in the policy or loans from a life insurance policy that is not a Modified Endowment Contract (MEC). Certain exceptions may apply for partial withdrawals during the policy's first 15 years. If the policy is a MEC, all distributions (withdrawals or loans) are taxed as ordinary income to the extent of gain in the policy, and may also be subject to an additional 10% premium distribution penalty prior to age 59½, unless certain exceptions are applicable. Loans and partial withdrawals will decrease the death benefits and cash value of your life insurance policy and may be subject to policy limitations and income tax. In addition, loans and partial withdrawals may cause certain policy benefits or riders to become unavailable and may increase the chance your policy may lapse. If the policy lapses, is surrendered or becomes a MEC, the loan balance at such time would generally be viewed as distributed and taxable under the general rules for distribution of policy cash values.

All guarantees are based on the claims-paying ability of Equitable Financial Life Insurance Company or Equitable Financial Life Insurance Company of America.

For more information, please contact your financial professional.

¹ Some riders have an additional cost, and all have restrictions and limitations. Be sure to review with your financial professional for further details.

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