# LET'S TALK MONEY®

May/June 2022

# Executive Bonus: A Perk to Consider

Staffing issues. Stress. Burned-out managers. If the "Great Resignation" has prevented your business from attracting and retaining key employees, a Section 162 Executive Bonus Plan might be an incentive program worth considering.

With an executive bonus plan, your business provides a benefit—typically life or disability insurance—to key executives to motivate them to join or stay with the company. Premiums are either paid through cash bonuses or made directly to the insurance company and reported as income on the employee's W-2. Under a cash bonus arrangement, the bonus received by the key employee is usually equal to the cost of the policy premiums and the associated taxes on the income. Thus, the employee incurs no out-of-pocket expense.

## Benefits for You

You don't have to offer the plan to all key employees. You can choose which key executives will receive the incentive. You also have the flexibility to offer plans with different terms and benefits for individual employees. The plan is easy to implement and administer and doesn't require IRS approval. Your company can take a tax deduction for the bonus payments if they're considered "reasonable compensation."

## Benefits for a Key Employee

An executive bonus plan provides life insurance coverage to the employee. Generally, the employee retains ownership of the policy, names the beneficiaries, and has access to the policy's cash value. Beneficiaries will eventually receive the policy proceeds income-tax free.

## Maintaining Control

Your company can ensure that a key employee remains with the company for a certain period by implementing a restricted executive bonus arrangement. This option allows the company to retain control over the policy's cash value until the employee meets a goal that's defined by the company. The goal might be the executive's retirement or a specified number of years that he or she must remain with the company. The cash value becomes available to the employee after the goal is met.

## Get It in Writing

Although a written plan isn't required, it can help your company avoid problems, such as having its tax deduction disallowed by the IRS.

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I am committed to helping my clients achieve their financial goals for themselves, their families and their businesses by providing them with strategies for asset accumulation, preservation and transfer.

Small Business Version

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helping financial professionals stay connected

# Planning for a Child with Special Needs

Ensuring that special-needs children have support and resources when parents are no longer around to care for them takes planning and being aware of the available options.

## Special-Needs Trust

Setting up a special-needs trust can help preserve government benefits, such as Supplemental Security Income (SSI), guaranteeing the recipient a minimum income, and Medicaid. Because funds in the trust don't count when determining benefit eligibility, they can be used to supplement an employed child's income, pay for therapies not covered by Medicaid, or purchase extras your child wants.

A special-needs trust doesn't have to be funded immediately. Making the trust, rather than your child, the beneficiary of your estate ensures that your child won't lose government benefits. Choose someone as trustee who is close to your child, such as a sibling or other relative, to manage the trust on your child's behalf.

## ABLE Accounts

ABLE (Achieving a Better Life Experience) accounts are tax-advantaged savings accounts. Money in the account can be used for any qualified disability expense. Accounts can be set up at any time in a disabled person's life if the disability occurred before age 26.

Money from a special-needs trust can be transferred into an ABLE account. Your child can manage the account, using a debit card to make purchases. If desired, you or the trustee of the special-needs trust can set spending limits.

Planning for a child with disabilities can be complex. Consult an estate-planning attorney who specializes in disability planning to ensure compliance with government regulations and safeguard your child's benefits.

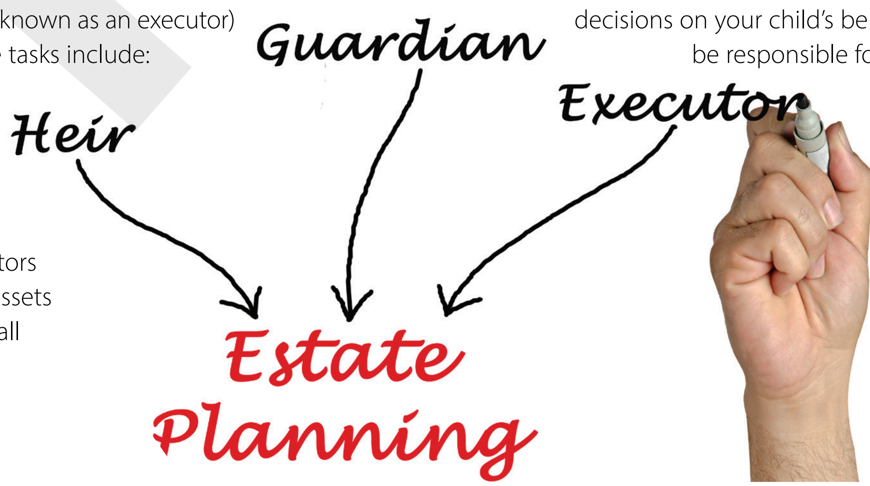
# The Name Game

A will specifies who should receive your assets when you die. But that's not its only purpose. A will also names someone to settle your estate, as well as someone to care for any minor children you leave behind.

## Your Personal Representative

The person (family member or professional) who serves as your personal representative (formerly known as an executor) has a time-consuming job. Some tasks include:

- Executing your will
- Obtaining copies of the death certificate and distributing as needed
- Identifying and paying creditors
- Collecting and distributing assets
- Keeping records for heirs of all payments, deposits, and distributions
- Filing final tax returns




## Your Child's Guardian

The person you choose as guardian will make legal and other decisions on your child's behalf. He or she will be responsible for your child's personal care, medical and financial needs, and education. When naming a guardian, consider your child's feelings and his/her relationship with the person.

# It's Never Too Early

Hey, millennials, you still have time to save for retirement. Start by establishing good money habits that will help you throughout your lifetime. These ideas may help.

### Keep a Spending Journal


To see where your money is going, take the two-week challenge. Write down everything you buy over the next 14 days — even that pack of gum. Once you add it all up, you might be surprised at how much money you're spending on small or impulsive purchases.

### Know What You Owe

It's easy to lose track of how much you've charged to your credit card. If you're charging more than you can pay off each month, your purchases are accruing interest on top of interest. Make a plan to pay off the balances. The money you're paying in interest could make a good start on saving for your future.

### Create a Spending Plan

Create a budget that lists all your expenses — mortgage or rent, utilities, insurance, car payment, — and include a category for savings. Subtract those expenses from your take-home pay to see what's left for food, entertainment, clothing, and other items.

### Make Saving Automatic

You can arrange to have money from each paycheck deposited automatically in your retirement plan or other savings account. Because you won't see that money in your checking account, you won't be tempted to spend it.

### Pay with Cash

Use cash or your debit card for all your purchases. That way, you can spend only as much as you have in your bank account.

## Pay Off, Not Down

U.S. consumer debt—including money owed on credit cards and student and auto loans — reached $4.37 trillion in September 2021, according to the Federal Reserve. If you're carrying balances on high-interest credit cards, choose one of these strategies to get out of debt.


**Pay off the card with the highest interest rate or the largest balance.**

Pay as much as you can toward one card, while paying the minimum on your other cards. When the first card is paid off, put the same amount toward the card with the next highest rate/biggest balance.

**Pay off cards with low balances first.**

Eliminating several small balances may give you a psychological boost and help you continue the momentum with your higher balance cards.

**Consolidate debt.** A debt consolidation loan allows you to pay off your cards and have a single monthly payment, often at a lower interest rate.

# Millennials and Debt

As a group, millennials (ages 25-40) are carrying too much debt and may need to make major changes to feel secure about their future finances.

**76%** carry some type of debt[1]

**16%** of those who carry debt owe $50,000 or more (excludes mortgage debt)[1]

**$4,712** average credit card debt[2]

**76%** believe they won't achieve personal and financial goals due to debt[1]

**73%** are not optimistic about their financial future[1]

[1]*Bank of America Better Money Habits® — Millennial Report 2020*
[2]*Experian®*

# Understanding Small Business Loans

Having significant debt is never a good business model. However, seeking funding to make your business more profitable may be a smart move. Start the process by reviewing your financing options.

## Debt Financing

Loans from a financial institution are a common method of business financing. The lender assigns the loan terms, including the loan duration, monthly payments, and interest rate. Lenders have no control over your business decisions, and the loan interest is tax deductible as a business expense. If you're taking on debt, make sure you have sufficient capital coming into your business to meet all monthly expenses.


## Equity Financing

Equity financing comes from an individual or firm that invests in your business. You won't have monthly payments and won't have to pay back the funds, potentially leaving you with more cash on hand to grow your business. With equity financing, though, you're giving up some percentage of ownership to the investor(s)—sometimes 50% or more. Unless you have an option to buy out an investor's stake, the investor will continue to earn a percentage of your profits indefinitely.

## SBA-Guaranteed Loans

The Small Business Administration partners with lenders to offer guaranteed loans for most business purposes, including real estate, construction, equipment and asset purchases, business acquisition, debt refinancing, etc. Eligibility depends on the lender, but businesses that are unable to get financing elsewhere may qualify for SBA loans.

## Lines of Credit

Lines of credit provide access to funds as your business needs them, up to your account's credit limit. They typically have a variable interest rate, and monthly payments are based on the amount borrowed. They're appropriate for managing short-term cash needs and may be particularly useful for businesses with seasonable sales.

## Business Credit Cards

A credit card can help with buying items your business uses every day. Look for a card that offers cash back on purchases. Cards often have high interest rates and low credit limits, so pay off any balance when the bill comes.

## Friends and Family

Loans from relatives or friends may be another option. Present your business plan and draw up a repayment schedule.

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# ADVERTISING REGULATION DEPARTMENT REVIEW LETTER

January 11, 2022

Reference: **FR2021-1221-0265/E**
Link Reference: FR2021-1122-0158

Org Id: 23568

1. LTM MayJun 2022 - Business

   Rule: FIN 2210

The communication submitted appears consistent with applicable standards.

Reviewed by,

Jeffrey R. Salisbury
Principal Analyst

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