Split Dollar Arrangements: Loan Regime Method Using Life Insurance

Key executive talent is usually a prime factor for a thriving employer. Attracting, retaining and rewarding these vital employees can be essential for the business to succeed. For them, whole life insurance can provide security and liquidity for any number of purposes. This includes family income replacement and access to policy cash values in excess of employer's interest to meet executive's financial needs.[1]

[1] Access to cash values through borrowing or partial surrenders will reduce the policy's cash value and death benefit, increase the chance the policy will lapse, and may result in a tax liability if the policy terminates before the death of the insured.

The information provided is not written or intended as specific tax or legal advice. Representatives are not authorized to give tax or legal advice. Individuals are encouraged to seek advice from their own tax or legal counsel. Individuals involved in the estate planning process should work with an estate planning team, including their own personal legal or tax counsel.

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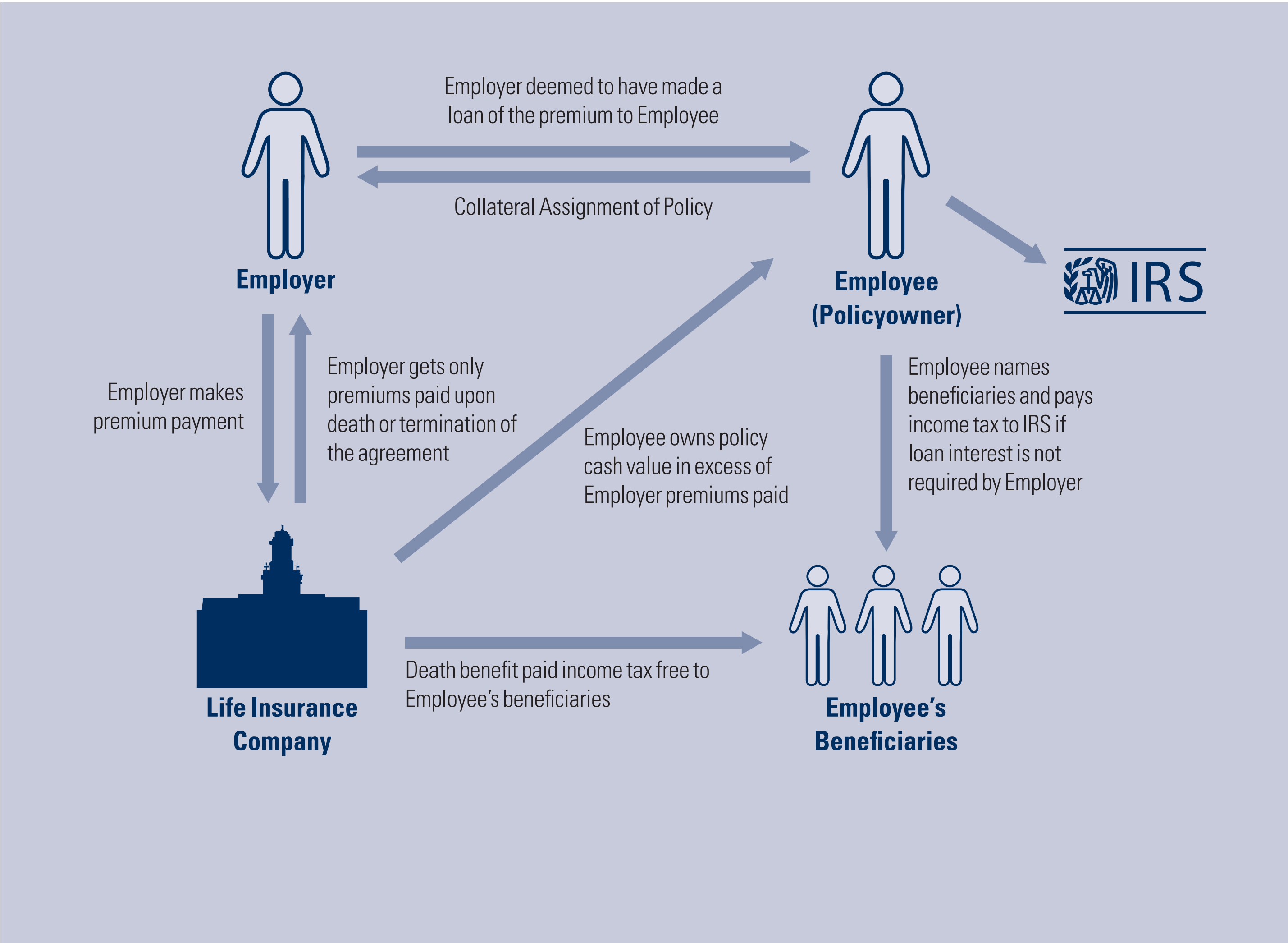
A Split Dollar loan regime arrangement offers a selective, easy to administer, cost-efficient way to purchase life insurance that will enable employers to retain their key executives. This cost-sharing arrangement can help them purchase a life insurance policy to protect the financial needs of the executive and his or her beneficiary. With this arrangement utilizing the loan regime method, all or a portion of the premium payments would be loaned by the employer, with the executive owning the life insurance policy. The policy cash value (or death benefit should the employee pass away) would be available to repay the employer for his or her cumulative premium payments.

Once a policy is issued, the executive assigns a portion of the death benefit and the cash value back to the employer as collateral for the premiums that are loaned. (The executive is the policyowner and his or her spouse and/or family are the designated beneficiaries. The policy ownership and beneficiaries may also be held through a third party, such as a child or irrevocable trust, so that the insurance proceeds are not included within the executive's taxable estate.) There may be a second agreement, a "promissory note" or loan agreement that explains how, when and under what terms the employee will repay the employer. The promissory note is required if the loan details are not included in the Split Dollar agreement.

Annual premiums are paid by the employer 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 loan can bear interest at the Applicable Federal Rate (AFR), which can be paid or accrued. The loan can also be structured as a below-market or zero-interest loan. Under the below-market loan rules, the employee is taxed each year on the calculated value of interest that the employee was not required to pay using the Demand Loan AFR as the benchmark interest rate. The loans are to be repaid from or are secured by the life insurance policy, which is collaterally assigned to the employer. At the executive's retirement or death, the employer is reimbursed for all premium loans, with the remainder of the cash value or death benefit available as withdrawals and/or loans[1] for the executive or death benefit for their named beneficiaries.

This Split Dollar loan regime arrangement is a way to fund life insurance where there is a clear need for added security and the financial enhancement that it provides. A Split Dollar loan arrangement can be used by employers to attract and retain key employees. Executives are able to prepare for retirement and estate planning by a less costly means, and beneficiaries generally obtain a federal income tax-free death benefit. Further, as the cash value of the policy grows, amounts in excess of the loan receivable by the employer can be available for the benefit of the executive and his or her family.

Equity Collateral Assignment Split Dollar (Loan Arrangement)



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