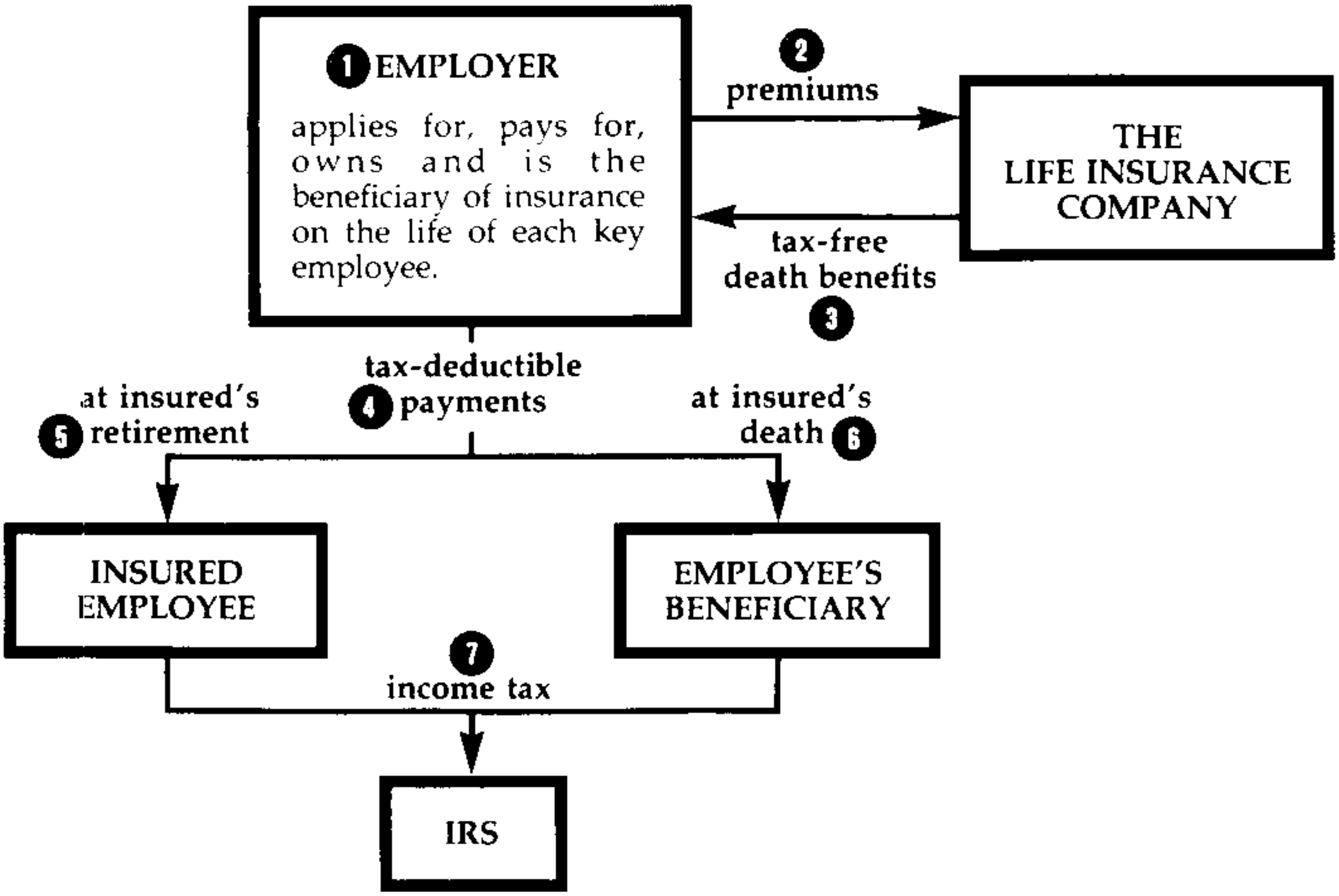
Deferred Compensation



1. The **employer applies for, pays for, owns and is the beneficiary of insurance on the life of each key employee.**
2. The **employer** pays the **premiums** for this insurance to **the life insurance company,**
3. And is entitled to receive, **tax-free**, the **death benefits** of the policy.
4. The **employer** must make **tax-deductible payments**...
5. To the **insured employee at** his or her **retirement**. These payments can be funded either by cashing in the policy, by borrowing on the policy, or by using cash set aside for this purpose.
6. If the **insured employee** dies prior to receiving his or her deferred compensation, the **employer** can use the policy's death proceeds to make **tax-deductible payments** to the **employee's beneficiary**.
7. But whether the money goes to the **employee**, or to the **beneficiary**, the recipient must pay **income tax** on the payments. However, this deferred tax liability will usually be much less than that for current compensation, because of a lower tax bracket.