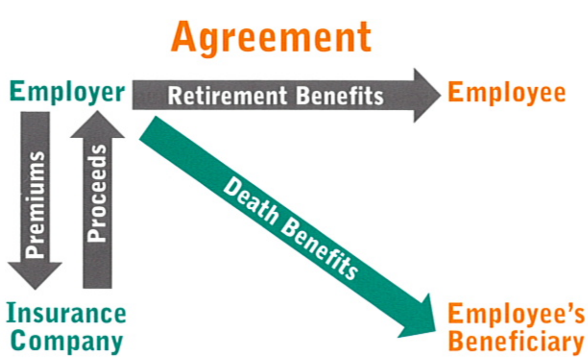
DEFERRED COMPENSATION

Are you looking to selectively reward your highly compensated employees with an attractive benefit plan with minimal cost?

Most companies have one or more key employees that make a significant contribution to that business' success. In today's competitive job market, it is necessary to provide more than the traditional benefits to keep the people who are most valuable to the company. With current tax laws, it is difficult to make this happen with traditional qualified retirement plans. As a result, highly compensated key employees may not have enough income at retirement. A Non-Qualified Deferred Compensation Plan may provide a solution.

What is a Non-Qualified Deferred Compensation Plan?

A Non-Qualified Deferred Compensation Plan is a selective employee fringe benefit that allows a company to help certain highly compensated "key" employees "defer" income and the income taxes due on that income until a later date— usually retirement. It can also provide income to beneficiaries should the employee die prematurely. The cost to the employer is minimal and the plan is typically funded with life insurance purchased by the employer.



How does it work?

- The company and the employee agree to defer a portion of his or her current income in return for future compensation, usually in the form of retirement or death benefits.
- As an option, the company can provide full or matching contributions of the employee's deferral.
- At retirement, termination of employment or death, the employee or named beneficiary, receives the benefit as described in the agreement as compensation income from the company and, as such, the payments are tax deductible to the company at that time.
- Funding and subsequent payment of benefits is at the discretion of the company. Any informal funding is subject to the claims of the creditors of the company. It may be possible to protect against change of management control by using a so-called "Rabbi Trust."

Life insurance as part of the plan

Life insurance is an excellent tool for informally funding a deferred compensation plan. It is a unique funding vehicle in that it can provide a substantial pre-retirement death benefit and cash for retirement income. The policy's cash values grow tax-deferred. The company is the owner and beneficiary of the policy on the employee's life, pays the premiums using the employee's deferral and controls the cash value.

Benefits to the employer

- The plan can help business owners attract, retain, motivate and reward key employees.
- Employers decide which key employees will participate.
- The plan is cost effective. There is no direct cost to the employer since it can be funded entirely by employee dollars.
- It can be easy to install and understand. A simple notice to the Department of Labor and a written plan document are all that is necessary. No IRS approval is required.

Benefits to the employee

- Creates an additional source of retirement income on top of any existing qualified retirement plans.
- Reduces the employees' current income tax liability and postpones current income until after retirement when they may be in a lower tax bracket.
- Brings added value with pre-retirement death benefits if agreed to in the plan.

TAX FACTS SUMMARY Non-Qualified Deferred Compensation Plan	
Policyowner	Business
Beneficiary	Business
Payor	Business
Premium payments	Not deductible
Death benefit	Received income-tax-free[1]
Employee's deferred income	No current income txes due but may be subject to FICA tax
Benefits paid by company to employee and/or beneficiaries	Taxed as ordinary income and may be subject to FICA tax
Cash value accumulation	Tax deferred and available through tax-free loans and withdrawals[2]

What about taxes?

There are several tax considerations to keep in mind when using life insurance as the funding vehicle for a Non-Qualified Deferred Compensation Plan.

- The employee's current income tax liability will be reduced because of the deferral of current income.
- Any pre- or post-retirement benefits or death benefits received by the employee or his or her beneficiaries are taxable as ordinary income.
- Premium payments made by the company using the employee deferral are not tax deductible.
- The company may deduct deferred salary benefits when paid directly to the employee or his or her beneficiaries.
- Death benefits are received income-tax-free by the company.[1]

[1]Death benefits and tax deferred cash accumulation may be subject to the corporate Alternative Minimum Tax (AMT). The Pension Protection Act of 2006 limits the death proceeds an employer can exclude from income when the insured does not meet the definition of a highly-compensated employee or of a highly-compensated individual. The Act also imposes specific requirements that the employer notify the individual about the insurance, secure his/her written consent and submit annual reports to the IRS.

[2]Surrenders from life policies are generally taxed as ordinary income to the extent the surrender proceeds exceed the policyowner's investment in the contract, which is also called the "basis". Loans are generally not taxable if taken from a life insurance policy that is not a modified endowment contract. Unpaid interest on loans is added to the loan principal, thereby increasing the total debt on the policy. The combination of an increasing loan balance, and deductions for contract charges and fees, may cause the policy to lapse, triggering ordinary income tax on the outstanding loan balance to the extent it exceeds the cost basis in the policy. If a policy is a modified endowment contract, loans, withdrawals and surrenders are treated as taxable distributions to the extent of the policy gain and may also be subject to an additional 10% penalty tax if made prior to the policyowner's age 59 1/2. Note that there is no exception from the penalty tax when the policyowner is not an individual person. Loans, if not repaid, reduce the policy's death benefit and cash surrender value.

Not FDIC, NCUA/ NCUSIF insured	Not insured by any federal government agency	Not a deposit	No bank or credit union guarantee	May lose value

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