John Hancock
LIFE INSURANCE

Success Strategy

Planning Strategies For Successful Clients

SUPPLEMENTAL EXECUTIVE RETIREMENT PLANS

A VALUABLE RETIREMENT BENEFIT FOR YOU, BROUGHT TO YOU BY YOUR EMPLOYER.

You take pride in the value you bring to your employer, and work hard every day to help your company be successful. Your employer has recognized just how much you've contributed to the growth of the company, and wants to find a way to reward you for past services and give you an incentive to stay with the company for years to come. A Supplemental Executive Retirement Plan may be able to help.

WHAT IS A SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN?

A Supplemental Executive Retirement Plan (SERP) is a type of employer-sponsored, non-qualified deferred compensation plan, available only for highly compensated executives. Simply stated, a SERP is an arrangement between you and your employer, where your employer promises to pay you additional retirement benefits in the future. These benefits will be paid for by your employer, and you do not need to contribute anything. Because a SERP is a non-qualified plan, the amount of benefit provided is not subject to the maximum contribution and maximum distribution amounts applied to traditional qualified retirement plans.

HOW DOES A SERP WORK?

You and your employer enter into a SERP agreement, where your employer promises to pay you a specified benefit amount at retirement. This amount could be based on either a specified contribution from your employer (called a "defined contribution" approach) or a specified percentage of your salary (called a "defined benefit" approach). In order to ensure that they will have the funds available to pay your benefit at retirement and to recover their costs in the plan, your employer will purchase a life insurance policy with you as the insured, and have you sign a form stating that you consent to be insured.[1] Then, at retirement, your employer will access the policy cash value via loans and withdrawals to pay for your retirement benefit.[2]

THE BENEFITS

- Your employer will provide you with a supplemental retirement benefit. If properly structured, you do not have to pay taxes on this benefit until you receive it.[3]
- Your employer will pay for the entire cost of this supplemental benefit; you do not have to pay anything to receive it.
- A SERP is not subject to the contribution and distribution limits imposed on qualified plan, so your employer can provide you as large a benefit as they would like.
- Your employer may also elect to provide a pre-retirement death benefit for your spouse should you die before retirement.

THE CONSIDERATIONS

- You will not own the policy on your life, and will not have access to the policy cash value yourself. The policy is merely your employer's choice of funding vehicle, and your employer owns all policy rights.
- Because a SERP is a non-qualified plan, your employer cannot set aside plan assets in a trust that is protected from the company's creditors without causing taxation to you. If your employer were to become bankrupt and unable to pay your SERP benefit, you would be a general creditor of the corporation and not receive preferential treatment in recovering your benefit.
- You must sign a "Consent to Insure" form, stating that you are aware of the life insurance policy purchase, and that your employer may own a life insurance policy on your life.
- If your employer provides a pre-retirement death benefit, it may be income taxable to your family as the life insurance death benefit is paid to the employer, who then pays a benefit to your heirs.

CASE STUDY: ISABELLA WILLIAMS AND ERIE ENTERPRISES

Isabella Williams (age 45, Preferred Non Smoker) is a Vice President of Research and Development at Erie Enterprises, a manufacturer of auto parts. Erie would like to make sure they do not lose her to the competition, so Erie decides to offer Isabella a SERP.

Isabella's current salary is $150,000 a year, and is projected to increase 5% a year so that when Isabella retires at age 65, she will be making $379,043. Erie Enterprises promises to pay Isabella a SERP benefit of 50% of her salary at retirement, or $189,522, for 15 years. With Isabella's consent, Erie will then apply for a $1,839,073 Accumulation VUL policy on Isabella's life, with a level face amount and a premium of $51,566 a year.[4] Erie also agrees to pay Isabella's heirs a death benefit of $2,000,000 should Isabella die before retirement. Based on a gross growth rate of 6% (5.26% net) and current charges, Erie will be able to take loans and withdrawals from the policy to pay Isabella her benefit. As the chart below demonstrates, the SERP plan will provide a valuable benefit both to Isabella and her employer.

Isabella's Current Salary:	$150,000
Isabella's Salary at Retirement:	$379,043
Pre-Retirement Death Benefit	$2,000,000
Retirement Benefit Paid Annually for 15 Years	$189,522[4]
Cumulative Retirement Benefits	$2,842,830

Annual premium of $51,566 will be paid for 20 years. At 0% and gross maximum charges, the policy will lapse in year 25. This is a supplemental illustration authorized for distribution only when preceded or accompanied by a basic illustration and appropriate prospectuses. The data shown is taken from an illustration, the purpose of which is to show how the performance of the underlying investment accounts could affect the policy cash value and death benefit. It assumes a hypothetical rate of return and/or current interest crediting rate and may not be used to project or predict investment results. Unless indicated otherwise, these values are not guaranteed.

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1. Section 101(j) of the Internal Revenue Code imposes income tax on the death benefit of life insurance contracts owned by the employer of the life insured unless certain exceptions apply. All such exceptions include satisfaction of notice and consent requirements set forth in the section.
2. Loans and withdrawals will reduce the death benefit and cash surrender value, and may cause the policy to lapse. Lapse or surrender of a policy with a loan may cause the recognition of taxable income. Policies classified as modified endowment contracts may be subject to tax when a loan or withdrawal is made. A federal tax penalty of 10% may also apply if the loan or withdrawal is taken prior to age 59 1/2.
3. Section 409A of the Internal Revenue Code imposes extensive substantive requirements on arrangements that purport to accomplish a deferral of income or the taxation of income. By its own provisions, failure to satisfy these requirements will result in the loss of deferral of recognition and taxation of the income.
4. Only the employer's after-tax cost of the retirement benefit, $189,522 at a 35% tax bracket for $123,189, will be withdrawn from the policy for years 21–35.

Insurance policies and/or associated riders and features may not be available in all states.

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