



RESTRICTED EXECUTIVE BONUS ARRANGEMENT (REBA)



Program Highlights & Fact Finder

New Ways to Reward and Retain Top Employees

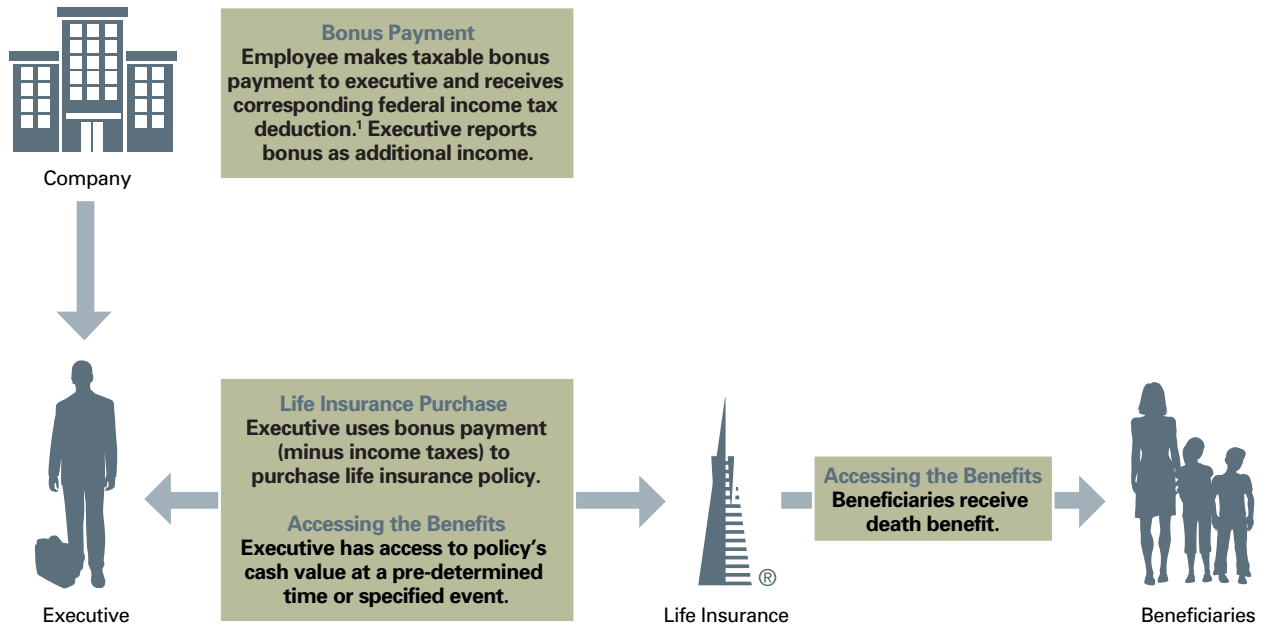


Today, one of the biggest concerns facing business owners and executives is retirement planning. People are living longer these days and may have 15, 25, or even 30 years to enjoy their retirement, which means that Social Security and company pensions may simply not be enough to provide a lasting retirement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

To remain competitive, companies know they need to provide extra incentives to attract and retain key executives. A restricted executive bonus arrangement (REBA) is an added benefit that can do just that. It provides a way to help businesses attract key employees by providing an exclusive benefit that gives their executives insurance protection for their loved ones as well as a tax-deferred option to supplement their retirement savings through policy cash value growth.

In addition, the REBA strategy can help businesses retain key employees by restricting the executive's access to these benefits until an agreed upon number of years of employment or a certain event, such as retirement.

Here's How It Works



Step 1. Bonus Incentive Income

- The employer makes a bonus payment to the executive, and receives a corresponding income tax deduction. 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.

Step 2. Purchasing the Life Insurance

- The executive purchases a life insurance policy suitable to his/her risk tolerance, time horizon, and financial goals. The executive is the owner of the policy and can name his or her loved ones as beneficiaries.

Step 3. Accessing the Benefits

- The employer 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 at any time, his or her beneficiaries will receive a life insurance death benefit, free from federal income tax.

The executive retains the insurance policy, generally without access restrictions, when leaving employment.

¹ Provided amount of bonus is reasonable and employer retains no ownership rights or beneficial interest in the policy. In the case of any publicly held corporation, no deduction shall be allowed to the extent that employee's compensation exceeds \$1,000,000 unless considered “performance-based compensation.” IRC Section 162(m)(1).



A REBA is ideally suited for:

- Small to midsized 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.

Advantages of a REBA:

The Employer:

- Has minimal plan setup costs.
- Distinguishes its compensation package.
- Provides selected employees with attractive pre- and post-retirement benefits.
- Benefits from federal income tax-deductible executive bonus payments.
- Offers benefit flexibility.
- Has the ability to restrict executive's access to cash value.

The Executive:

- Provides death benefit protection for beneficiaries.
- Has a supplement to retirement income.
- Can receive a "double bonus" to help pay the additional federal income tax liability.
- Accumulates tax-deferred life insurance policy cash value.

Hypothetical Example: 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 life insurance policy through a taxable bonus payment to Steve every year that he 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 not be a modified 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 during the agreed-upon years, 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. Work, Inc. can fund the policy with enough premiums so that when Steve leaves the company, after the agreed-upon number of years, he will not have to pay any additional premiums into the policy.



A restricted executive bonus arrangement is an essential part of an executive compensation package

“Double Bonus” Saves Taxes

Under current tax law, 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 federal income tax liability each year. Work, Inc.’s restricted executive bonus arrangement can include a “double bonus” that will pay Steve cash equal to his estimated federal income 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, we can develop a customized proposal showing how a restricted executive bonus arrangement can work for your company.

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



Restricted Executive Bonus Arrangement Fact Finder

Employee

Name _____ Annual Compensation \$ _____

Federal Income Tax Bracket _____ State Income Tax Bracket _____

Company Ownership (if any) _____ %

Employer

Name _____

Address _____

Entity Type: C Corp. S Corp. Partnership LLC

Federal Income Tax Bracket _____ State Income 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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