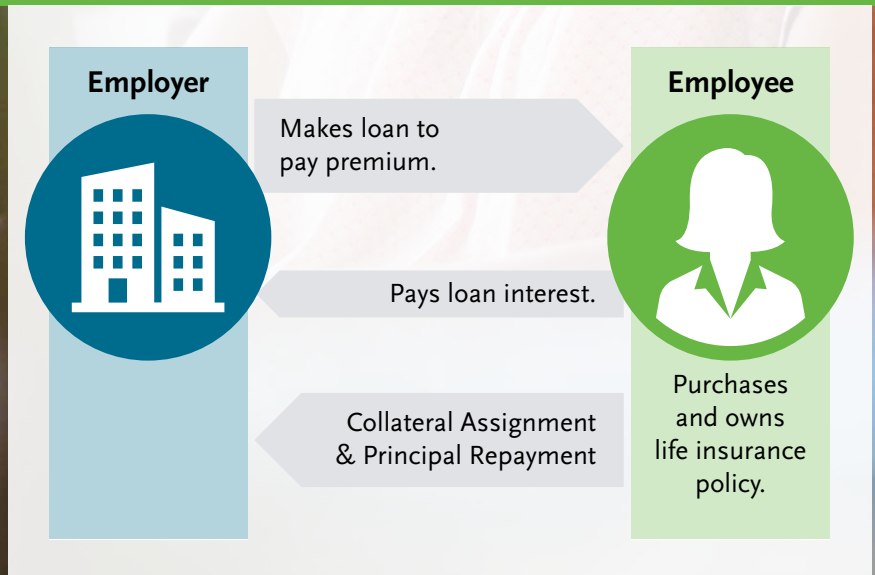




National Life Group®

Split Dollar Loan Arrangements

IMPLEMENTATION GUIDE



Products issued by
National Life Insurance Company® | Life Insurance Company of the Southwest®

Planning Stage

1

Establish the Insurance Need

- ✓ Death Benefit
- ✓ Cash Value Accumulation
- ✓ Accelerated Benefits¹

Split dollar is not a life insurance product and is not, in and of itself, a reason for purchasing life insurance. So, your first step is to establish what the client is attempting to accomplish and whether a permanent life insurance product is an appropriate solution.

You may be able to point out the potential benefits using National Life's Live Too Long, Die Too Soon, Become Ill puzzle piece.

2

Identify the Business as a Premium Source

- ✓ Work with Business Owner
- ✓ Work with CPA

You should work with the business owner and their CPA to analyze whether the business is the best source of funding for the business owner's personal plans. Also, the business may be a source of funding for a personally owned life policy for key employees of the business.

Please see the split dollar technical guide for additional information on the tax implications of various payment techniques.

3

Review Funding and Plan Options

- ✓ Bonus vs...
- ✓ Split Dollar Loan vs...
- ✓ Split Dollar Economic Benefit
- ✓ Illustrations may be run on the National Life illustration system

There are different ways to use business funds to pay for personally owned life insurance or for death benefit protection. It is important not to jump to conclusions as to whether a split dollar plan makes the most sense or whether a bonus plan will best suit the situation.

You may run both split dollar loan and bonus illustrations on the National Life illustration system and compare results. Which option provides the current cash flow, death benefit protection, and potential other benefits that will best suit the client?

¹ Accelerated Benefit Riders are optional and may not be available in all states or on all products. Receipt of Accelerated Benefits will reduce the Cash Value and Death Benefit otherwise payable under the policy, may result in a taxable event, and may affect your client's eligibility for public assistance programs. Riders are supplemental benefits that can be added to a life insurance policy and are not suitable unless the client has a need for life insurance.

Implementation Stage

The planning is complete, your client is ready to acquire permanent life insurance using a split dollar loan technique as the premium funding method. What do you do next?

Follow the process outlined below.

Please work with your client's attorney and CPA on these implementation needs.

1

Life Insurance Application Submitted

- ✓ Use a Standard Life Insurance Application
- ✓ Owner
 - Insured
 - Trust
 - Business Co-Owner (if for Cross Purchase Buy Sell)

Complete the life insurance application with all associated forms and requirements and submit the material to National Life.

2

Work with the Client's Attorney to Have a Split Dollar Agreement Drafted and Executed

- ✓ Split Dollar agreement drafted by attorney and signed by parties (sample documents available from Advanced Markets)
- ✓ Collateral assignment signed by parties — National Life version preferred

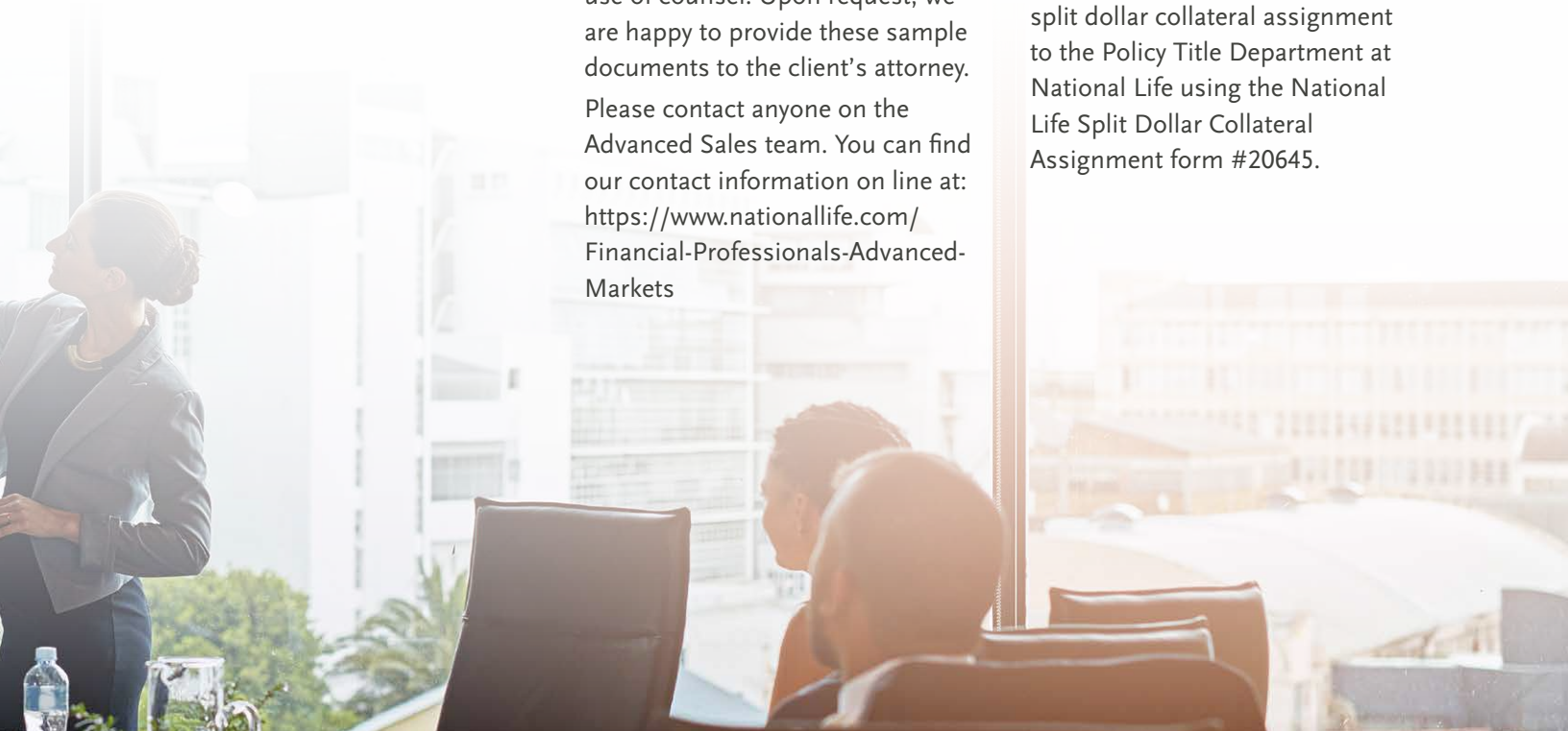
National Life has sample forms for use of counsel. Upon request, we are happy to provide these sample documents to the client's attorney. Please contact anyone on the Advanced Sales team. You can find our contact information on line at: <https://www.nationallife.com/Financial-Professionals-Advanced-Markets>

3

Submit

- ✓ Split dollar assignment filed with National Life Policy Title department
- ✓ CPA books cash flow and receivables on corporate balance sheet and P&L statements
- ✓ Annual review
- ✓ If non-recourse loan — annual statement provided to the IRS

Upon completion of the documentation and issue of the life insurance policy, please submit the split dollar collateral assignment to the Policy Title Department at National Life using the National Life Split Dollar Collateral Assignment form #20645.



After Issue Stage

1

Term

For a term note, each premium paid by the business under the arrangement is treated as a separate loan. One master document may be established for the plan but a separate promissory note for each premium paid is standard documentation.

Remember, each note may have a different interest rate applied. The forms do not have to be submitted to National Life.

2

Annual Statement

If the arrangement involves a non-recourse loan (please discuss this with the client's counsel), an annual statement must be provided to the IRS. That statement refers to the arrangement and that the parties intend to repay the entire principal of the loan. Failure to file the annual statement may result in adverse tax consequences.

National Life has sample forms for use of counsel.

3

Tracking the Interest Payments Due

This should be done by the parties to the arrangement and CPA, bookkeeper, or other tax professional. Whether the interest payment is made to the business, forgiven, or accrued, it is important for the parties to maintain accurate records and be clear as to how the interest payments were made and treated.

- **For a term note**, each premium paid by the business will be considered a separate loan. The interest rate applied will be based on the applicable rate established by the Treasury department for that month. It is quite likely there will be a different interest rate on each loan (premium payment) made. One master document may be established for the plan but there will need to be a separate promissory note for each premium paid.
- **For a demand note**, each premium paid will be pooled as one note and the applicable interest rate, as declared by the Treasury Department each year, will be applied against the entire amount.

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

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