

Northeast Brokerage: Retaining Top Talent with Restricted Executive Benefit Agreements (REBA)

In last week's newsletter, we introduced the concept of executive benefit plans, specifically focusing on the advantages of using life insurance to provide key employees with valuable bonuses. This week, we want to expand on that by discussing how a Restricted Executive Benefit Agreement (REBA) can take this concept even further, giving employers a powerful tool to retain top talent over the long term.

What is a REBA?

A Restricted Executive Benefit Agreement allows business owners to reward key employees through a life insurance policy while imposing certain restrictions to ensure longevity with the company. The employer pays a bonus to fund the life insurance policy, and the employee owns the policy, but there are restrictions on when the employee can access the policy's benefits (e.g., cash value or loans). This strategy aligns the interests of both the business and the employee, creating an incentive for long-term retention.

How Does a REBA Work?

Unlike traditional executive bonus plans, REBA plans add an extra layer of control by limiting access to benefits until certain conditions are met, such as years of service or performance milestones. Here's how it typically functions:

- Employer funds the policy: The employer provides a bonus to cover the life insurance premiums.
- Employee ownership with restrictions: While the employee owns the policy, access to cash value or other benefits is deferred until they meet the terms of the agreement.
- Retention-focused: If the employee leaves before meeting these conditions, they forfeit access to these benefits, making it an effective retention strategy.

Why Recommend a REBA to Your Business Clients?

By incorporating a REBA into their compensation plans, your clients can secure the loyalty of their key employees while also benefiting from tax advantages for the business. Employers get the flexibility to choose which employees to include, and employees gain long-term financial security through tax-advantaged growth of their life insurance policies