Split Dollar Plans

A Split Dollar Plan is an arrangement between you as an employer and a select key employee to join in the purchase of permanent life insurance. Policy premiums, death benefits and sometimes cash values are divided-or "split"-between the two in accordance with the needs and objectives of each.

Split Dollar Plans may have a variety of designs but they generally fall under one of two categories based on policy ownership:

1. **Economic Benefit Regime** — In these plans the employer is the primary policy owner and the key employee's interest in the policy is typically limited to death benefit coverage. The death protection is an "economic benefit" with a value based on a government term insurance table. The value of the economic benefit is charged annually as income to the employee (unless the employee has paid for the benefit). At retirement the arrangement may be terminated and the policy surrendered by the employer or transferred as a bonus to the employee.

2. **Loan Regime** — In a Loan Regime plan the employee or a selected third party is the primary owner of the policy. The employer's premium advances are considered to be loans to the employee. The policy cash values become collateral for the repayment of the premium loans. Loan interest is either paid by the employee or reported by the employee as imputed income.

Tax Implications

Split Dollar premiums are not tax deductible by the employer under either regime. Policies owned by the employer under an Economic Benefit Plan may have taxable gain if surrendered by the company. Policies transferred by the employer to an employee generally result in ordinary income to the employee and a compensation deduction for the employer. Death proceeds received by a named beneficiary are generally income tax-free.

In regard to the Loan Regime, interest paid by an employee on a premium loan is considered taxable income to the employer. In the case of a below-market rate loan, interest income is imputed to the employee and is considered to be retransferred back to the employer. Imputed interest income is a deductible expense for the employer except that no deduction is allowed in a corporation-shareholder arrangement. Once again, the insured's named beneficiary receives death proceeds income tax-free.

Advantages Of A Split Dollar Plan

For The Company

Selective

- No mandatory eligibility or participation rules
- You select which key employees can participate

Cost Effective

- You can recover the cost of the plan
- Minimal annual administration costs

- **Flexible**
- No IRS restrictions
- No required plan provisions

- Custom-tailored to each participant

"Golden Handcuff" Incentives

- Recruit, reward and retain key employees

For Key Employees

Affordability

- The cost can be minimal depending upon plan design
- When health conditions require an increased premium, splitting the cost with the employer helps make the coverage more affordable.

Survivor's Benefits

- Permanent insurance protection with reduced out-of-pocket costs
- Income-tax free benefits paid to beneficiaries at employee's death

Supplemental Income

- Additional income source at retirement, disability or termination of employment from cash value loans or withdrawals above and beyond the amounts owed to the employer

Portability

- Economic Benefit Regime Plans may anticipate a transfer of the policy to the employee at termination of employment or retirement
- Loan Regime Plans have policies owned by the employees who will have full access to policy values once loans are repaid.