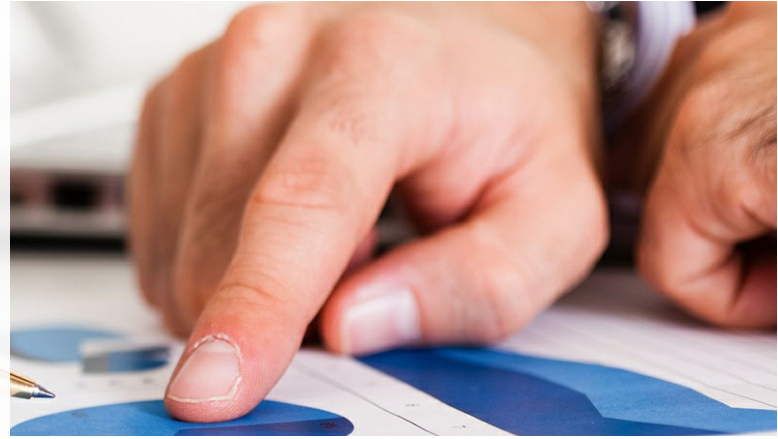


Employee Funded Deferred Compensation: Deferred Income Plan (DIP)



Basic Information

- ◆ Key Employee (Key) is employed by ABC Company.
- ◆ The business has a qualified plan, but Key would like to have additional income to supplement his retirement.
- ◆ Key has been offered a salary increase.

Goals and Objectives

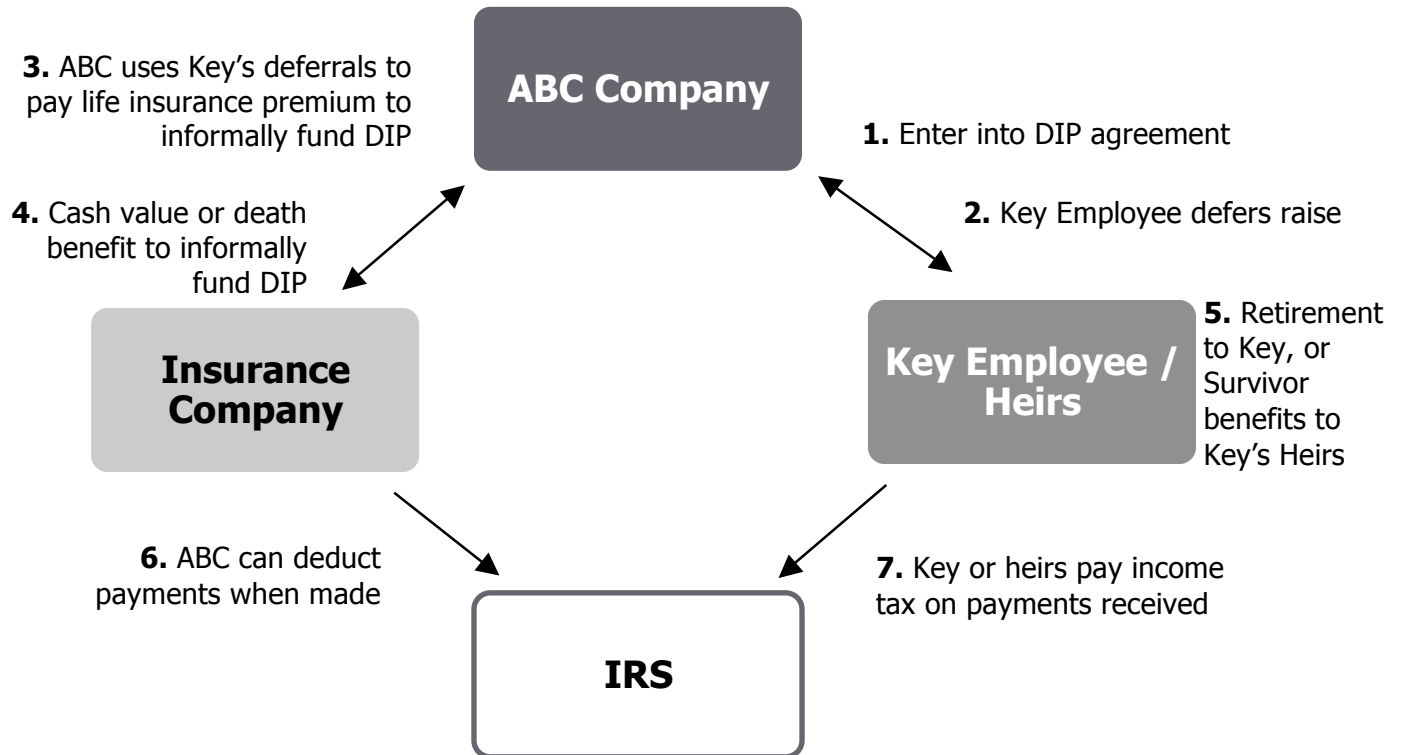
- ◆ Key would like to explore what he could do to supplement his retirement and is willing to forego his salary increase to accomplish his goals.
- ◆ Key would also like for his family to be taken care of after his death.
- ◆ ABC wants to make sure Key does not leave ABC. Key is very talented and losing him would be costly to ABC.

Tax Implications

- ◆ ABC should meet with their insurance professional and other professional advisors as needed to discuss some sort of a "golden handcuff" for Key.
- ◆ A Deferred Income Plan (DIP) compliant under Internal Revenue Code Section 409A would meet all of Key's and ABC's objectives. Under a DIP, Key would forego his salary increase and ABC would put that money into the plan. The informal funding medium would typically be a permanent life insurance policy owned by ABC. To preserve the income tax free nature of the death benefit for ABC, ABC should comply with the notice and consent and exception requirements under Internal Revenue Code Section 101(j).
- ◆ Key would not have to pay income taxes currently on the salary increase he deferred, but would pay income taxes when future benefit payments are received. ABC would not take a deduction for compensation expense until the future benefit payments are made.

- ◆ At Key's retirement, the plan would pay income to Key for a period of years as determined by the DIP agreement. ABC can use cash value of the life insurance policy to fund the retirement benefits. Such withdrawals and any loans can decrease both the policy's cash value and death benefit.
- ◆ The plan would be subject to the claims of ABC's creditors.
- ◆ When benefits are paid to Key in retirement or to the family at death, ABC can deduct the payments made.
- ◆ The benefits paid in retirement or at Key's death to his family would be income taxable to them.

Deferred Income Plan





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