National Life Group®

Guide to Non-Qualified Executive Benefit Plans

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Guide to Non-Qualified Plans

	Executive Bonus / §162 Plan	Split Dollar: Loan Regime	Split Dollar: Economic Benefit
Description	Business pays premiums to provide life insurance coverage for key employee/ owner.	Life insurance purchased on employee's life; death benefit and cash value are shared.	Life insurance purchased on employee's life; death benefit and cash value are shared.
Objective	Provides life insurance protection as a fringe benefit to key employee.	Provides life insurance for owner or key employee with business dollars. Minimal cost to employee.	Provides life insurance for owner or key employee with business dollars. Minimal cost to employee.
Owner/Employer Features	• Premiums may be tax-deductible to business. • Plan may discriminate. • Simple and easy to implement. • Minimal plan administration.	• Plan may discriminate. • Golden handcuffs to retain key employee. • No IRS approval is needed. • Business will receive return of premium amounts as loans and interest due at death or rollout.	• Plan may discriminate. • Golden handcuffs to retain key employee. • No IRS approval is needed. • Business recovers premium outlay at death or rollout through endorsement. • Business will own and control the policy as a balance sheet asset.
Employee Features	• Tax-deferred cash value accumulation may be used for retirement income.[1] • Life insurance protection. • Completely portable. • Supplement to a "maxed out" qualified plan.	• Death benefit income tax-free to beneficiary. • Employee owns and controls the policy. • Cash value net of business interest in policy belongs to employee. • Low personal cost to employee. • Plan can offset limits on benefits from qualified plans.	• Death benefit income tax-free to beneficiary. • Minimal tax cost to employee. • All policy rights can be rolled out to employee at retirement. • Plan can offset limits on benefits from qualified plans.
Points to Consider	Bonus may place key employee in a higher individual income tax bracket.	• Loan interest set at market rates either as a term note or demand note. • Subject to ERISA treated as Welfare Benefit Plans. Plan must be in writing with a named fiduciary. • Some plan designs may be subject to 409A rules.	• Economic benefit reportable as taxable income to employee; could be significant in later years of policy. • Subject to ERISA treated as Welfare Benefit Plans. Plan must be in writing with a named fiduciary. • Some plan designs may be subject to 409A rules.
Premium Payor	Business	Business	Business
Owner/Beneficiary	Key employee owns policy and designates beneficiary.	Employee is owner of policy and collaterally assigns policy to business; employee designates beneficiary for employee's portion of death benefit.	Business is the owner and endorses a portion of the death benefit to the employee. Employee designates beneficiary for employee's portion of death benefit.
Income Tax Considerations	• Premiums may be tax-deductible to business. • Employee reports premium as taxable income. • Could use double bonus to pay income tax liability. • Death benefit is income tax-free.	• Premiums are not tax-deductible to business. • Loan interest paid by employee is taxable to business and cannot be deducted by the employee. • Loan principal repayment is tax-free to business. • Death benefit generally income tax-free to beneficiaries. • Outstanding loans are an asset to the business.	• Premiums are not tax-deductible to business. • Employee taxed on economic benefit equal to the term insurance value of the employee's portion of the death benefit. • Death benefit generally income tax-free to beneficiaries; if business owns policy, must comply with §101(j) and §6039I requirements to avoid income taxes.
Estate Tax Considerations	May be included in employee's estate.	May be included in employee's estate.	May be included in employee's estate.
Appropriate Business Organization	• All entity types. • Note: not appropriate for S Corp., partnership, LLCs, or sole proprietor if coverage is for business owner.	• All entity types. • Note: not appropriate for S Corp., partnership, LLCs, or sole proprietor if coverage is for business owner.	• All entity types. • Note: not appropriate for S Corp., partnership, LLCs, or sole proprietor if coverage is for business owner.

1 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.

2 Assuming the notice and consent requirements of IRC §101(j) and §6039I are met prior to issuance of the policy.

Deferred Compensation / SERP	Key Person	Buy-Sell: Cross Purchase	Buy-Sell: Entity Purchase/Stock Redemption
Provides supplemental retirement, death, and/or disability benefits to key executive.	Protects the business against financial consequences resulting from the death of a key person.	Each owner obtains life insurance on the other owner(s) to buy and sell their respective business interests.	Business entity obtains life insurance on each owner to buy their respective business interest.
Purchase life insurance to fund business obligation to pay benefits.	Compensates for lost profits while replacement is sought.	Death benefit used to buy business interest from deceased owner's estate.	Death benefit used to buy business interest from deceased owner's estate.
• Golden handcuffs to retain key executive. • Plan may discriminate. • All costs may be recovered by business. • No IRS approval is needed.	• Keep lines of credit open after key person's death. • Loan indemnification for creditors in relation to business financing. • Death benefit received tax-free to business.[2]	• Provide a buyer for business. • Establish the ground rules for the transaction and source of the funding. • Establish the trigger for the transfer (death, disability, retirement, or termination). • Provide an income stream for the seller. • Provide liquidity for the seller's estate.	• Avoids forced liquidation of business. • Helps peg the market value of the business for estate tax purposes. • Assures continuation of business. • Only one policy per owner needs to be purchased. • Business redeems stock with death benefit.
• Supplemental retirement income.[1] • Benefits may be designed specifically for each participant. • No reportable income until benefits received. • May provide survivorship benefits. • Plan can offset limits on benefits from qualified plans.	• No cost to employee. • Policy can be used to fund salary. • Continuation plan and retirement for key person or pay a benefit to key person's family.	• Management continuity. • Provides a step-up in cost basis to surviving owner(s) upon death of an owner. • Create continued employment incentives for employees intended as successors.	• Provides a ready market for business upon death of an owner. • Management continuity. • Business dollars used to pay premiums.
• Business deduction is delayed until benefits are actually paid. • Taxable to executive when benefits are received. • Survivorship benefits are taxable income to executive's family. • Subject to 409A rules.	• Premiums are paid with after-tax business dollars.	• A business with several owners will require multiple policies to fully fund. • Owner uses personal dollars to pay premiums. • Potential transfer-for-value issues if multiple owners.	• Attribution issues if a family corporation.
Business	Business	Each owner pays for policy on life of the other owner(s).	Business
Business is owner and beneficiary.	Business is owner and beneficiary.	Each business owner is the owner and beneficiary of the policy on the life of the other business owner(s).	Business is owner and beneficiary.
• Premiums are not deductible to business. • Premiums are not taxable as income to executive. • Benefit payments are deductible by business when paid to executive. • Death, disability, or retirement benefits are taxable to executive and/or beneficiary when received. • Business must comply with IRC §101(j) and §6039I notice and consent requirements to avoid income tax on proceeds.	• Premiums are not deductible to business. • Premiums are not taxable as income to key person. • Business must comply with IRC §101(j) and §6039I notice and consent requirements to avoid income tax on proceeds.	• Premiums are not deductible. • Gain, if any, upon sale of appreciated stock by owner, is subject to income tax. • Death benefit is income tax-free.	• Premiums are not deductible to business. • Gains, if any, upon sale of appreciated stock by owner, is subject to income tax. • Business must comply with IRC §101(j) and §6039I notice and consent requirements to avoid income tax on proceeds.
Present value of payments to executive's beneficiary is included in executive's estate.	May increase value of business interest included in estate of key person/owner.	Value of policies on the life of the other owner(s) included in estate of deceased owner.	Proceeds increase value of deceased owner's business interest.
• All entity types. • Note: not appropriate for S Corp., partnership, LLCs, or sole proprietor if coverage is for business owner.	All entity types.	• All entity types. • A sole proprietor could enter into a one-way buy/sell with a key employee.	C Corp., S Corp. and Partnership.

This information is not intended as tax or legal advice. Please consult with your Attorney or Accountant prior to acting upon any of the information contained in this brochure. This document is only intended as a summary of various plan types. A full census is required before implementing a plan. This chart is provided for informational purposes only and is not intended to be an offer or solicitation or any insurance or investment product.