Executive Bonus Plan (Section 162 Bonus)

Case Study using VUL Guard℠

Employer: Stanley Pharmaceuticals

Goal: Attract Key Executive

Key Employee: Corinne DiMaio, candidate for General Counsel, age 50

Employee's Annual Salary: $250,000

The Need

Stanley Pharmaceuticals' Chief Financial Officer (CFO) is considering ways to retain and attract accomplished executive talent. One such way is to offer executive bonus plans to candidates being considered for key positions. Corinne DiMaio, the company's lead contender for the General Counsel position, is a prime candidate for this program.

The company hopes that the life insurance protection the plan offers to Corinne will provide incentive for her to join the company. Another point that may add to Corinne's interest in the company is that the policy has the potential of accumulating cash value that Corinne may use to supplement her retirement income or even pay for her grandchild's college education.[1]

As an incentive, the CFO at Stanley Pharmaceuticals wants to provide Corinne with $1,000,000 of guaranteed life insurance using **MassMutual's VULGuard℠**. An important thing to understand about VUL Guard's guaranteed death benefit option[2] is the following events may cause the loss of the guarantee: 1) failure to pay the required premium or changes to the timing/frequency of the required premium allocated to the Guaranteed Principal Account (GPA); 2) failure to meet the minimum premium requirements in the first 20 years, or to the insured's age 90, if sooner; 3) borrowing against the policy; 4) withdrawals, and transfers from the GPA; 5) changes to the policy features from the way it was issued, such as a change to the benefit option, face amount, or adding/canceling a rider. (There may be other activities that could impact the GDB, but those listed above are the most common.) Whether paying only enough or more than enough premium to maintain the Guaranteed Death Benefit, if the policy debt exceeds the account value, the policy will terminate.

Corinne's employer plans to pay the premium when due and has no plans to change the policy or reduce the account value in any way. The employer likes the idea that if the company maintains the guarantee appropriately, the guarantee applies regardless of changes to credited GPA interest rates or changes to current cost of insurance rates or other expenses. That means the company can rely on the guaranteed premiums not to change, which helps it plan for other types of business expenses. The VUL Guard guaranteed death benefit makes sense for this employer and its key employee.

The company will pay Corinne a bonus equal to the amount necessary to pay the premium for the guaranteed death benefit (the "guaranteed premium") on the policy she will own. The CFO wants a policy that will not require premium payments after Corinne retires at age 65, after 15 years of payments. In addition, Stanley Pharmaceuticals wants a tax deduction for the bonus it is paying to Corinne to cover the premiums. Finally, the company will provide Corinne with additional compensation, which is deductible (subject to compensation limits), to pay the taxes on the bonus. This is sometimes referred to as a "gross up" or "double bonus," which means that Corinne does not have to pay taxes on her bonus using her own funds.

[1] Policy withdrawals are not subject to taxation up to the amount paid into the policy. Policy loans and/or withdrawals will be taxable to the extent of gain if the policy is a Modified Endowment Contract, and may be subject to tax penalty. Policy loans and/or withdrawals also reduce the cash surrender value and policy death benefit. Taking a policy loan could have adverse tax consequences if the policy terminates before the insured's death.

[2] Guarantees are subject to the claims paying ability of the issuing company.

A Strategy

Stanley Pharmaceuticals offers to purchase a VUL Guard life insurance policy with a **$1,000,000** face amount that Corinne, age 50, will own. The policy is designed to provide a Guaranteed Death Benefit[3] for Corinne's lifetime of $1,000,000.

Stanley Pharmaceuticals chose a VUL Guard policy because Corinne can also pay premium, beyond the guaranteed premium that her employer is paying, and allocate her payment, to more than 40 available Separate Account investment options to help meet her investment goals.[4] She can transfer her separate account values among these funds as her investment objectives change over time.

There are four death benefit options available with VUL Guard. One option, designed specifically for VUL Guard, provides a death benefit that is the sum of the policy's face amount plus the Separate Account value. By using this death benefit option, the values in the Separate Account are not subject to policy charges, such as the administrative charge, face amount charge, or insurance charge, after the second policy month, provided that the guaranteed death benefit requirements are met. Those charges are factored into the guaranteed death benefit premium and are taken from the GPA instead. This may allow values in the Separate Account to accumulate faster, since charges aren't being assessed against the Separate Account value. You should note that fund expenses are factored into the value of the underlying fund investment for any variable life insurance product and with VUL Guard an asset charge is deducted directly from the Separate Account values.

Let's take a closer look:

- Corinne joins the company and qualifies for a select preferred non-tobacco underwriting class.
- Corinne owns the policy. She selects the beneficiaries on the policy.
- The policy includes a Waiver of Premium Rider (WP) so that policy premiums are paid through the rider if Corinne were to become disabled and unable to work.
- Guaranteed Death Benefit Premium: **$15,879** annually for 15 years. (The policy is paid up at age 65 and requires that no additional premium payments are required to fund the Guaranteed Death Benefit to remain in force.)
- The bonus amount is **$23,013**, which is equal to the annual premium payments of **$15,879** and an additional cash amount **($7,134)** needed for Corinne to pay taxes on the entire bonus. This *"double bonus"* results in no net after-tax outlay for Corinne.
- The company deducts the bonus and, with a corporate tax bracket of 35%, the net annual cost for the bonus is **$14,959.**
- Based on current assumptions, the guaranteed death benefit (end of year) at all ages is **$1,000,000.** These numbers reflect no additional premium allocated to the Separate Account.

This supplemental illustration may only be used and is only valid when it is accompanied by a Standard policy illustration showing performance at an assumed 0% return with guaranteed charges, dated January 26, 2005, with full footnotes and assumptions. The accompanying Standard policy illustration must be attached to this illustration, as to render both the Standard policy illustration and supplemental illustration a complete integrated document. Based on a 0% return and guaranteed premium expense and mortality charges, this policy would lapse in policy year 20.

The Benefit

By offering to fund a life insurance policy as an incentive to attract a key employee, both the employee and the company benefit tremendously:

- The company pays for a life insurance policy that offers lifetime protection and is paid up by the age of 65.
- The employee is the owner and can designate his/her own beneficiaries.
- The employee has access to the cash values in the policy to help supplement retirement or to use as ready cash for emergencies.[1]
- The employer gets an immediate tax deduction for the premiums paid on the policy (and any "double-bonus" amount paid to the employee).

This brochure must be preceded or accompanied by the current prospectuses for the VUL Guard variable life insurance contract and its underlying investment choices. Before purchasing a variable life insurance contract, investors should carefully consider the investment objectives, risks, charges and expenses of the variable life insurance contract and its underlying investment choices. Please read the prospectuses carefully before investing or sending money

[3] Guarantees are subject to the claims paying ability of the issuing company.

[4] The values in the Separate Account are not guaranteed. Allocating premium to investment options in a variable life insurance policy may provide cash accumulation and growth, but the value may also decline or reach negative values. The value of the policy may not be high enough to pay the required charges, resulting in the need for additional premium to keep the policy in force.

VUL Guard (Policy form P3-2003 in most states) is issued by Massachusetts Mutual Life Insurance Company (MassMutual).

Principal Underwriter: MML Distributors, LLC, 1295 State Street, Springfield, MA 01111
A wholly owned subsidiary of Massachusetts Mutual Life Insurance Company, 1295 State Street, Springfield, MA 01111

The information in this profile is for educational purposes. The individuals depicted do not represent actual clients.

IMSA
INSURANCE MARKETPLACE STANDARDS ASSOCIATION

MassMutual
FINANCIAL GROUP®

LI8526c 206
C:064623-000 01-07