Manulife Financial

CONCEPT PROFILE

BUSINESS INSURANCE

Restrictive Endorsement Bonus Arrangement (REBA)

An Employee Benefit that Increases Employee Loyalty

People may be taking a break from job-hopping for the moment, but once the market picks up again look out. With retirement nearing and the recent volatility in the stock market, retirement accounts may be looking bleak. When the next great job offer comes in some talented people will take the leap. With some planning now, companies can prevent attrition later by enhancing existing compensation packages with a restrictive endorsement bonus arrangement (REBA).

WHAT IS A REBA AND HOW DOES IT WORK?

A REBA is an arrangement in which the employer agrees to bonus an amount to pay the premium of a life insurance policy to be owned by the executive. The REBA agreement typically states that as long as the executive works for the employer, the employer will continue to pay the bonus. Even though the executive is the owner of the life insurance policy, he or she is required to file a restrictive endorsement with the life insurance carrier at the time the policy is purchased.

This arrangement limits the executive from: (1) surrendering the cash value, (2) taking loans and withdrawals from the policy, (3) changing ownership and (4) using the policy as collateral. The executive does retain the right to name the beneficiary. The agreement may also contain a vesting schedule. Some of the most popular vesting periods are: one-year rolling, five-year rolling, and vesting at retirement.

EXAMPLE

Sport Pons is concerned that its CFO, Peter Moore, age 45, non-smoker preferred underwriting class, is going to leave the company and return to his first love, professional baseball. Before coming to Sport Pons, a baseball memorabilia store in Ohio, Peter worked in the minor leagues. Peter is not only the CFO, but also consulted on numerous issues daily. If Peter leaves the company, Sport Pons will face a huge setback. To encourage Peter to remain with the company, they plan on entering into a REBA agreement with him. This agreement states that Sport Pons will pay Peter an annual bonus equal to the premium plus the income tax due on the bonus for 20 years. Peter will be the owner and the insured of the life insurance policy. He will be able to use the cash value to supplement his retirement income[1] once the restriction is released. The REBA agreement provides Peter with an incentive to remain with Sport Pons until he retires in 20 years. If Peter leaves the company early, he will be restricted from exercising most rights in the policy, except naming the beneficiary, until the restriction ends in 20 years.

ADVANTAGES OF A REBA

Employer	*Employee*
• Minimal set-up cost • Selective participation allowed • Encourage employee loyalty	• "Portable" death benefit • Source of supplemental retirement income • Not subject to qualified plan limits and penalty provisions

TAX AND ERISA IMPLICATIONS[2]

If the agreement is not subject to a vesting schedule (i.e., the employee takes the policy subject to the restrictions if he or she leaves before the end of the arrangement), the premium payment should be immediately taxable to the executive and deductible by the employer. With a vesting schedule, the total bonus becomes taxable to the executive and deductible to the employer under IRC Section 83 when the policy fully vests in the executive without risk of forfeiture. A REBA may be considered a "plan" under ERISA, especially if it covers multiple employees. If a REBA is a plan, it may qualify as a Top Hat plan if it only covers select management or "highly compensated" employees.

SUMMARY

REBAs are a terrific incentive to offer key employees. They are a simple way to provide key employees with supplemental retirement income at an affordable price. At the same time the employer can rest assured that the valued employee will not leave when the next great offer comes through the door.

For more information on REBAs, please contact your local Manulife Financial Representative or call the Advanced Markets Group at (888) 266-7498.

1 Withdrawals and loans from life insurance policies which are classified as modified endowment contracts may be subject to tax at the time the withdrawal or loan is made. A federal tax penalty of 10% may also apply if the withdrawal or loan is taken prior to the age 59½. Withdrawals and loans have the effect of reducing the death benefit and cash surrender value. Lapse of a life insurance policy may cause adverse income tax consequences. Consult your Manulife Financial representative.

2 This piece briefly mentions the tax implications of establishing a REBA arrangement. A fully detailed discussion is out of the realm of this piece. This piece is intended to provide an overview of the REBA concept and the tax complications that may result. For more information on the potential impact of IRC Sections 61, 83 and ERISA, please contact your tax advisor.

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