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Selective Incentive Bonus Plans That Make Sense

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Successful companies who desire to reward the performance and valuable contributions of their key employees and leadership executives recognize that a cash bonus and warm handshake often doesn't send the intended message.

Corporations recognize that rewarding their key people for past performance with cash incentives does not provide an incentive for the employee's future enthusiastic participation in the company's mission or ongoing success and often does nothing to gain the individual executive's family support of the corporate mission. It is important for corporations to recognize how very important it is to have the family's support of the executive's commitment to the company. More and more successful companies recognize that the support of the family for the corporate mission can be immeasurable in the executive's performance and commitment. Corporations recognize that by using alternatives to the traditional cash bonus in an increasingly effective manner, they will achieve recognition of these valuable employees for their ongoing value to

the corporation and a properly designed Selective Incentive Program helps the employer accomplish this and more.

As identified in the October 2006, Compensation and Benefit News online publication of the Society of Human Resource Management, The editor Stephen Miller outlines the results of The Principal 10 Best Companies for Employee Financial Security. The important commonality of these winning companies that is relevant to the discussion of Selective Incentive Programs, is the ability to give their employees an "edge on achieving long-term financial security". This is a very important component of a properly designed Selective Incentive Program, providing a reward for their value and performance and providing long term financial security.

An Alternative to a Cash Bonus Only Formula

While all executives would gladly receive any and all cash bonuses offered, it is also true that they recognize the value of long range savings and wealth accumulation.

Designing a formula by which contributions and long range accumulations can be benchmarked is effective. The elementary desires of everyone is simple, the shareholders want continuity in management leadership, the corporation wants a varying degree of control and the key person wants & needs financial security.

The Executive Lifestyle and Future Income Needs Dilemma

Why a long range Selective Incentive Program is needed by most executives and key employees.

It is widely recognized that most people are barely living within their means. That is just as true for highly compensated employees and becomes increasingly important as they mature and reach the top of there game.

As compensation increases, an executive's career becomes more important. As the executive becomes more successful through their 40's and 50's they have little opportunity to proportionately increase the value of their traditional 401k or other accumulation retirement plans.

Along with increased income, typically the executive's lifestyle and spending increases, making it unlikely that increases will be applied proportionately to savings, wealth accumulation and family protection.

The Selective Incentive Program – A partnership

Discriminating corporate Selective Incentive Programs are allowed under Section 162 of the IRS code. The corporation can be selective and focus on productivity and results versus age, years of service and salary.

Best of both worlds: a Sec. 162 Bonus Plan is a true bonus plan, but the corporation can restrict the employee access until future targets are met such as date of retirement. This can be accomplished using a restric-

tive endorsement rider. Certain concept tool lend themselves to creating an effective long term incentive plan.

Long term results can be very motivational.

The long term value that is created can be significant and predictable. Unlike 401k variability or other market predictions, a Sec. 162 Bonus Plan, using a properly designed insurance tool can promise certain absolute future certain values plus additional non guaranteed accumulations.

The fact the bonuses have already been taxed results in future tax free income to the executive, from all distributions up to the amount of the bonuses. Accumulations are in many circumstances creditor proof, and amounts not yet withdrawn are not reportable. A properly designed Incentive Bonus Plan is flexible and the corporation can discriminate based on its own measurements or benchmarks.

The executive and their family will be much better protected and their long term needs for future income and security can be provided for. These can be winning tickets for all parties and certainly help a corporation further the goals of productivity, profitability and leadership continuity.

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