

Split Dollar Loan Business Opportunity

A split dollar loan arrangement is designed to use business dollars to pay the premium on a permanent life insurance policy that is owned by an individual (or a trust). A collateral assignment and written agreement is required to memorialize the terms of the loan agreement. The premium payment is made in the form of a loan from the business to the policy owner. The policy owner pays the interest on the loan to the business or reports the interest as imputed income as specified in the loan agreement. The loan is repaid, generally, by taking loans or withdrawals from the cash value of the policy, or from the death benefit.¹ The business will book the outstanding loan balance as an accounts receivable.

A business owner may choose to offer this benefit to key employees. The permanent life insurance is purchased on the life of the key employee and the business will recover its cost of the benefit when the outstanding loan balance is repaid. This is a benefit that can help attract, reward, and retain key employees.

The key employee will:

- Own and control their permanent life insurance policy subject to a collateral assignment
- Incur minimal out of pocket cost
- Contribute to the plan via interest payments paid to the business, or report the interest due as imputed income and pay taxes on the amount at the employee's personal income tax rate. The business will recover its costs through the repayment of the loan. The repayment terms may be flexible and may include a set term of years or a demand note.

Products issued by

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

¹ Policy loans and withdrawals reduce the policy's cash value and death benefit and may result in a taxable event. Surrender changes may reduce the policy's cash value in early years.

² 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.

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Client Profile

Possible Client Objectives:

- Provide discriminatory benefits for the key employee with cost recovery for the employer
- Provide the key employee death benefit protection
- Excess cash values may be used by the policy owner for retirement or other personal needs using policy loans and withdrawals

Entity Types: If the benefit is for a **non-owner key employee**: C corporations, professional corporations, S corporations, partnerships, and LLCs (regardless of tax status)

If the benefit is for an **owner-employee**: C corporations, professional corporations, and LLCs taxed as C corporations

Relevant Factors:

- Employer is in a lower income tax bracket than owner-employee
- A need for life insurance has been established and is currently unfulfilled
- Desire to provide a benefit to select individuals
- Employer has cash flow to provide a benefit in excess of regular W-2 compensation

Product Applications: Any type of permanent life insurance including whole life and indexed universal life insurance. Riders such as the Accelerated Death Benefit Rider are recommended.²

Notes:

This image shows a single sheet of white paper with horizontal blue or grey ruling lines. The lines are evenly spaced and run across the width of the page. There are approximately 20 lines visible. The paper has a slight shadow on the right side, suggesting it's resting on a surface. There is no handwriting or other markings on the paper.