Non-Qualified Benefit Plan Features

Plan	162 Bonus Plan	REBA
Target Employer	• Higher tax brackets than employee • Wants to reward only a few employees • Wants to avoid plan administration • Willing to give up control of the funding vehicle to enjoy current income tax deductibility	Same as 162 Bonus, plus: • Wants some control over how employee uses policy cash values • Wants to potentially recover costs if employee leaves early
Target Employee	• Lower tax bracket than employer • Has life insurance or supplemental retirement income need • Wants maximum control over plan assets • Willing to pay taxes currently to achieve control of plan assets	• Key non-owner employee • Highly compensated • Maxing out all company sponsored retirement plans • Departure may have a devastating effect on the company and its morale
Benefits	• ERISA avoidance • Selective • Tax-deductible • Minimal administration • Cost effective to employee • Policy can be outside of insured's estate • No potential corporate alternative minimum tax problem	• Top-Hat Plan - Minimal ERISA compliance • All the benefits of a 162 Bonus Plan, with added protection for the employer (golden handcuffs) • Potential cost recovery of unvested benefits • Easy to setup and administer • Encourages employee loyalty • No potential corporate alternative minimum tax problem
Policy Owner	• Employee	• Employee
DOL Letter Required	• No	• Recommended but not required
Plan Administration	• Little to none	• Medium to little • Must comply with 409A regulations but impact of 409A is generally minimal for a REBA
Employer Deductibility	• Yes	• Yes, as benefit vests to employee
Employer Cost Recovery	• No	• Yes, for unvested portion of bonuses paid
Employee Tax Deferral	• Premiums are reportable as income but policy cash values grow tax deferred. Employer could pay tax cost via a double-bonus	• Premiums are reportable as income but policy cash values grow tax deferred. Employer could pay tax cost via a double-bonus
Degree of "Golden Handcuffs	• Low	• Medium

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Salary Deferral	SERP	Key Person Coverage
• Wants to reward select employees • Wants maximum control of plan and assets • Wants cost recovery of plan outlay • Does not need immediate tax deduction • Does not mind some plan administration • Wants employee to contribute to plan costs	• Wants to reward selected key employees • Wants complete control of plan and assets • Wants cost recovery of plan outlay • Does not need immediate tax deduction • Does not mind some plan administration • Is willing to fully fund plan with corporate money	• Has a key executive whose loss would cause great harm to the business • Loss of key executive would disrupt sales, creditors, and/or customers • Would incur great expense to replace and train replacement
• Highly compensated employee • Matched out on 401(k) plan • In a high tax bracket and wants to defer more income	• Highly compensated employee • Would not need or use additional current income • Has a high standard of living that must be maintained in retirement	• Key executive • Has special knowledge of the corporation's operations and products or has special creative talents • Is a "rainmaker" • Has special relationship with customers or creditors
• Top-Hat Plan -Minimal ERISA compliance • Can discriminate in participants, vesting and corporate match • Can provide employer cost recovery • Immediate plan funding with life insurance • Employee deferral of immediate income, as much as employer will allow • Restores benefits lost to reverse discrimination • Employer may allow selection of deferral sub-accounts, just like with 401(k) plan	• Top-Hat-Plan –Minimal ERISA compliance • Choice of participants and vesting schedule • Can have different benefit levels for different employees • Can provide employer cost recovery • Immediate plan funding with life insurance • Employee receives an additional retirement benefit • Restores benefits lost to reverse discrimination	• Provides source of income to cover death of key person • Provides access to policy cash values in case of unexpected expenses • Could use policy cash value at retirement to fund a benefit for employee
• Employer	• Employer	• Employer
• Yes	• Yes	• No
• High • Must comply with 409A regulations • Employee must sign consent to insure form	• High • Must comply with 409A regulations • Employee must sign consent to insure form	• Little to none • Employee must sign consent to insure form • If used to fund a retirement benefit, must comply with 409A
• Pre-retirement contributions to the funding vehicle are not deductible • Retirement benefit payments are deductible as they are paid out	• Pre-retirement contributions to the funding vehicle are not deductible • Retirement benefit payments are deductible as they are paid out	• No
• Yes	• Yes	• Yes
• Yes	• Yes	• Not applicable
• High	• High	• Not applicable

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