



Split Dollar Under the Loan Regime

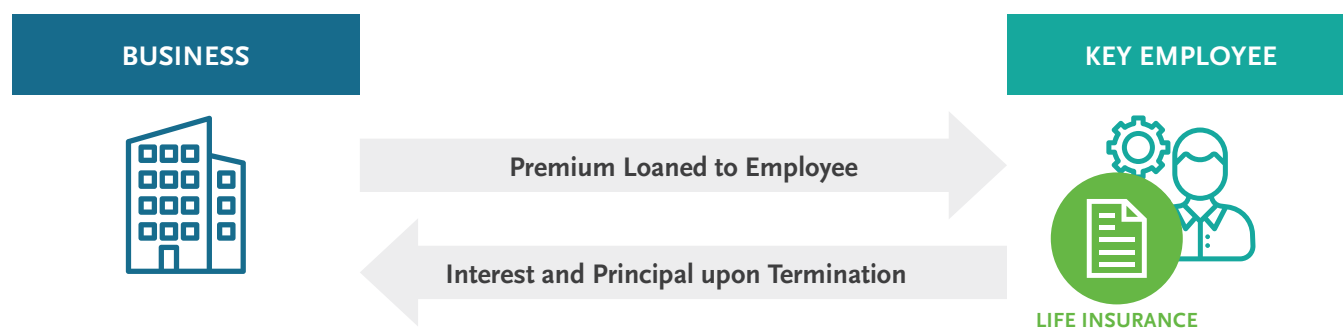
RECRUIT, RETAIN, AND REWARD YOUR KEY EMPLOYEES.

Now more than ever, key employees expect employers to go the extra mile to recruit, reward, and retain them.

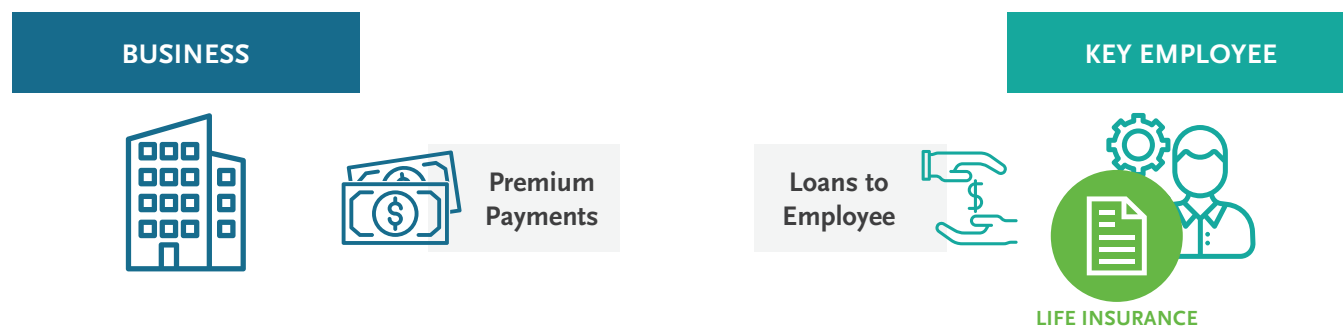
Benefits provided under the split dollar loan regime have the potential to meet these expectations. Under this plan, an employer lends money to the key employee to pay premiums of a life insurance policy owned by the

key employee. The policy may provide income tax-free death benefits that may be applied to loan repayments and may provide income replacement to surviving family members.

The mechanics of split dollar loans are illustrated below:



Each premium payment is treated as a new loan to the key employee.



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

Here's How it Works:

1. Key employee purchases a life insurance policy.
2. Business and key employee enter into a loan arrangement under which the business agrees to lend the key employee cash to pay the premiums.
3. To secure this loan, the key employee collaterally assigns the policy to the business.
4. Key employee uses the loan proceeds to pay the policy premium.
5. Key employee pays interest on the loan to the business annually; forgiven loan interest is taxable as imputed income to the key employee.
6. Key employee repays the loans (with interest) and the business releases the assignment.
7. Key employee may access policy cash value for retirement income via loans and/or withdrawals (assuming sufficient cash value).
8. At the key employee's death, policy death benefits are paid to the key employee's beneficiary, generally income tax-free; if there is a loan balance, the insurer repays the loan with a portion of the death proceeds.

A Benefit for Your Key Employees

With a split dollar loan, you can use business dollars to help your key employees acquire permanent life insurance on their lives. The arrangement functions as a tool to reward and retain these employees and may help recruit future ones. A key benefit to you is that the business will recover its costs by taking loans or withdrawals from the cash value of the policy (if there is sufficient cash value) or from the death benefit. The loan repayment terms may be flexible, and may include a set term of years or a demand note. Also, the business will be able to book the amount owed to it as a receivable.

Your key employee will:

- Own and control their permanent life insurance policy providing an income tax-free death benefit for their family.¹
- Incur minimal out of pocket cost, yet obtain valuable protection from the life insurance and any riders such as living benefits, as well as the potential for income tax-deferred cash value growth within the policy.
- Contribute to the plan via interest payments paid to the business.

Is a split dollar loan right for you?

The answer may be yes...

- **If you** want to provide death benefit protection for your key employee(s) with the potential for supplemental retirement income through policy loans and withdrawals.
- **If you** want to use business dollars to fund the benefit for a period of time, while recovering your costs.

Next Steps

Let us review your situation and help you to determine whether a split dollar loan arrangement is the right benefit for you, your business, and your key employees.

Please note: a split dollar loan arrangement cannot be used by a publicly traded business.

This information is not intended as tax or legal advice. For advice concerning your own situation, please consult with your appropriate professional advisor.

¹ Internal Revenue Code Section 101(a)(1). There are some exceptions to this rule. Please consult a qualified tax professional for advice concerning your individual situation.

Payment of Accelerated Benefits will reduce the Cash Value and Death Benefit otherwise payable under the policy. Receipt of Accelerated Benefits may be a taxable event and may affect your eligibility for public assistance programs. Please consult your personal tax advisor to determine the tax status of any benefits paid under this rider and with social service agencies concerning how receipt of such a payment will affect you. Riders are supplemental benefits that can be added to a life insurance policy and are not suitable unless you also have a need for life insurance. Riders are optional, may require additional premium and may not be available in all states or on all products. This is not a solicitation of any specific insurance policy.

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.

National Life Group® is a trade name of National Life Insurance Company (NLIC), Montpelier, VT, Life Insurance Company of the Southwest (LSW), Addison, TX 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.