



Aon's Retention Programs Utilizing Life Insurance



Retention of key talent is a significant challenge for many private and closely held companies during the post-pandemic environment. Some of the issues include:

- Compensation/benefits provide limited retention value for key employees
- Stock programs are complex, and owners want to retain ownership of their firms
- Many companies use tax-inefficient retirement programs as a retention tool

While deferred compensation plans (DCPs) and supplemental executive retirement plans (SERPs) are commonly used to promote retention, Aon has developed alternative programs using life insurance that can help organizations retain key talent while taking advantage of significant tax-favored attributes unique to the insurance market. Simply put, these alternative programs are more efficient than traditional SERPs and DCPs.

How do these Programs Work?

We use specialized, institutional life insurance programs designed to accumulate tax-free cash value earnings and then turn that cash value into tax-free payments during retirement. The programs can include vesting schedules to help retain key employees and include the following features:

- Flexible eligibility and vesting schedules
- Benefit security – not subject to firm’s creditors
- Tax-free earnings
- Tax-free distributions
- Tax-free life insurance protection
- Favorable accounting rules avoid expense recognition and create an accretive asset for the organization

Life Insurance Programs – A Better Approach for Retention

The table below compares the cost to deliver annual after-tax payments of \$100,000 to a participant during retirement. The cost efficiency is the amount provided to the participant for each dollar of company funding.

Program	After-Tax Program Earnings	Corporate Cash Flow (4% NPV)	Participant After-Tax Value (4% NPV)	Cost Efficiency*
Unfunded Defined Contribution (DC SERP)	(\$3,083,333)	(\$915,405)	\$741,490	0.81
After-Tax Life Insurance Program	(\$1,112,313)	(\$740,802)	\$800,144	1.08
Split Dollar Life Insurance Program	\$1,646,481	(\$760,106)	\$900,977	1.19

*Assumes participant is current age 45 and retirement at age 65 with 25 annual payments from age 65–89. Insurance options assume standard non-smoker insurance charges.



Compared to a traditional SERP plan, a Split Dollar Life Insurance plan allows for the most efficient funding option by providing participants with \$1.19 for each dollar of company funding.

Contact Aon for a comprehensive review of your organization's retention needs and to review alternative programs that can help provide tax-advantaged solutions.

Our Value – We Provide Customized Benefit Plan Solutions for Employers

Disability Insurance Programs	Retention Programs	Life Insurance Programs	Retirement Programs
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Whether organizations have programs in place or not, we can add value through leading-edge design services, best practice administrative procedures, secure data handling, integrated and relevant communication strategies, and carrier leverage and advocacy. In addition, we partner with employers to design, implement, and administer programs that provide meaningful benefits to key employees.

Our team includes professionals with expertise in tax, accounting, law, actuarial science, and finance. Team members hold more than 50 professional designations in these fields.

Aon plc exists to shape decisions for the better – to protect and enrich the lives of people around the world. Our colleagues provide our clients in over 120 countries with advice and solutions that give them the clarity and confidence to make better decisions to protect and grow their business.

For further information about executive life programs, please contact us at 800.574.0085 or executive.benefits@aon.com.