

Make the Most of Your Investment in Key Employees

Many business owners train and mentor employees for the long term, only to have them leave in two or three years. Have you experienced the loss of a promising employee? If so, then you know the costs related to turnover are high and getting higher as jobs become more specialized. Even if you offer the usual employment benefits, and perhaps even a retirement plan, that may not be enough to retain these important employees in today's competitive job market. Younger workers, in particular, don't want to wait until retirement for a bonus —they often think in shorter terms. You also may have certain key employees who you want to let know how special they really are to your operation.

Questions to ask yourself about your key employees:

- Who keeps the business running smoothly when I am here? When I am not here? Do I want them to stay until their retirement? Or until my retirement?
- What is keeping them here? Job satisfaction? Financial security? A relationship with me or other employees? Will they stay because of their current benefits? If not, what will it take to keep them?
- Is there a way, without raising their salaries now, to give them an incentive to stay?
- Can I offer an additional benefit to these specific employees without offering it to all my employees?

How can I provide an incentive to stay to my most valuable employees?
An Employee Private Bonus Plan* will give your best employees a reason to stay. It is a carefully thought-out promise to pay a selected key employee specified bonus amounts at specified times for continuing employment with your company. A sample bonus schedule might include a $5,000 bonus after five years, $7,500 after 10 years, and $10,000 after 15 years. This bonus is generally tax-deductible to the business when paid. With this kind of plan, key employees don't have to wait until retirement to see their reward.

You can design the plan to get a maximum retention value. The agreement states that if your employee is not performing their duties satisfactorily or is no longer employed with you at the time of a scheduled bonus, no payment is made. This type of bonus plan is appreciated by all employees and is especially attractive to younger employees who are just starting their careers.

How do you get the money to pay bonuses?
You finance bonuses with a universal life insurance contract.

- When using life insurance as a funding vehicle, the business is the owner, payer, and beneficiary of the policy.
- Cash values are owned and controlled by the business, are shown as an asset on the books, and generally grow tax deferred.
- Insurance premiums are generally not tax-deductible to the business; however, the bonus is generally tax deductible when paid to the employee, once the employee has fulfilled the required number of years.
- Using cash value life insurance as a funding vehicle also provides the business with Key Person coverage in the event of the employee's death. The life insurance proceeds can be used to hire and train a replacement, and to replenish lost profits during the transition period.

A common variation includes offering a percentage of the death benefit to the employee's personal beneficiary through a written Endorsement Split-Dollar Agreement. This provides needed personal, tax-free death benefit coverage to your key employees for pennies on the dollar. For this tax-free death benefit, a small term insurance cost is reported on your employee's W-2 each year.

You may invest countless hours and dollars training and mentoring young employees. Your talented employees will be more likely to stay if you challenge them with responsibility and offer opportunities that may not be available from competing employers. An Employee Private Bonus Plan may help you get the best return for your investment in their future.

* All products and services may not be available in all states

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