Allianz Life Insurance Company of North America

LIFE ADVANCED MARKETS CASE STUDY

IRC Section 162 employee bonus arrangement

Meet Neil, a valued employee whom the company would like to keep

Neil is an engineer and key employee at an industrial solutions company, a mid-sized firm. He is 45 years old, married with two young children, and in good health.

Neil already participates in the company-sponsored group life insurance plan, which will provide his family with a death benefit equal to his annual salary if Neil dies while employed by the company.



In recognition of Neil's loyalty and contribution to the company's success, the company decides to pay Neil a bonus. But rather than pay the bonus in cash, the company opts to fund a cash-value life insurance policy that's personally owned by him. The company will pay the policy's annual premiums as additional bonuses as long as Neil continues to be employed by the company. (Should Neil leave the company, he will have the option to keep the policy in force by paying the premiums himself.)

By paying the premiums on this policy, the company will help Neil provide additional protection to his family – and provide another incentive for him to remain with the company.

A Section 162 Executive Bonus Plan that uses indexed universal life (IUL) insurance can benefit employee and employer. Keep reading for the details.

Product and feature availability may vary by state and broker/dealer.

Guarantees are backed solely by the financial strength and claims-paying ability of Allianz Life Insurance Company of North America.

Products are issued by Allianz Life Insurance Company of North America, 5701 Golden Hills Drive, Minneapolis, MN 55416-1297. 800.950.1962 www.allianzlife.com

This content does not apply in the state of New York.

AMK-930 (9/2026)

Using a Section 162 Executive Bonus Plan

A Section 162 Executive Bonus Plan is a non-qualified employee benefit which may be designed to allow an employer to pay for a key employee's personally owned permanent life insurance policy, using a cash bonus to pay annual premiums. For income tax purposes, the bonus would be tax deductible to the employer as a compensation expense and taxable to Neil as compensation (ordinary income).

As another incentive, the company could consider a "double bonus" arrangement, in which it provides the employee an additional amount to cover the income tax on the bonus (which would also be included in the employee's taxable earnings).

The employer should consult with its tax advisor and attorney to discuss each specific bonus arrangement.

Indexed universal life (IUL) insurance provides potential benefits to both employee and employer

BENEFITS TO THE EMPLOYEE

- The life insurance policy is portable as it is owned by the employee.
- Provides the potential to build cash value that can be accessed through policy loans and withdrawals to help supplement retirement income (or any other use), protected from market loss.
- Employee can choose beneficiaries (family members or others) who will receive the death benefit, generally income-tax-free.
- Unlike employer-provided, group-life benefits (which are generally term insurance policies), an employee-owned cash value life insurance policy funded through a 162 bonus arrangement may also continue to protect the employee's family even after the employee is no longer employed.

BENEFITS TO THE EMPLOYER

- A valuable benefit to help attract and/or retain key employees.
- IUL policy benefits can supplement other employer-paid, group-life benefits.
- Accumulation potential makes it a bonus that can offer tax-deferred growth in value over time.
- Paying premiums directly to the insurer ensures the bonus is being used as intended.
- Life insurance premium flexibility (assuming sufficient premium is paid to keep the policy in force).
- Option for additional "double" bonus to cover employee's income taxes on the original bonus, which may provide an additional expense deduction to the employer.

Key employee policy example:
Premium and potential benefits overview

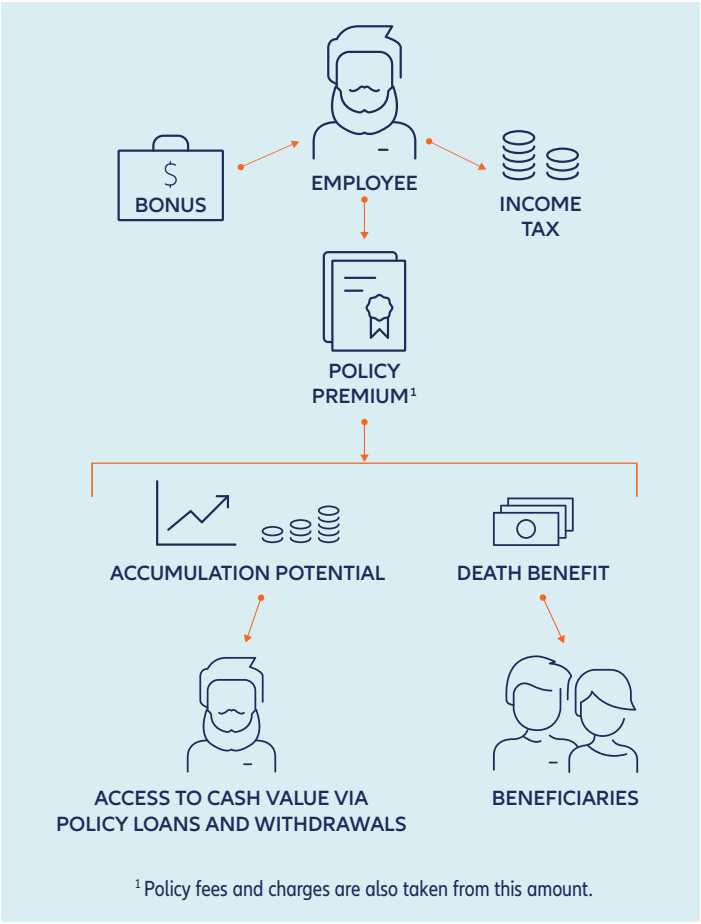
Here's how the policy works to provide Neil with death benefit protection for his family, independent of his employer-provided life insurance – and provides potential cash value for future needs.

Policy
Allianz Life Accumulator® Indexed Universal Life Insurance Policy

As Neil's needs and goals change, his policy has the potential to adapt.

Once Neil's children reach adulthood, he may determine that the level of death benefit is no longer needed for the protection of his family. In that case, Neil could choose to use the policy's available cash value to supplement his retirement, through policy loans and withdrawals. (Clients who use a loan strategy should carefully manage policy values to help prevent a policy lapse or unintended tax consequences.)

Any remaining death benefit would be paid to Neil's spouse, children, or other designated beneficiary. These death benefits will generally be income-tax-free, provided the policy is still in force and properly structured.



[1] Policy fees and charges are also taken from this amount.

This hypothetical example is provided for illustrative purposes only and does not represent an actual Allianz client.

Policy loans and withdrawals will reduce the available cash value and death benefit and may cause the policy to lapse, or affect guarantees against lapse. Withdrawals in excess of premiums paid will be subject to ordinary income tax. Additional premium payments may be required to keep the policy in force. In the event of a lapse, outstanding policy loans in excess of unrecovered cost basis will be subject to ordinary income tax. If a policy is a modified endowment contract (MEC), policy loans and withdrawals will be taxable as ordinary income to the extent there are earnings in the policy. If any of these features are exercised prior to age 59½ on a MEC, a 10% federal additional tax may be imposed. Tax laws are subject to change and you should consult a tax professional.

Indexed universal life (IUL) insurance provides a death benefit that is generally paid income-tax-free to beneficiaries and the potential to build accumulation value. IUL requires qualification through health and financial underwriting.

IUL does not provide a guaranteed stream of income in retirement. There is no guarantee a policy will earn sufficient interest to support a loan strategy.

This content is for general educational purposes only. It is not intended to provide fiduciary, tax, or legal advice and cannot be used to avoid tax penalties; nor is it intended to market, promote, or recommend any tax plan or arrangement. Allianz Life Insurance Company of North America, its affiliates, and their employees and representatives do not give fiduciary, tax, or legal advice. Customers are encouraged to consult with their own legal, tax, and financial professionals for specific advice or product recommendations.

An employer-owned life insurance policy may be subject to the requirements of Internal Revenue Code 101(j) in order to obtain an income-tax-free death benefit. In general, those rules require that before the policy is issued, the employer must provide the insured with the written notice of the life insurance and obtain a written consent from the insured. Consult with an attorney for application of those rules to a specific situation.