

Restricted Executive Bonus Arrangement (REBA)

Attracting, retaining and rewarding top executives, managers and professional specialists is increasingly challenging for small business owners.

Qualified benefit plans can provide significant tax advantages to employers, but come with some disadvantages, too. Qualified plans must offer non-discriminatory benefits to all eligible employees, and they can be costly for employers to install and administer, even when the plan participants do not bring exceptional value to the business.

Nonqualified deferred compensation (NQDC) plans are a less costly alternative to provide benefits to selected executives. However, NQDC plans also have costs associated with installing and operating the plan, including documents, administration, and compliance with the new technical rules in Section 409A of the Internal Revenue Code.

Small business owners may desire a more flexible strategy to reward key executives in a cost efficient manner with simple administration.

That strategy is a **Restricted Executive Bonus Arrangement (REBA)**. Like a typical Executive Bonus Plan, the executive applies for a life insurance policy on his/her own life. The executive is the owner and can name the beneficiary. The employer pays the premiums to the insurance company, as a bonus to the executive. The executive may feel rewarded by receiving a benefit over and above the standard benefits for all employees. In a regular bonus arrangement, the executive has free access to policy cash values. With a REBA, the executive access to policy cash values is restricted with the use of a vesting schedule or until retirement.

The restriction is contained in a policy endorsement signed by the executive. When the executive becomes fully vested and the restriction ends, the executive acquires full access to policy cash values.

[See reverse side for important information](#)

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Advantages to Executive

- Provides life insurance protection and supplemental retirement income at little or no out-of-pocket expense to the executive.
- Cash values grow tax-deferred.
- REBA is self-completing—in the event of the executive's death, beneficiaries receive insurance proceeds income tax free.

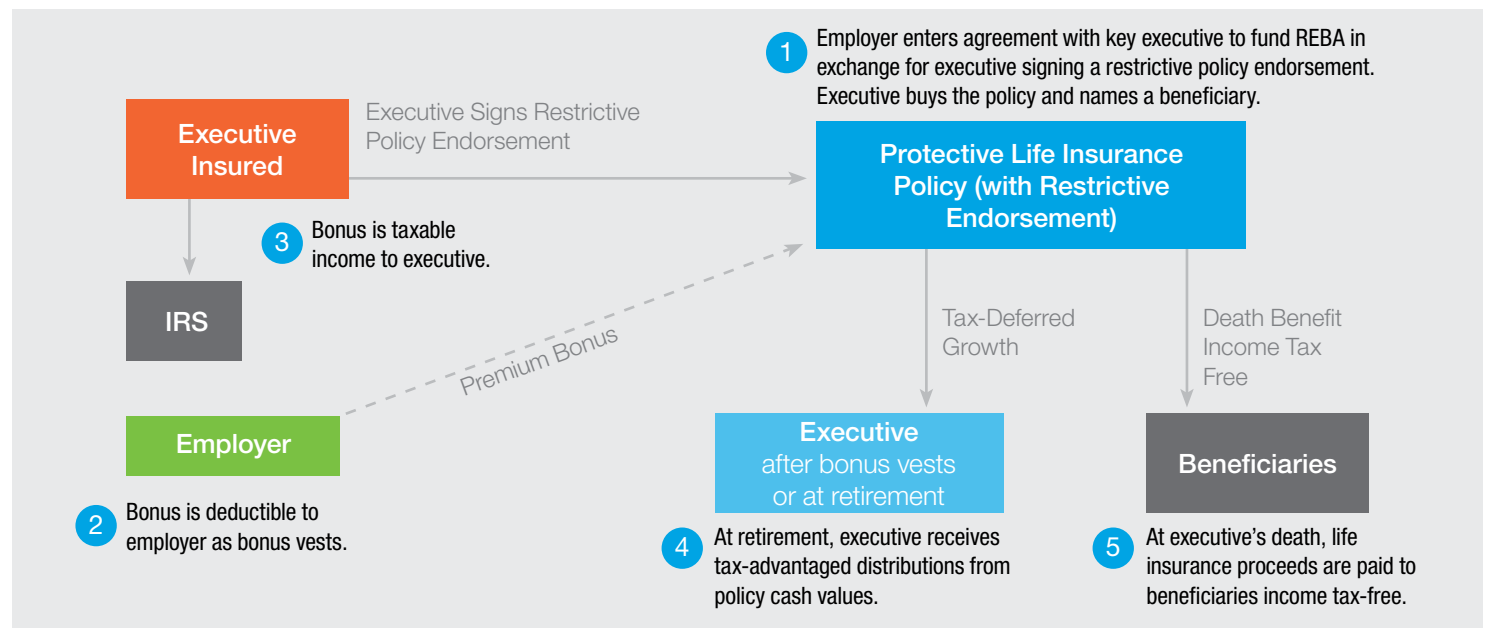
Disadvantages to Executive

- If the endorsement includes a forfeiture provision and the executive leaves before vesting, the executive must repay the employer any unvested portion of the bonus.
- The executive must pay income tax on the bonuses, but that cost can be offset by the employer paying additional cash bonuses (“double” or “gross-up” bonus).
- No IRS approval is required, but a REBA may be subject to IRC Section 409A and/or certain ERISA requirements.

Advantages to the Employer

- Provides employers some control over the executive (“golden handcuffs”) if the employer is willing to postpone the income tax deduction until the executive vests in the bonus (compare to regular Executive Bonus Plan where deduction is immediate)¹.
- Administration can be relatively simple and low cost.
- No IRS approval is required, but a REBA may be subject to IRC Section 409A and/or certain ERISA requirements.

REBA. How it Works.



¹ The deductible amount of the bonus is subject to the “reasonable compensation” limits of IRC Section 162. A detailed discussion of this is beyond the scope of this document.

For more information, contact
your Financial Representative.

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2801 Highway 280 South, Birmingham, AL 35223.

www.protective.com