

Executive Life Insurance | 162 Bonus Plan

Supplemental life insurance can provide permanent benefits that are not available in typical group plans such as portability, level premiums, and tax-deferred cash value accumulation.



William Folan
Executive Vice President &
Principal Managing Director
404.504.3837
bill.folan@balsers.com



Richard Wehmeier
Executive Vice President &
Principal Managing Director
404.504.3834
richard.wehmeier@balsers.com

Life Insurance Coverage for Executives

Supplemental benefits have become an essential component of rewarding key employees. Using life insurance as incentive compensation is beneficial to the employer and the employee, and the 162 bonus has a number of advantages.

With this design, the company pays the executive a bonus and the executive uses the bonus to pay insurance premiums into a policy that is owned by the executive. Any amount of premium paid above the required cost of coverage is directed into a selection of investment funds to build cash value in the policy— which grows tax deferred. Section 162 bonus doesn't impose any restrictions on the employee. Technically, while the company recommends the bonus be used for life insurance, ultimately, the employee chooses whether or not the bonus payment will be made to the insurance program.

Premiums are tax deductible under Section 162 of the IRS Code to the corporation. The company-paid premium is considered taxable income to the executive. Policy cash value grows tax deferred and the death benefit is tax free. Post-retirement, the policy remains in force and no further premiums are needed.

Employer benefits

- Bonuses are tax deductible under Section 162 of the IRS code
- Company selects which executives participate
- The plan is simple
- Company can terminate the plan at any time

Employee benefits

- Employee decides what to do with the bonus
- Taxes due on the bonus can be covered by the Company
- Potential growth of cash value may be tax deferred



Executive Life Insurance | Custom Designs

Split Dollar Alternative

Although endorsement the split dollar life insurance technique is perhaps the most complicated option, it should not necessarily be ruled out in every situation in favor of Section 162 Bonus, Death Benefit, and Group Term Insurance programs.

The “split” in split dollar means the company and executive share the cost as well as the benefits of a cash value life insurance policy. The company pays insurance premiums into a company-owned policy. The death benefit is provided to the employee’s beneficiary through an agreement that endorses a portion of the benefit to the beneficiaries designated by the executive. This agreement can be maintained post-retirement for the life of the insured executive.

Simple Death Benefit Alternative

Sometimes keeping benefit plans simple is the best solution. Weighing the advantages of different approaches to executive life insurance can result in finding the “best-fit” program for your company. A straight-forward Death Benefit life insurance plan may be the right answer.



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