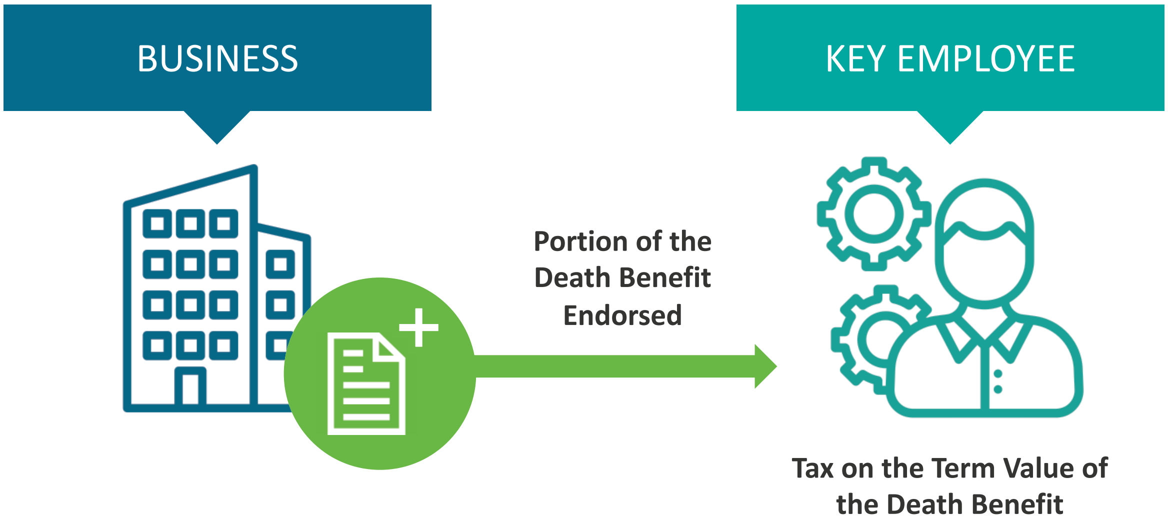
Split Dollar Under the Economic Benefit Regime

YOUR BUSINESS SUCCESS DEPENDS ON THE EXPERTISE OF A FEW KEY EMPLOYEES...

How can you reward and retain certain key employees privately and selectively?



This strategy provides the following:

- Allows your business to provide selective benefits to key employees.
- Business retains ownership of cash values and any death benefit not endorsed to the key employee.
- Key employee receives valuable life insurance protection.

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When the ongoing success of your business depends on the skills, knowledge, and expertise of a few key employees...

A split dollar arrangement under the economic benefit regime can help keep them committed to your company.

Here's how it works:

- Business owner determines who will be covered under the plan.
- Business purchases a permanent life insurance policy on select key employees.
- Employee must sign notice and consent form prior to policy issue.
- Business enters into a split dollar agreement with the selected employee.
- Business pays the premiums and controls the cash value.
- The value of the insurance protection is included in the employee's gross income.[1]
- Employee designates a beneficiary of their portion of the death benefit.
- Split dollar agreements normally end at the earlier of the employee's retirement or death.
  - If the insured dies before retirement, the employee's portion of the death benefit is paid to the designated beneficiaries generally income tax-free; the employer's portion is received by the business generally income tax-free.[2]
  - If the agreement terminates upon the employee's separation from service, the business will typically maintain ownership of the life insurance policy and use the cash value and/or future death benefit to recover the cost of premiums paid or for other business purposes. Alternatively, the business may surrender the policy and use the surrender proceeds for these purposes.[3]

Permanent life insurance generally provides:

- An income tax-free death benefit, paid to a key employee's beneficiary at death.
- Tax-deferred accumulation of policy cash value – controlled by the business – which can be used to informally fund supplementary retirement benefits for the employee or to recover the cost of the program.[4]

1 The value of the life insurance protection is measured by low term rates. This taxable economic benefit is based on standard rates for age and sex, and impaired ratings are not factored in. The business may choose to "bonus" employees an amount sufficient to pay the resulting income taxes.

2 Assuming notice and consent requirements comply with IRC §101(j) and §6039I to keep the proceeds from being taxable.

3 Life insurance contract surrender charges may apply.

4 Policy loans and withdrawals reduce the policy's cash value and death benefit and may result in a taxable event.