Individual Life Insurance

Protection supplemental executive retirement plan (protection SERP)

Insurance products issued by:
Minnesota Life Insurance Company
Securian Life Insurance Company

Protection supplemental employee retirement plan

Provide additional retirement benefits and life insurance coverage for key employees

Your challenge

Your top concern is driving your company's growth and profitability. Chances are, you owe much of your success to your managers, sales people or other executives. But are your benefits rewarding key employees[1] in such a way that fosters their loyalty?

A potential solution

A supplemental executive retirement plan with a family protection component, or protection SERP, can show your key people they're important to your organization and you want them to stay. In exchange for their continued employment, this solution provides:

- **Life insurance coverage** on the key employee, which can pay a death benefit to replace the executive's salary if he or she dies while employed with your company.
- A promise of future **retirement benefits.**

Because your business is your life

Why is life insurance an ideal tool for this strategy?

With the executive's consent,[2] permanent life insurance can be an excellent resource for accumulating funds needed to pay future obligations:

- **Your company is the owner and beneficiary of the life insurance policy.** The key employee is typically the insured but has no rights or ownership in the policy.
  - The premiums you pay into cash value life insurance policies can grow tax-free.
- **Your company need not rely on company assets or cash flow to pay retirement benefits.** Through withdrawals and loans, your company may choose to pay the promised benefits out of the policy's cash value on a tax-advantaged basis.
- If held until the insured dies, the policy's **death benefit is paid to your company tax-free.**

How does protection SERP work?

1. You and your key executive implement two agreements, drafted by a licensed attorney, specifying:

1. Pre-retirement death benefit to the executive's family
2. Nature of the retirement benefits

2. After satisfying notice and consent obligations, the company acquires and owns a permanent life insurance policy insuring the key employee's life:

- The company endorses a portion of the death benefit to the key employee as a pre-retirement survivor benefit to his or her heirs in the event of premature death.
- The company pays the entire premium on the policy.
- The key employee will be taxed on the reportable economic benefit. The reportable economic benefit is a calculation of the tax obligation for the death benefit provided in this type of arrangement. It is calculated using term life insurance rates.[3]

3. The second agreement spells out the retirement benefits to be paid to the executive, including:

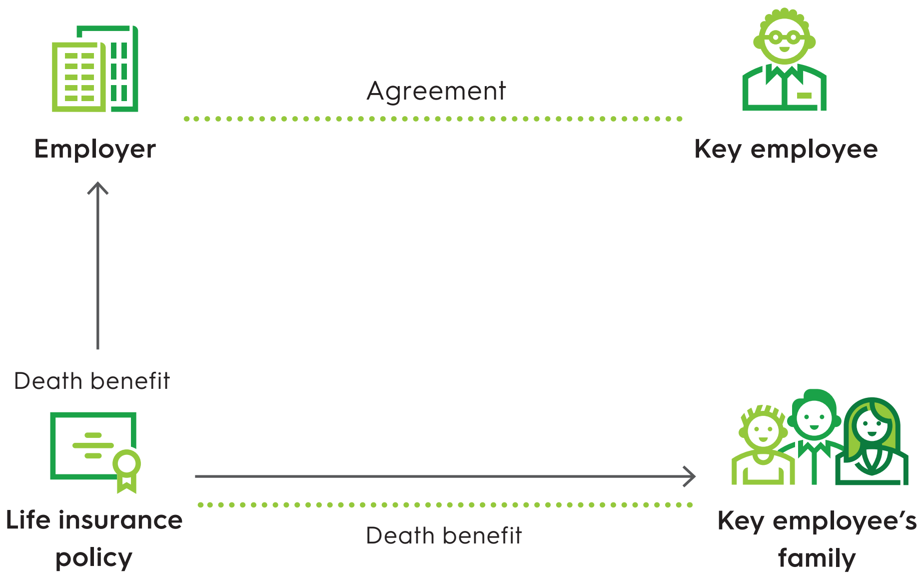
- A vesting schedule, if desired.
- The formula for calculating retirement benefits.
- The type and terms of distribution at retirement.

The retirement benefits are not currently taxed to the employee because they represent a "promise to pay," and the benefit must remain subject to the creditors of the company.

Protection SERP may involve the services of a plan administrator to periodically report on employer contributions, interest credits and account balances to both employer and employee.

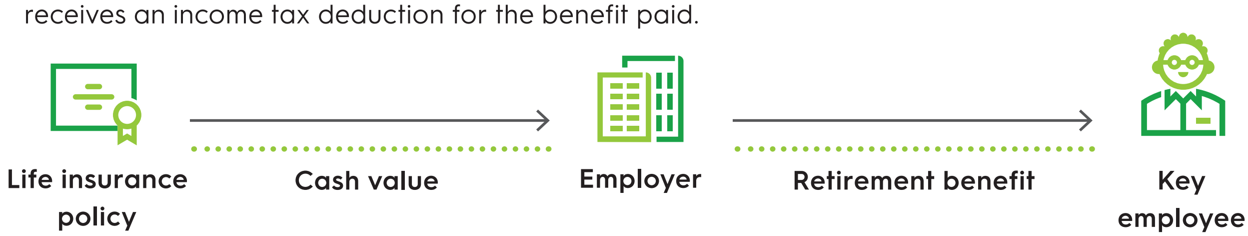
If the executive dies while employed by the company:

The company receives a portion of the death benefit for key person coverage; the executive's beneficiaries receive the balance.



When the executive retires:

- The agreement terminates.
- The company may use the life insurance cash value to pay supplemental retirement income.
- The employee pays income tax on the retirement benefit, and the company receives an income tax deduction for the benefit paid.



Why use a protection SERP?

Company benefits	Key employee benefits
• Possible retention of key executives by providing retirement benefits • You control which employees can participate • Future retirement benefit is determined by both you and the key executive in the agreement • You can tailor the benefits to the employee • Tax-free death benefit to the company that can be used for key-person coverage and cost recovery if the employee dies while the policy is in effect[4]	• Employer-funded plan • Not subject to qualified plan contribution limits • Survivor benefit provides protection for the key employee's family during working years • Employee feels rewarded for loyalty to the business

Why not use a protection SERP?

Company considerations	Key employee considerations
• The income tax deduction is deferred until benefits are paid • More administration than other executive compensation strategies; a company may need to engage a third party administrator • Owner may need to increase premium payments to keep the policy from lapsing • Cash value withdrawals reduce the policy death benefit and surrender value; if the policy lapses, amounts withdrawn or loaned (in excess of premiums) could be taxable	• Future retirement benefit is considered taxable income when received • Company may not be around at time of bonus payout • Retirement benefits are subject to company creditors

Learn more

Want to help ensure the ongoing success and growth of your business? Contact your financial professional today to find out how you can implement a protection SERP strategy.

1. Key employees must be either highly compensated employees or management.

2. A life insurance policy informally funding the NQDC plan is subject to the notice and consent rules for employer-owned life insurance (EOLI). Failure to comply with those rules will subject any death benefit paid to the employer to income tax.

3. IRS Table 2001 term rates or the issuing company's annual renewable term rates.

4. The company will receive the life insurance death benefit income tax-free if the company meets the requirements of Internal Revenue Code Section 101(j).

Life insurance products contain charges, such as Cost of Insurance Charge, Cash Extra Charge, and Additional Agreements Charge (which we refer to as mortality charges), and Premium Charge, Monthly Policy Charge, Policy Issue Charge, Transaction Charge, Index Segment Charge, and Surrender Charge (which we refer to as expense charges). These charges may increase over time, and these policies may contain restrictions, such as surrender periods. Policyholders could lose money in these products.

Please keep in mind that the primary reason to purchase a life insurance product is the death benefit.

Policy loans and withdrawals may create an adverse tax result in the event of lapse or policy surrender, and will reduce both the surrender value and death benefit. Withdrawals may be subject to taxation within the first fifteen years of the contract. Clients should consult their tax advisor when considering taking a policy loan or withdrawal.

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