Split-Dollar Arrangement: Loan Regime Method Using Life Insurance

Program Highlights & Fact Finder

Split-Dollar Loan Regime Arrangement: A Method to Retain Key Executives

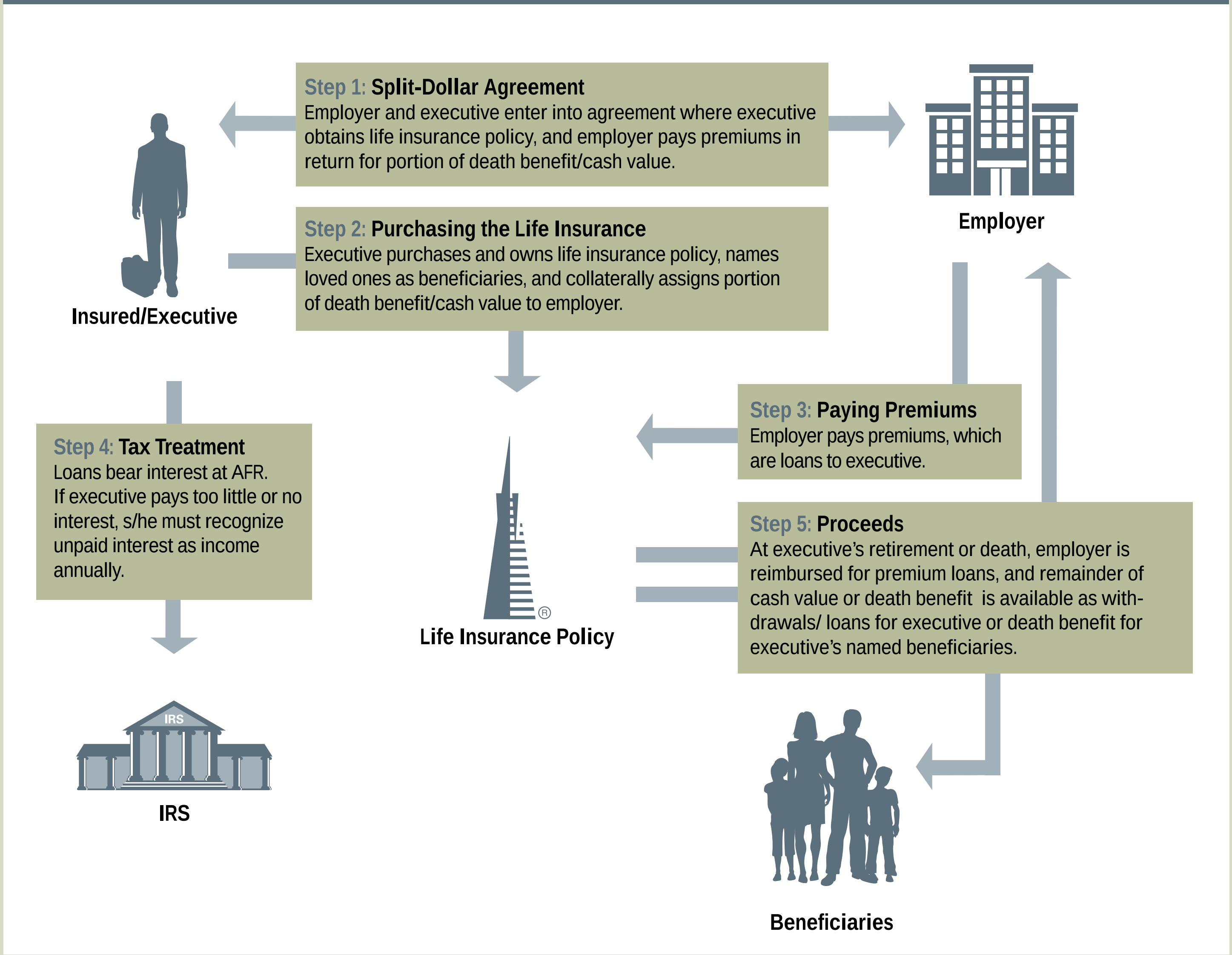
No matter what the economic climate, employers need something extra to attract and retain the best talent

Attracting and retaining key executive talent is usually of primary importance for a successful employer. For such key executives, life insurance can provide security and liquidity for any number of purposes, including retirement, children's or grandchildren's college expenses, and income replacement and liquidity for his/her family in the event of the executive's death. However, many executives have delayed purchasing life insurance due to a need to use cash flow for other purposes.

A split-dollar loan regime arrangement offers a method to purchase life insurance that will enable employers to retain their key executives by helping them finance a policy to protect the financial needs of the executive and his/her family.

The split-dollar arrangement is an agreement between two parties, usually an employer and an executive, to purchase life insurance. Using the loan regime method, a portion or all of the premium payments would be paid by the employer, with the executive owning the life insurance policy and the policy death benefit being split between the parties as provided in the agreement.

Loan Regime Method: Split-Dollar Life Insurance



How It Works

Steps 1-2: Entering into the Split-Dollar Agreement

- The employer and executive enter into a contractual agreement in which, in return for the employer's agreement to pay all or most of the premiums, the executive obtains a life insurance policy and assigns a portion of the death benefit and/or the cash value back to the employer as reimbursement for premiums paid.
- A common agreement is to limit the employer's share of the cash value or death benefit to the aggregate net premiums paid. Any cash value or death benefit exceeding this amount is credited to the executive.
- The executive obtains the policy naming himself/herself as the policy owner and can designate his/her spouse and/or family as beneficiaries. The policy ownership and beneficiaries can be arranged through a third party, such as a child or irrevocable trust, so that the insurance proceeds are not includible within the executive's estate.

Steps 3-4: Premiums and Taxes

- The employer pays the annual premiums to or on behalf of the executive—with the expectation that such premiums will be repaid. Each premium payment is considered a separate loan. The loans are to be repaid from or are secured by the life insurance policy.
- The executive must pay interest on the loans at the applicable federal rate (AFR). If no interest or too little interest is paid, then interest is imputed and is taxable to the executive.

Step 5: Accessing the Benefits

- At the end of some period or on an event as defined in the agreement—such as retirement, disability, or death—the arrangement terminates.
- The employer is repaid for premiums loaned from the policy cash value, death benefit (if applicable), or a combination of both.
- If the executive is alive, he/she can access the proceeds through policy withdrawals or loans.* If the executive is deceased, the named beneficiaries receive the remainder of the life insurance death benefit.

The Advantages

With loan regime split-dollar life insurance, both the employer and key executive benefit. Here's how:

The Executive

- Obtains a life insurance policy for financial security at little or no cost
- Benefits from accumulated cash value, which can be accessed later for retirement needs
- Is able to obtain death benefit protection for his/her named beneficiaries
- Can use cash flow that would have been used to pay premiums for other needs
- Obtains life insurance protection at a lower current out-of-pocket cost than a personally purchased policy

The Employer

- Distinguishes its compensation package to attract and retain key talent
- Provides selected employees with attractive pre- and post-retirement benefits
- May be able to receive an income tax deduction for imputed interest
- Is repaid for premiums loaned to pay for the policy at the termination of the agreement
- Is not subject to burdensome approval, testing, and discrimination requirements, since the split-dollar plan is not a qualified retirement plan

Who Can Benefit from the Split-Dollar Loan Regime Method?

- Employers who want to recruit and retain key executives
- Executives who want to provide financial security for their families in a cost-effective manner
- Employers who want to offer benefits in excess of those offered by their qualified retirement plans

What Is Being Achieved?

This split-dollar arrangement using the loan regime method is a way to fund life insurance where there is a clear need for the added security and financial enhancement that life insurance provides. Using this arrangement, employers can prevent loss of talent, while executives are able to prepare for retirement and planning by a less costly means, and beneficiaries obtain a federal income tax–free death benefit.

Individually Designed Proposal

By completing the attached Fact Finder, a Transamerica life insurance professional can develop a customized proposal illustrating a split-dollar arrangement using the loan regime method.

* Withdrawals and loans will lower the accumulation value, net cash value, and death benefit. Performance will affect the accumulation value and net cash value, and may affect the death benefit. Withdrawals or loans may be taxable and/or have surrender charges. If the policy is considered a Modified Endowment Contract (MEC), distributions are treated first as taxable distributions of contract earnings in the policy. Withdrawals, loans, and assignments are considered distributions. Taxable distributions from a MEC prior to the policy owner's age 59½ may also be subject to a 10% federal income tax penalty. Please consult your tax advisor regarding your particular situation.

Split-Dollar Arrangement: Loan Regime Method Fact Finder

Executive

Executive Name____________________ Date of Birth __________ Gender: ☐ M ☐ F

Address____________________ State __________

Spouse Name____________________ Date of Birth __________ Gender: ☐ M ☐ F

Retirement Age________ Annual Retirement Income Goal __________ Payable to Age ________

Risk Status: Insured ☐ S ☐ NS Risk Classification: ☐ Select ☐ Preferred ☐ Standard

Table Rating __________ Flat Extra/Amount ____________________

Risk Status: Spouse ☐ S ☐ NS Risk Classification: ☐ Select ☐ Preferred ☐ Standard

Table Rating __________ Flat Extra/Amount ____________________

Officer of Corporation? ☐ Y ☐ N Shareholder of Corporation? ☐ Y ☐ N Percentage of Corporate Ownership ___%

Executive Premium Share: ☐ PS58 ☐ ART Other ____________________

Bonus: ☐ Y ☐ N ☐ Single ☐ Double

Employer

Employer Name ____________________ Status: ☐ C Corp ☐ S Corp ☐ Partnership, LLC

Address ____________________ State ____ Number of Employees________

Federal Tax Bracket ____________________% State Tax Bracket ____________________%

Premium Payment Mode ____________________ Solve? __________ or Amount? __________

Years of Out-of-Pocket Premium Payments ____________________ Rollout Year __________

Illustration

Type of Illustration: ☐ Fixed Universal Life ☐ Variable Universal Life

Product to Illustrate

Policy Assumptions: Current __________ Guaranteed __________ Illustrated (VUL) __________

Desired: Death Benefit $ __________ or minimum so as not to create a MEC __________

Death Benefit Option: ☐ Level ☐ Increasing with cash value ☐ Increasing switching to Level

Plus-Premium ____________________

Annual Insurance Premium $ ____________________

Years to pay premium ____________________ or to age __________

Maximize income from policy at insured's age __________ for ________ number of years

If premium is not known, indicate desired cash flow from policy beginning in year __________, and ending in year.

Policy cash value at 100 equal to:

Endowment at initial face ____________________ or keep in force until age 100 __________

or cash value equal to $ ____________________