



# Retention Bonus Plans help you keep top talent

When it comes to running a business, you need to worry about many things. But when it comes to the top performers who are major contributors to your success, wouldn't you like to worry a little less about losing them to the competition? Naturally, your goal is to keep these key employees on staff for the long term. But in exchange for that loyalty, these talented individuals often seek rewards that go beyond a paycheck.

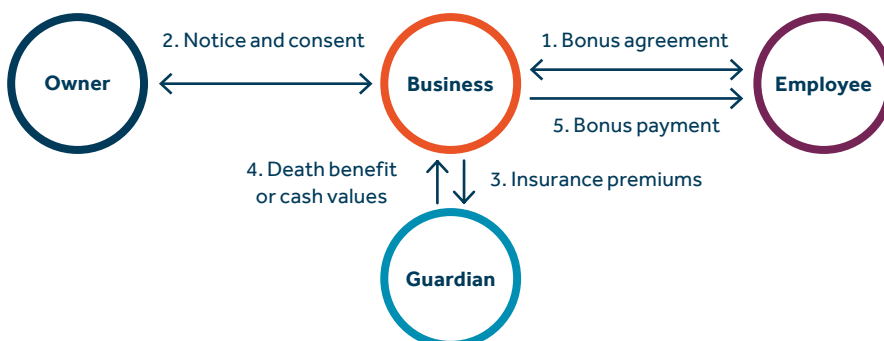
It's common for these top executives to seek the kind of financial rewards that substantiate the valuable contributions they make to your business. Fortunately, there's an executive benefit program that can help to satisfy your employees' needs — and yours. It's called a Retention Bonus Plan.

## What is a Retention Bonus Plan?

A Retention Bonus Plan is ordinarily created through the use of a Retention Bonus Arrangement — and it can be funded with a life insurance policy, which can help to make it a more affordable solution. Essentially, it works like this: If the employee participating in the plan stays with the employer for the period of time stipulated in the Retention Bonus Arrangement (the "stay period"), he or she will receive the bonus amount specified in the arrangement.

## How a Retention Bonus Plan works

With the key employee's written permission, the business owner purchases a life insurance policy that is owned by the business and insures the key employee.<sup>1</sup> If the key employee remains with the company for the stay period (generally no more than 10 years), the key employee will receive the amount of the bonus that is specified in the Retention Bonus Arrangement.<sup>2</sup> The employer can use the policy's cash value to fund this bonus.<sup>3</sup>



## Advantages

The Retention Bonus Plan offers advantages for both your business and those employees you choose to participate:

### Advantages for your business

**The plan builds loyalty:** Key employees who participate may be more likely to stay with your company in order to earn the bonus.



- **It's flexible:** You can choose which employee(s) will participate — and even offer each participant a different bonus amount. You can also design the plan to offer additional stay periods — and corresponding rewards — after the initial stay period has been achieved.
- **It's valuable:** Policy cash value can be listed as an asset on your business's books, and can be tapped in case of an emergency.<sup>4</sup>
- **It's cost-effective:** If properly structured, the policy death benefit can ultimately provide your business with recovery of plan costs. And when funded by life insurance, this plan can have less of an effect on your bottom line in the long term.
- **It's easy to implement and administer:** The simplicity of the plan makes it easy for you (and your employees) to understand — and easy for your business to implement.
- **It's tax deductible:** As long as it is reasonable compensation,<sup>5</sup> the bonus may qualify for a tax deduction when it is paid out.<sup>6</sup>

#### Advantages for your employees

- **It's valuable:** The employees you select to participate will receive a lump-sum cash benefit if they stay with your business for the time frame specified in the Retention Bonus Arrangement.
- **It's attainable:** The benefit will come within a reasonable time frame, compared to qualified pension plans or other benefits that aren't accessible until retirement.

#### Why a Retention Bonus Plan may be right for your business

A Retention Bonus Plan can help to protect the long-term success of your business, since it can help you retain your top performers for years. This type of plan could be a valuable solution for your company if you:

- Have key employees with unique skills, experience, and leadership; valuable relationships with key clients; and/or specialized training that would make it difficult, time-consuming and expensive to replace them.
- Have executives, managers, or sales people on staff who make substantial contributions to your business's bottom line — and are concerned about what would happen to your company should any of these key people leave.
- Can't afford to lose any of your top performers to the competition.
- Have a business that's stable and well positioned for the future

#### Learn how a Retention Bonus Plan could benefit your business

**Contact a Guardian Financial Professional to discover how a Retention Bonus Plan can help you meet the needs of your key employees — while helping to protect your business — for years to come.**

The Guardian Life Insurance Company of America

guardianlife.com

New York, NY

Pub9236 (01/23) 2023-149977 (Exp. 01/25)

This document is intended for general public use and is for educational purposes only.

By providing this content, Park Avenue Securities LLC is not undertaking to provide any recommendations or investment advice regarding any specific account type, service, investment strategy or product to any specific individual or situation, or to otherwise act in any fiduciary or other capacity. Please contact a financial professional for guidance and information that is specific to your individual situation.

<sup>1</sup> The notice and consent requirements for employer-owned life insurance, set forth in IRC § 101(j), should be followed prior to the policy being issued so that the death benefit is not subject to income tax.

<sup>2</sup> The bonus should be paid within 2½ months after the close of the company's tax year in which the employee is required to stay. Otherwise, the agreement may be considered a nonqualified deferred compensation agreement subject to stringent rules and regulations, which could cause unfavorable tax consequences if certain requirements are not met. If IRC §409A requirements are not complied with, which include having a formalized written plan, the employee may have to recognize all of the deferred compensation, whether received or not as taxable ordinary income, in addition to paying a 20% excise tax and interest in the year there is noncompliance.

<sup>3</sup> Some whole life policies do not have cash values in the first two years of the policy and don't pay a dividend until the policy's third year. Talk to your financial representative and refer to your individual whole life policy illustration for more information.

<sup>4</sup> Policy benefits are reduced by any outstanding loan or loan interest and/or withdrawals. Dividends, if any, are affected by policy loans and loan interest. Withdrawals above the cost basis may result in taxable ordinary income. If the policy lapses or is surrendered, any loans considered to be gain in the policy may be subject to ordinary income taxes. If the policy is a Modified Endowment Contract (MEC), loans are treated like withdrawals, but as gain first, subject to ordinary income taxes. If the policy owner is under age 59½, any taxable withdrawal is also subject to a 10% penalty tax.

<sup>5</sup> IRC Section 162 requires compensation to be "reasonable" in order for it to be tax deductible to the business.

<sup>6</sup> Guardian, its subsidiaries, agents, and employees do not provide tax, legal, or accounting advice. Consult your tax, legal, or accounting professional regarding your individual situation. Guardian® is a registered trademark of The Guardian Life Insurance Company of America.

© Copyright 2023 The Guardian Life Insurance Company of America.