



National Life Group®

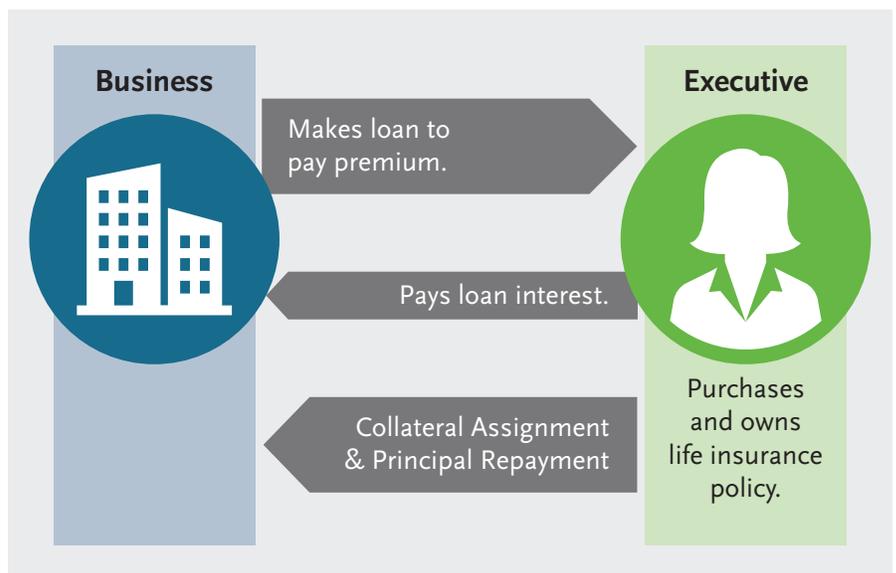


# How Split Dollar Loans Work

Split dollar is a way to use business funds to help pay for a personally owned permanent life insurance policy.

There are two ways to view how Split Dollar loan Plans work. One is through a basic flow chart, the other is on a balance sheet.

This flow chart represents the flow of funds and benefits in a Split Dollar Loan. The policy is personally owned by the Executive. The business pays the premium on the policy which is treated as a loan to the Executive. To protect the business' interest in the arrangement, the Executive collaterally assigns the policy to the business and pays interest to the business on the loan each year.



Products issued by

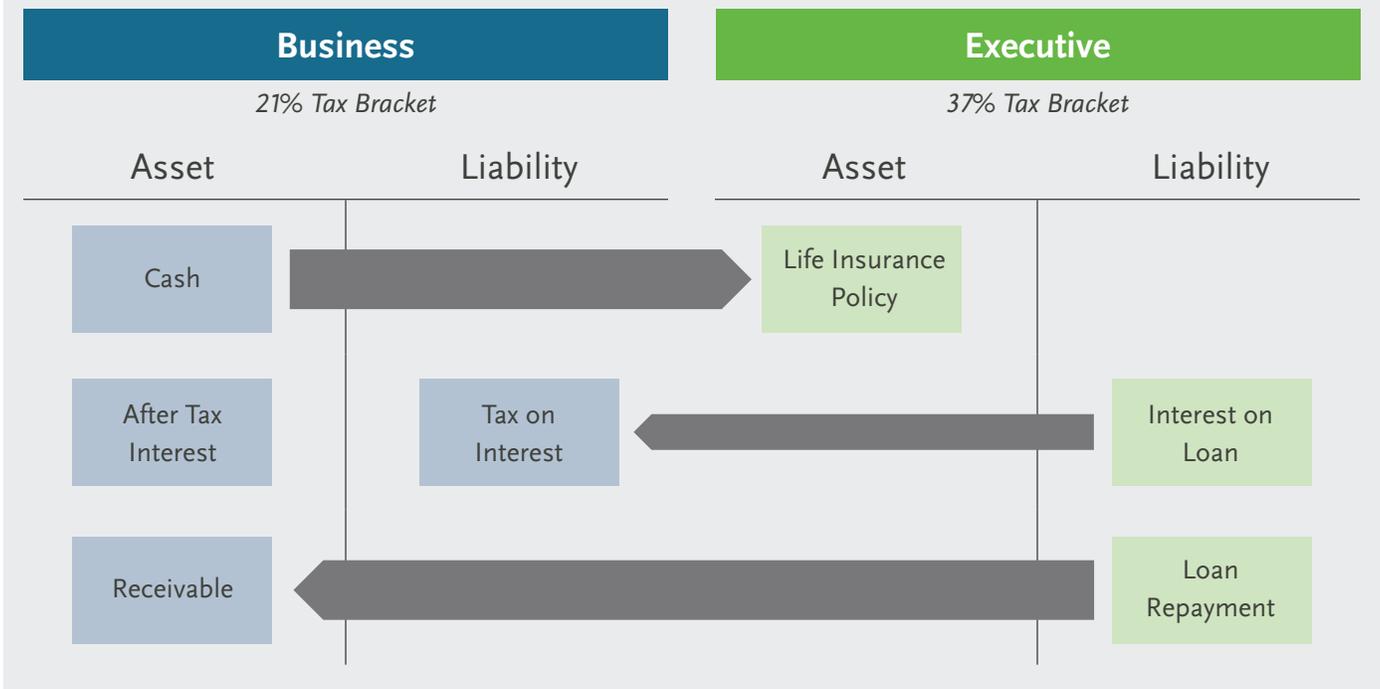
**National Life Insurance Company® | Life Insurance Company of the Southwest®**

National Life Group® is a trade name of National Life Insurance Company, founded in Montpelier, VT in 1848, Life Insurance Company of the Southwest, Addison, TX, chartered in 1955, and their affiliates. Each company of National Life Group is solely responsible for its own financial condition and contractual obligations. Life Insurance Company of the Southwest is not an authorized insurer in New York and does not conduct insurance business in New York.

No bank or credit union guarantee | Not a deposit | Not FDIC/NCUA insured | May lose value | Not insured by any federal or state government agency

Guarantees are dependent upon the claims-paying ability of the issuing company.

## Split Dollar Loans on Your Business and Personal Balance Sheets



These simplified balance sheets show the business on the left and the Executive's personal balance sheet on the right. We note that the business is a C-Corporation in a 21% tax bracket and the Executive's personal tax bracket is 37%. In this example, the Executive acquires a personally owned permanent life insurance policy. By using split dollar, the business can pay the premium on the policy using their 21% tax bracket, and treat that payment as a loan to the Executive who will pay interest to the business. The interest received by the business is treated as taxable income and the after-tax interest is a business asset. Upon the death or retirement of the covered Executive, the loan is repaid to the business through either the policy benefit if there is sufficient cash value or out-of-pocket. At that point, the loan repayment retires the debt and the remaining receivable becomes cash available to the business.

This information is not intended as tax or legal advice. For advice concerning your own situation, please consult with your appropriate professional advisor. The ability of a life insurance contract to accumulate sufficient cash value to meet accumulation goals will be dependent upon the amount of extra premium paid into the policy, and the performance of the policy, and is not guaranteed. Policy loans and withdrawals reduce the policy's cash value and death benefit and may result in a taxable event. Surrender charges may reduce the policy's cash value in early years.