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LIFE INSURANCE
BUSINESS PLANNING

WHITE PAPER

STAY BONUS

The closely held business owner's family is often reliant on the family business as their primary source of income. Preserving the value of the business in the event of the owner's disability or premature death, especially where the heir(s) apparent/spouse are unprepared to pick up the reins, can weigh heavily on the business owner's mind. Often, in the closely held business, there are valuable employees on whom the business owner depends for the continued success of the business. S/he may be concerned that these valued employees – with the skills or connections to run the business in the owner's absence – are the most vulnerable to being picked off by a competitor if they become concerned about the future of the business.

A Stay Bonus can be a simple, cost-effective plan to incentivize these employees to stay after the death or disability of the owner until either the owner can resume responsibilities, the heir(s) have time to learn the skills required to run the business or a buyer can be found.

A Stay Bonus can be a simple, cost-effective plan to keep strong employees where you need them in the case of an owner's death or disability. The arrangement incentivizes valuable workers to stay with an organization until either the owner can resume responsibilities, the heir(s) have time to learn the skills required to run the business or a buyer can be found.

WHAT IS A STAY BONUS?

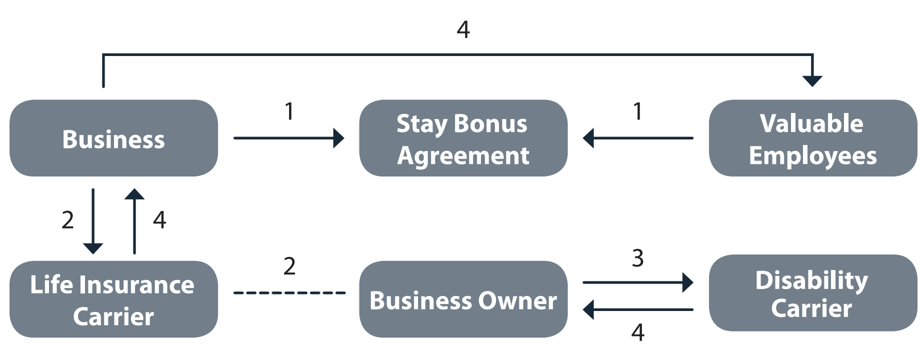
A Stay Bonus is an agreement with employees who have the knowledge and skills to run the business, or who have relationships with customers that they could take elsewhere. The agreement provides these employees with an enhanced compensation package at the disability/death of the business owner in exchange for remaining with the company in the event of the business owner's death/disability for a specified period. The goal is to maintain the company's value as an ongoing concern.

Typically, a Stay Bonus provides between 150 to 200 percent of compensation and is guaranteed for a period of 12 to 24 months, thus providing time for one of the following scenarios:

- The business to be transitioned to new ownership
- The heir(s) to acquire the skills/experience to run the business
- The owner to return to work

The Stay Bonus is most often funded with life and disability insurance on the business owner's life.

HOW DOES IT WORK?



1. The business enters into a Stay Bonus with valuable employees – who can run or be groomed to run the business in the owner's absence – to secure their continued service in the event of the owner's death or disability.
2. The business applies for life insurance on the owner's life in an amount to secure the enhanced compensation.

3. The business owner applies for individual disability income insurance to secure his/her family's income, thus relieving the strain on the business to continue to provide the owner's income in addition to the Stay Bonus.
4. Upon the owner's death/disability, the Stay Bonus is paid from the business's cash flow. Insurance proceeds secure the employee's Stay Bonus.
5. The business may be sold or liquidated for fair market value.

POTENTIAL BENEFITS

- **Business Value Maximized** – Owner's family receives fair market value for the business.
- **Family Income** – The family's income is secured by the disability income policy and by retention of the business.
- **Golden Handcuffs** – Employees have an incentive to maintain the value of the business.
- **Secured Funding** – Funds are guaranteed for the Stay Bonus.

THE BOTTOM LINE

A Stay Bonus helps to tie valuable employees to the business until it can either be sold or liquidated, until the heir(s) acquire the skills/knowledge to run the business, or until the owner can resume his/her responsibilities after a disability. A Stay Bonus helps to ensure a level of stability and continuity following an otherwise destabilizing event.

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