



Supplemental Executive Retirement Plans

**Attracting talented executives is hard enough.
Then you have to keep them.**

These materials are not intended to be used to avoid tax penalties, and were prepared to support the promotion or marketing of the matter addressed in this document. The taxpayer should seek advice from an independent tax advisor.

Committed Executives Deserve Committed Employers.

Loyal executives who devote time and attention to building the profitability of your business are not easy to find. Without them, you face a tough battle in today's competitive world.

However, the top executives you need also face a dilemma. Today, they are in demand and their earning power is at its peak. But, will they be able to finance a comfortable retirement tomorrow?

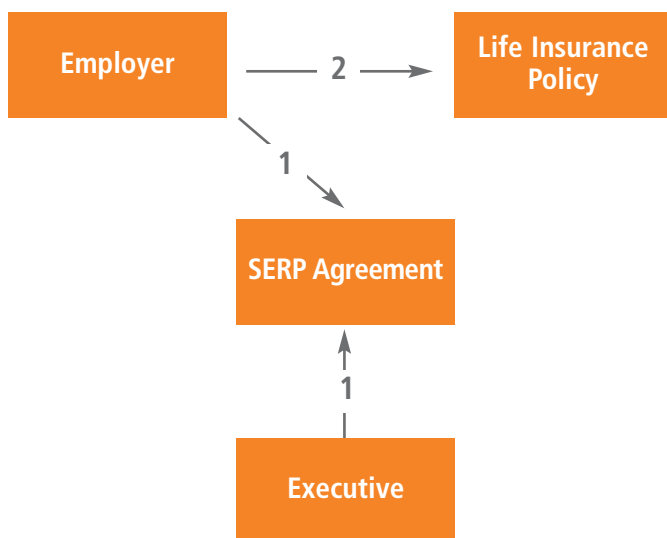
To help plan on the future, they are seeking employer-funded nonqualified plans like Supplemental Executive Retirement Plans (SERPs).

This benefit works for you and your executive.

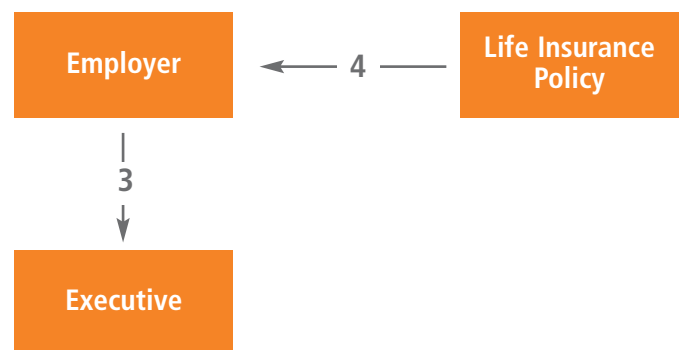
Not only does a SERP provide benefits desired by executives, but SERPs allow you, as the employer, to maintain control. By implementing a plan that imposes "golden handcuffs," you ensure a cost-effective method of rewarding and retaining talented management.¹

Here's How It Works:

While You are Employed



When You Retire

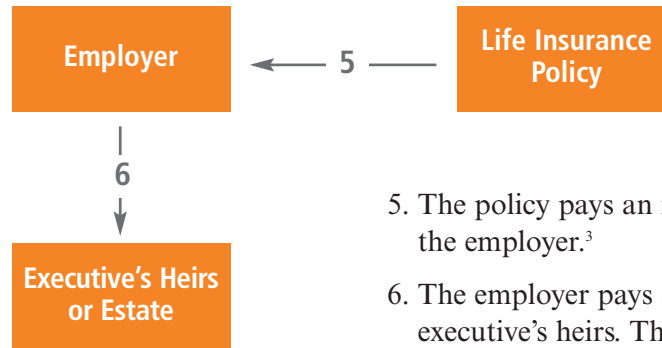


1. The employer and the executive enter into a contractual agreement where the employer agrees to provide pre-and/or post-retirement benefits.
2. The employer purchases a key person policy on the executive's life. The policy serves as an informal funding vehicle for the benefit liability.
3. The employer pays the promised retirement benefit. The payment is deductible by the employer, assuming compensation is reasonable. And, the retirement benefit is taxable compensation to the executive.
4. With proper design, the benefits can be paid using income-tax-free withdrawals to basis and loans from the informal funding vehicle – the life insurance policy.² Alternately, the company can pay the liability from current earnings and recover the cost of the plan upon receipt of the death benefit.

¹ "Golden handcuffs" are restrictions that can reduce or even cause the loss of benefits for the executive if they leave your firm.

² Loans and withdrawals may generate an income tax liability, reduce cash value and reduce the death benefit or cause the policy to lapse.

If the Executive Dies Prior to Retirement



5. The policy pays an income-tax-free benefit to the employer.³
6. The employer pays any benefit owed to the executive's heirs. This payment is deductible by the employer and is taxed as ordinary income to the heirs.⁴

SERPs can be designed:

- To counter the “reverse discrimination” of qualified benefits.
- To recruit new executives.
- To reward valuable executives.
- As part of an early retirement program.
- To act as “golden handcuffs.”

Life insurance provides the real advantage.

While the executive's promised retirement benefits cannot be formally funded, you can set aside assets to provide liquidity when it is needed.

Life insurance can be ideally suited to informally fund SERP benefits because:

- When the plan includes a death benefit, life insurance is the only vehicle able to match the death benefit obligation from the plan's inception.
- When the plan promises income, the cash value build-up is available to the employer to finance promised retirement income.
- When the plan provides for disability benefits, premium waiver riders can be added to the policy.
- The cash values accumulate income tax-deferred and may be subject to minimum guarantees.
- Policy performance may produce an attractive internal rate of return (IRR) exceeding the company's cost of funds.
- An income-tax-free benefit is eventually realized by the company in amounts that can help the employer's investment and any AMT.

Let's Get Down to Details

Every company's needs are different. Your planning consultant can help you evaluate your individual situation and select the insurance products that can work best for you.

Go Ahead. Get Started.

³ May be subject to corporate alternative minimum tax (AMT).

⁴ Compensation which was earned by the decedent, but not included in taxable income for the year of death, is income in respect of a decedent (IRD).

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