



Columbus Life
Insurance Company

A member of Western & Southern Financial Group

ADVANCED MARKETS

EXECUTIVE
COMPENSATION



Supplemental Executive Retirement Plans



Supplemental Executive Retirement Plans

Retirement Planning is Difficult for Business Owners

Business owners and their highly compensated key employees have two unique problems in funding their own retirement.

- 1 The Federal rules governing tax-favored qualified plans limit the amounts that can be deferred or contributed into these plans by, or on behalf of, highly compensated individuals.
- 2 Additionally, many business owners are not taking significant salaries from their business earnings. Reasons for this include avoidance of high personal income tax rates and the need and/or desire to reinvest earnings back into the growth of the business. This can make funding outside investments for retirement difficult.

Chances are you are counting on your business to provide the needed dollars for retirement. Cashing in on your business for retirement involves more than just having enough financial resources inside the business.

So, how can you cash in on your business when it comes time to retire?

Supplemental Executive Retirement Plans (SERP)

A SERP may be a solution to these restrictions. If properly structured,¹ a SERP can allow a business owner² and selected key employees to defer income taxation on supplemental retirement plan contributions until they are actually or constructively received. *(Note that these amounts are not tax-deductible by the business until paid out.)*

¹ Must comply with Section 409A requirements.

² A SERP is generally appropriate for owners of C corporations, but not owners of pass through entities.

³ To ensure the income tax-free nature of the death benefit for certain business-owned life insurance policies, it is necessary to comply with Internal Revenue Code Section 101(j). This section requires that the insured/employee receive notice of, and consent to, the issuance of a life insurance policy where the business/employer is the owner and beneficiary of the policy and will continue to be the beneficiary after the insured leaves the business. Additional requirements apply.

A SERP may provide a retirement income for the business owner and selected key employees without reducing current compensation. In order for these plans to work, the continuation of the business through retirement years is crucial. A business succession plan can be combined with a SERP to assure continuation of the business.

Life insurance may be used informally to fund all these plans. The benefit of using life insurance is that it can provide significant pre- and post-retirement death benefits while accumulating funds on a tax-deferred basis to provide retirement income.³

Benefits to be paid in retirement are set out in the written agreement. The benefits must be subject to a “substantial risk of forfeiture,” such as staying with the company for a period of time.

A SERP can also be used as a financial incentive designed to keep talented employees from leaving your company. You decide which of your key employees will participate. This type of plan provides you and your employees with a way to bridge the increasing gap between retirement income needs and dollars provided by tax qualified retirement plans.

How a SERP Works

- 1 The business promises to pay the owner or employee a supplemental retirement income contingent on the condition of continued employment for a period of years. The business does not get a current deduction and the individual does not pay income tax on that money until it is received.
- 2 The business and the individual enter into a written agreement setting the terms of the unsecured promise with a substantial risk of forfeiture.
- 3 At the time of becoming eligible for the SERP, the individual will need to make their distribution election with regard to both timing and method of payment.
- 4 The business establishes a sinking fund or purchases a life insurance policy on the individual to cover the liability of the future payments to be made to the individual.
- 5 At retirement, the business pays the retirement income as specified in the agreement. The business deducts the payment as compensation and the individual pays income tax on the amounts paid, including FICA and FUTA taxes.

How a SERP can work for you and your business.

Running a business in today's competitive environment can be challenging. Much of the success and growth of your business is attributable to your own talents and efforts, and to those of your key employees.

You can enhance your overall executive benefit program by adding a SERP. And when life insurance is used as a funding vehicle, the cost of the plan may be fully recovered by your business.

Call your financial professional today to find out more about how a SERP can help you and your company.

Columbus Life does not provide legal or tax advice. The information herein is general and educational in nature and should not be considered legal or tax advice. Tax laws and regulations are complex and subject to change, which can materially impact investment results. Columbus Life cannot guarantee that the information herein is accurate, complete, or timely. Columbus Life makes no warranties with regard to such information or result obtained by its use, and disclaims any liability arising out of your use of, or any tax position taken in reliance on, such information. Please consult an attorney or tax professional regarding your specific situation.

Payment of the benefits of Columbus Life Insurance Company life insurance products is backed by the full financial strength of Columbus Life Insurance Company, Cincinnati, Ohio. Guarantees are based on the claims-paying ability of the insurer.

Columbus Life Insurance Company, Cincinnati, Ohio, is licensed in the District of Columbia and all states except New York.

Life insurance products are not bank products, are not a deposit, are not insured by the FDIC, nor any other federal entity, have no bank guarantee and may lose value.

© 2020-2024 Columbus Life Insurance Company. All rights reserved.



**Columbus Life
Insurance Company**

A member of Western & Southern Financial Group

400 Broadway
Cincinnati, OH 45202
800.677.9696, Option 4
ColumbusLife.com