

Small Business Success: Employee Reward & Retain Plans

Rewarding and retaining key employees is integral to your firm's continued success. Big bonuses and generous benefits provide no tethering to the company. They are subject to IRS limits, offer no claw back or financial recourse for the firm, and benefits must be available to all employees, even the underperforming and useless.

Triathlon Partners' creative solutions provide rewards to specific key employees with financial recourse for the firm. There are several ways to structure reward & retain plans and the common denominator in all of them is life insurance. Permanent life insurance is not just a benefit, it is an asset.

This asset has two components, cash value that increases over time and a death benefit to support and protect the employee's beneficiaries and the firm. Like a 401k, the asset grows tax deferred, and the employee pays no taxes until they own the policy under the terms of the plan.

Permanent life insurance is owned and purchased by the firm, and the employee designates beneficiaries. The terms include the allocation of the death benefit and the vesting terms of the policy. Annual contributions can vary based on the firm's discretion and are not subject to IRS limits.

These agreements offer many benefits. The firm can choose to retain a portion of the death benefit. If the unvested employee departs, the policy can be surrendered and the cash value is paid to the firm, or the policy can be redesignated to a different key employee. When the employee takes ownership of the policy, the firm can receive a tax deduction for the value of the policy. The tax treatment of premiums, surrender value, death benefit and ownership change are dependent on the specific details of each reward & retain plan. A large bonus and generous benefits for all provide zero financial recourse.

Triathlon Partners is committed to assisting our clients attain financial success. Essential employees are invaluable, and their departure will cause disruption to your operations, lost revenue, and client dissatisfaction. If these are concerns for your business, contact Triathlon Partners to start a conversation and create a plan that best fits your objectives.

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