Advanced Insurance Strategy

RiverSource Insurance

"Golden Handcuffs" can build and protect a small business

Small business owners may face significant risk if a key employee chooses to leave. A business owner can encourage a valued employee to remain with the business using incentives sometimes called "golden handcuffs". This type of reward package typically takes the form of deferred compensation which the employee will receive only after a certain amount of time, or upon reaching certain business goals. Unlike qualified plans, non-qualified deferred compensation can be offered to a select employee or group of employees.

While such benefits can't be formally funded, many employers choose to informally support a golden handcuffs strategy using permanent life insurance, due to its potential income tax advantages. The cash value grows tax-deferred and can be accessed tax-free via a combination of withdrawals and loans; additionally, death benefits are paid income tax-free.

Non-qualified deferred compensation plans are generally subject to section 409A of the Internal Revenue Code. An attorney must be consulted for guidance creating and maintaining a non-qualified deferred compensation golden handcuffs plan.

Business owners who want to keep the services of key employees could consider one of the following golden handcuffs strategies using life insurance.

- **Supplemental Executive Retirement Plan (SERP)**
  [Business owns policy]
  A SERP is an arrangement in which an employer promises to pay a future benefit to the employee if the employee meets certain vesting requirements (e.g., years of service or reaching retirement age). The benefit is treated as compensation income in the year it is received by the employee. The employer may choose to purchase cash value life insurance to help meet its obligations under the arrangement.
- **Split-dollar loans with SERP rollout**
  [Business and employee share ownership and benefits of policy]
  A split-dollar loan is an arrangement in which an employer helps an employee fund a life insurance policy which the employee will use for tax-efficient retirement funds. The employer pays premiums on a life insurance policy owned by the employee but retains an interest in the policy equal to the sum it advanced. The amount the business pays for the policy must be repaid in the future, either from the cash value of the policy, or, if the employee should die, from the death benefit.

  The premiums paid by the employer are considered loans to the employee; the employee either pays the interest on the loans or pays income tax on the interest amount forgiven by the employer. The employer and employee could enter into an added agreement wherein the employer forgives the premiums owed to it at a later date (such as retirement), much like a SERP plan.
- **Restricted bonus plan**
  [Employee owns policy]
  A restricted bonus plan, sometimes called a Restricted executive bonus arrangement (REBA), is when an employer makes premium payments on a cash value life insurance policy owned by an employee, with the caveat that certain restrictions are placed on the employee's access to the life insurance policy. The employee is formally the policy owner and can name the beneficiary but has restricted access to the cash value of the policy for a period of time. The employer and employee may agree on a vesting schedule, wherein the employee's access to the cash value gradually increases over time employed. At the end of the restriction period, the employee has full access to the cash value.

> A **golden handcuffs strategy** can improve employee retention and increase the business' value in case of a sale.

A golden handcuffs strategy can help keep key employees and bolster the value of a business. Speak to your Ameriprise advisor about which one could help your business.

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RiverSource Life Insurance Company, RiverSource Life Insurance Co. of New York and its affiliates do not offer tax or legal advice. Consumers should consult with their tax adviser or attorney regarding their specific situation.

Accessing policy cash value through loans and surrenders may cause a permanent reduction of policy cash values and death benefit, and negate any guarantees against lapse. Surrender charges may apply to the policy and loans may be subject to interest charges. Although loans are generally not taxable, there may be tax consequences if the policy lapses, or is surrendered or exchanged with an outstanding loan. Taxable income could exceed the amount of proceeds actually available. Surrenders are generally taxable to the extent they exceed the remaining investment in the policy. If the policy is a modified endowment contract (MEC), pre-death distributions, including loans from the policy, are taxed on an income-first basis, and there may be a 10% federal income tax penalty for distributions of earnings prior to age 59-½

Before you purchase life insurance, be sure to consider the policy's features, benefits and fees, and whether it is appropriate for you, based on your financial situation and objectives.

RiverSource Insurance

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