Life

BUSINESS PLANNING

NORTH AMERICAN®
A Sammons Financial Company

North American® Life Insurance Company

Executive Bonus

CONCEPT APPLIED:

An executive bonus plan provides businesses with a way to use tax deductible funds to selectively provide valuable benefits to critical, key employees. These benefits usually include cash value life insurance that can be used to help supplement retirement income.

HOW IT WORKS:

Under the terms of a written agreement, the employee applies for and owns a life insurance policy on his or her own life, and the employer pays the annual policy premium. With these plans:

- Business owners choose the key employees they wish to reward.
- Bonus payments are fully deductible.
- Bonuses are taxable income to individual employees.
- Employees can access cash value using policy loans and withdrawals, generally on a tax-free basis.

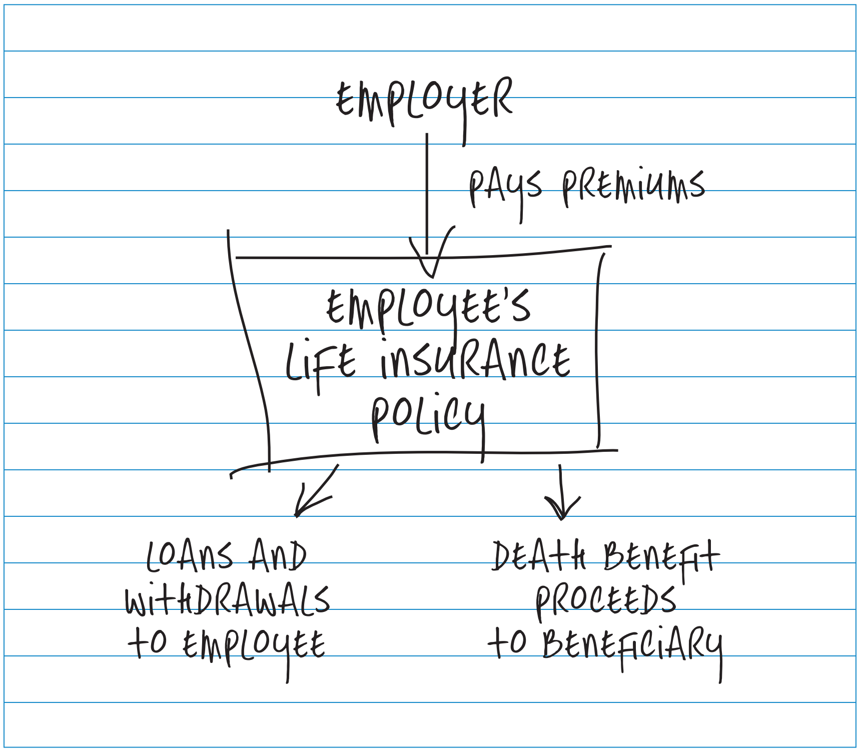
WHY IS IT USEFUL?

An executive bonus plan is simple for the employer to implement and administer. Executive bonus plans are not subject to qualified plan discrimination requirements and offer a way to reward valued employees.

NOTE: Loans and withdrawals may be subject to penalties and fees and will reduce the policy's account value and death benefit.

50 WORDS OR LESS

An executive bonus plan is a valuable tool for attracting and retaining key executives because employees gain additional life insurance protection while accumulating retirement income that generally grows tax free and can be accessed through policy loans and withdrawals (up to policy basis).



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Policy loans from life insurance policies generally are not subject to income tax, provided the contract is not a Modified Endowment Contract (MEC), as defined by Section 7702A of the Internal Revenue Code. A policy loan or withdrawal from a life insurance policy that is a MEC is taxable upon receipt to the extent cash value of the contract exceeds premium paid. Distributions from MECs are subject to federal income tax to the extent of the gain in the policy and taxable distributions are subject to a 10% additional tax prior to age 59½, with certain exceptions. Policy loans and withdrawals will reduce cash value and death benefit. Policy loans are subject to interest charges. Consult with and rely on your tax advisor or attorney on your specific situation. Income and growth on accumulated cash values is generally taxable only upon withdrawal. Adverse tax consequences may result if withdrawals exceed premiums paid into the policy. Withdrawals or surrenders made during a Surrender Charge period will be subject to withdrawal charges, processing fees, or surrender charges, and may reduce the ultimate death benefit and cash value. Surrender charges vary by product, issue age, sex, underwriting class, and policy year.