Summary | Principal® Select Reward Plan

Giving your key employees a big reason to stay

Benefits for them – advantages for you

Your key employees help lead your company and keep it on the right path. So once you find the right top talent, keeping them is a priority. And it's equally important for key employees to work for a company that values their hard work – and offers them an incentive to stay.

A Principal® Select Reward Plan is a smart solution for you and your key employees. It provides a lump-sum benefit to them at the end of a pre-determined service period, which encourages them to stay with you for the long term, instead of exploring opportunities with your competition.

Here's how it works

You and your key employee enter into an agreement stating the length of time before the bonus will be paid. From there, you both have responsibilities during the service and payout periods:

Service period

- The company purchases a life insurance policy from Principal® that builds cash value. The key employee is the insured and the company owns the policy and pays the premium.
- An endorsement split dollar agreement can be set up between the company and the key employee. So if the key employee dies before the end of the service period, the life policy will provide a death benefit that's split between the company and the key employee's survivors.
- The employee pays tax annually on the value of the life insurance protection.

Payout period

- You ensure that the life policy has accumulated enough cash value to pay the lump-sum bonus to the key employee at the end of the service period.
- The bonus consists of either a withdrawal of cash value from the life policy – or ownership of the policy can be transferred to the key employee to meet the bonus requirement.
- The key employee owes income tax on the bonus amount in the year the bonus is paid – or ownership of the policy is transferred.

What you need to know

There are many advantages to this plan, just as there are some things to consider.

For your company

Encourage loyalty – You provide incentive for the key employee to remain loyal to your organization for a pre-determined service period.

Receive a tax deduction – In the year the bonus is paid or the life policy is transferred to the key employee, a tax deduction is received for the entire bonus.

Reduce cash flow – Premiums are paid with company after-tax dollars, so each premium payment reduces your annual cash flow.

Recover the premium cost – If the key employee dies before the end of the service period, the life policy's tax-free death benefit* may be used to recover the cost of the premiums you paid.

For your key employees

Pay minimal cost – The key employee will pay tax on the value of the life insurance death benefit that's endorsed to them during the service period. This cost is much less than if the key employee was to personally purchase that amount of life insurance.

Help with taxes – In the year the bonus is received, the policy's cash value may be used to pay the income tax due. It's not possible to receive annual payments or defer receipt of the bonus.

Use for personal needs – If ownership of the life policy is transferred to the key employee, its cash value and death benefit may be used for personal financial needs.

Must qualify – The key employee must be healthy enough to qualify for the life insurance policy.

Take note: The bonus must be paid in a lump sum within 2½ months of the end of the tax year in which the key employee meets the service requirement to avoid being considered a deferred compensation plan and subject to IRC Section 409A requirements.

Encourage your key employees to stay with you for the long term, instead of exploring opportunities with your competition, by providing the Principal Select Reward Plan. It's a great way to offer them a valued benefit, while helping your business keep its top talent.

* If the requirements of IRC Section 101(j) are not met, then death proceeds from employer-owned life insurance contracts may be taxable as ordinary income in excess of the cost basis.

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