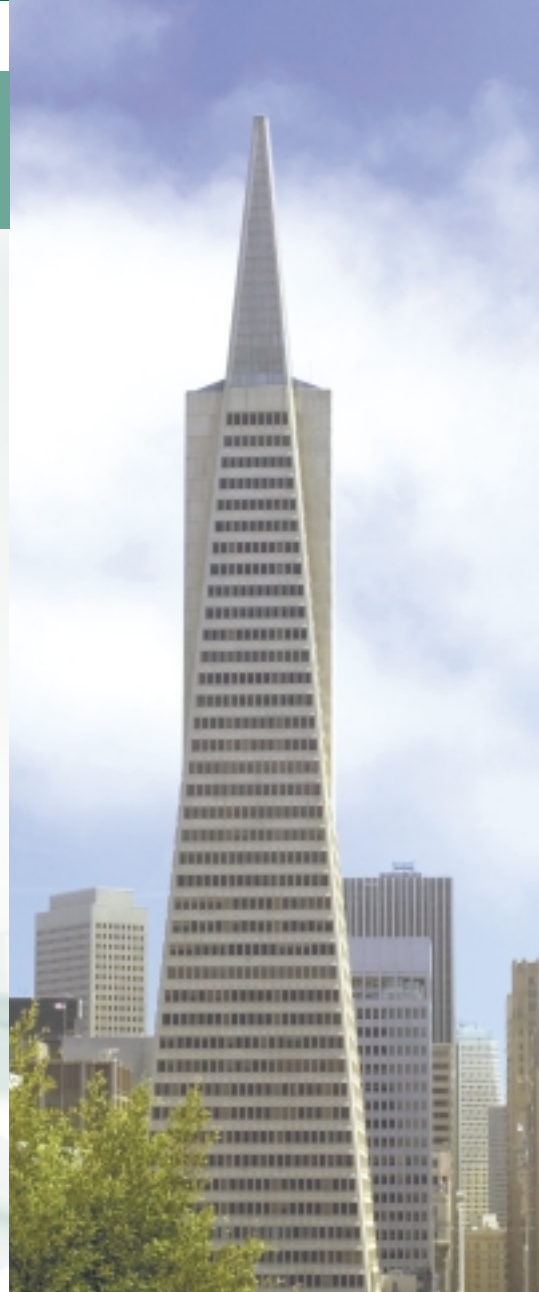




Restricted Executive **Bonus Arrangement**


*Program Highlights
& Fact Finder*



 **TRANSAMERICA**
INSURANCE & INVESTMENT GROUP

Transamerica Occidental Life Insurance Company

New Ways to Reward and Retain Top Employees



Today, one of the biggest concerns facing business owners and executives is retirement planning. People are living longer these days and may have 15, 25, or even 30 years to enjoy their retirement, which means that Social Security and company pensions may simply not be enough to provide a lasting retirement income. In addition, many business owners and executives are underinsured, jeopardizing the financial futures of their families.

To remain competitive, companies know they need to provide extra incentives to attract and retain key executives. Transamerica Occidental Life Insurance Company's restricted executive bonus arrangement is an added benefit that can do just that. It provides a way to help businesses keep their key employees, while offering executives important insurance protection and a tax-deferred option to supplement their retirement savings through policy cash value growth.

Here's How It Works

Purchasing the Life Insurance

- ❖ Depending on the executive's risk tolerance, time horizon, and financial goals, the employer purchases a life insurance policy for the executive from Transamerica Occidental Life Insurance Company.
- ❖ The premiums are paid through a bonus to the executive. The executive is the owner of the policy and can name his or her loved ones as beneficiaries.
- ❖ Since the executive may incur a tax liability from the premium bonus, the company may also include a "double bonus" in the arrangement. This pays the executive cash equal to the amount of the estimated tax liability on each bonus.

Accessing the Benefits

- ❖ Employers can restrict the executive's access to the policy's cash value, as well as the ability to transfer the policy without the employer's consent, for a period of years or until a specified event, such as retirement or death.
- ❖ In the event of the executive's death, his or her beneficiaries will receive an income tax-free life insurance death benefit.
- ❖ The executive retains the insurance policy, generally without access restrictions, when leaving employment.

Who Can Benefit from a Restricted Executive Bonus Arrangement?

- ❖ Small to midsize businesses.
- ❖ Employers who want to recruit and retain key employees.
- ❖ Companies that don't offer qualified retirement plans.
- ❖ Executives who want to supplement their retirement

income, need estate liquidity, and want to provide financial security for their families.

What Are the Advantages?

With Transamerica Occidental Life's restricted executive bonus arrangement, both employers and key executives benefit. Here's how:

The Employer:

- ❖ Has minimal plan setup costs.
- ❖ Distinguishes its compensation package.
- ❖ Provides selected employees with attractive pre- and post-retirement benefits.
- ❖ Benefits from tax-deductible executive bonus payments.
- ❖ Offers benefit flexibility.

The Executive:

- ❖ Provides death benefit protection for beneficiaries.
- ❖ Has an additional source of retirement income.
- ❖ Is not subject to qualified plan limits and penalties.
- ❖ Can, depending upon plan design, have the additional tax liability negated through a double bonus.
- ❖ Accumulates tax-deferred life insurance policy cash value.

Case Study: Rewarding a Key Employee

Mike Work is the owner of Work, Inc., a small technology company with an international market presence. Mike relies heavily on the expertise of the firm's Vice President of Research and Development, Steve Smart, to create new industry-leading products. Recognizing Steve's value to Work, Inc., Mike would like to enhance Steve's compensation package to reward his contributions and encourage him to remain with the company.

Life Insurance Offers Valuable Benefits

Mike sets up a restricted executive bonus arrangement for Steve. Under the written agreement between Steve and Work, Inc., the company will pay an annual premium on a Transamerica Occidental Life Insurance Company life insurance policy every year that Steve is employed by the company. Steve is the owner of the policy and designates his wife, Sarah, as the beneficiary. Since Steve will later want the ability to access the policy cash values on a tax-favored basis, the policy will be designed as a nonmodified endowment contract.

Under the restricted endorsement, Steve will have full access to the policy's cash values after an agreed-upon number of years of service at Work, Inc. However, during that time, he cannot surrender the policy for its cash value, make cash withdrawals, borrow against the cash value, or change the ownership of the policy. According to the agreement, if Steve leaves the company before his years are up, he will not forfeit his interest in the policy or have to repay Work, Inc. for the premiums it paid. Of course, Work, Inc. would no longer make any premium payments.

"Double Bonus" Saves Taxes

Under current tax law (2005), premium payments made by the employer to an employee-owned policy are generally considered compensation to the employee. This means that Steve will have an additional tax liability each year. Work, Inc.'s restricted executive bonus arrangement includes a "double bonus" that will pay Steve cash equal to his estimated tax liability on the premium and the "double bonus," resulting in zero out-of-pocket expense for Steve.

Financial Security – Now and in the Future

Over the years, Steve will be providing valuable death benefit protection for his family. In addition, upon Steve's

retirement, he can also supplement his retirement income by drawing upon the policy cash values through partial withdrawals and policy loans.

Mission Accomplished: Enhanced Executive Benefits*

A restricted executive bonus arrangement is an essential part of an executive compensation package. Employers can recruit and retain key associates by offering top officers a truly valuable financial perk—the tax-advantaged cash value and death benefit protection of life insurance.

Individually Designed Proposal

By completing the attached fact finder, a Transamerica producer or general agent can develop a customized proposal showing a restricted executive bonus arrangement.

** The restricted executive bonus arrangement may be subject to ERISA. This must be determined on a case-by-case basis.*



Restricted Executive Bonus Arrangement Using Life Insurance

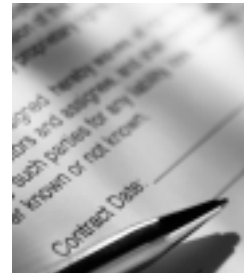


Step 1: Purchasing the Life Insurance

Employer pays premium on life insurance policy for executive.



Employer



Death Benefit

Step 2a: Employer Tax-Deductible Premium

Premiums are paid through a bonus to executive who owns the policy and can name loved ones as beneficiaries.

Step 2b: Employer Tax-Deductible Bonus

Since executive may incur a tax liability from premium bonus, employer may also include a "double bonus" in the arrangement.



Insured/Executive



Step 4: Loved Ones

In the event of executive's death, beneficiaries will receive an income tax-free life insurance death benefit.

Step 3: Accessing the Benefits

Employer can restrict executive's access to policy cash value without company's consent for a specified time period or event such as retirement.

Restricted Executive Bonus Arrangement Fact Finder

Employee

Name _____

Annual Compensation \$ _____ Federal Tax Bracket _____ State Tax Bracket _____

Company Ownership (if any) _____ %

Employer

Name _____

Address _____

Entity Type: C Corp. S Corp. Partnership LLC

Federal Tax Bracket _____ State Tax Bracket _____

Illustration

Type of Insurance: Fixed Universal Life Variable Universal Life

Product to Illustrate _____

Policy Assumptions: Current _____ Guaranteed _____ Illustrated (VUL) _____

Insured's DOB _____ State of Policy Issue _____

Gender _____ Smoker Nonsmoker Select Preferred Standard

Desired: Death benefit \$ _____ or minimum so as not to create a MEC _____

Death benefit option: level _____ increasing with cash value _____

Plus premium _____

Annual insurance premium \$ _____

Years to pay premium _____ or to age _____

Maximize income from policy at insured's age _____ for _____ number of years

Plan Design

Bonus Amount: Single Bonus Double Bonus Specified _____

Pay Bonus Until: Retirement Year _____ Age _____

Vesting Schedule: 5-year Cliff 10-year Cliff 100% at Retirement Specified _____

Producer Information

Producer Name _____

Broker/Dealer Affiliation (required for variable life proposal) _____

Phone No. _____

E-mail Address _____

Date _____

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Discussions of the various planning strategies and issues are based on our understanding of the applicable federal income, gift, and estate tax laws in effect at the time of publication. However, tax laws are subject to interpretation and change, and there is no guarantee that the relevant tax authorities will accept Transamerica's interpretations. Additionally, the information presented here does not take into consideration the general tax and ERISA provisions applicable to defined benefit retirement plans or the applicable state laws of clients and prospects.

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Life insurance products are issued by Transamerica Occidental Life Insurance Company, Cedar Rapids, IA 52499. All products may not be available in all jurisdictions.



Transamerica Occidental Life Insurance Company

OLA 1012 0705 REBA Fact Finder

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