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## BUSINESS OWNER CONSTRUCTS PLAN TO RETAIN KEY EMPLOYEE WHILE ALSO PROTECTING THE COMPANY AGAINST THE POTENTIAL LOSS OF THE EMPLOYEE

### THE SITUATION

Jim Stone owns a successful import business and wants to reward and retain a General Manager who has demonstrated loyalty to the company. Jim's goal is to establish a plan that will both encourage his key employee, Hector Vargas, to stay with the company for the long-term instead of exploring opportunities with the competition, as well as indemnify the company in the event of Hector's death. Hector, age 45, is married with two children, ages 15 and 12. He presently has no life insurance and is living paycheck-to-paycheck.

### THE STRATEGY

We helped Jim design a type of defined contribution deferred compensation plan that achieves his objectives. The plan, called a "Supplemental Executive Retirement Plan" or "SERP", consists of two parts. The first part involves having the company fund Hector's supplemental retirement account. This account is credited with a 4% hypothetical interest rate each year. To help finance this future benefit, Jim's company purchases a specialty type of corporate owned variable life insurance product. The second part of the plan covers the indemnification to the company if Hector dies prematurely.

### SPECIFIC STEPS

Here are the specific steps that we took to implement the SERP for this client:

- The company purchases \$2 million of life insurance which builds cash value to help finance the plan
- Jim decides to contribute \$20,000 per year for Hector, but requires a 20-year vesting schedule
- The company is the beneficiary of the policy, but endorses part of the proceeds to Hector's wife

### THE OUTCOME

After just nine months of placing the life insurance, Hector suddenly dies from a stroke. As a result of having all documentation in place, Jim's company will receive \$1 million. By virtue of the endorsement split dollar agreement, Hector's wife will receive the other \$1 million. Since Hector died within the first two years in which the policy was in force, the insurance company will have the legal right to conduct a routine claim review. However, in the end, the company and widow will have greater financial security as a result of this sound business planning.