



ENDORSEMENT SPLIT DOLLAR

KEEP IN MIND

- A split dollar arrangement protects an employer from financial costs related to the loss of a key employee and provides an employee with added financial security on a tax-advantaged basis.
- The employee only recognizes an imputed income amount based on term policy rates, which may be lower than the actual cost of coverage, particularly if the employee has health issues or the policy is rated.
- Post-retirement benefits result in a liability accrual on the employer's balance sheet.
- Tax rules regarding split dollar can be complex. Talk to your tax advisor before entering into an arrangement.

COORDINATION WITH NONQUALIFIED BENEFIT PLANS

- Split dollar arrangements can be developed as a stand-alone benefit or coupled with a nonqualified plan.
- Benefits paid from a nonqualified plan are taxable to the participant's beneficiary at ordinary income tax rates. In lieu of a pre-retirement split dollar benefit through the nonqualified plan, a split dollar plan can provide a tax-free benefit to the participant's beneficiary.
- Some employers provide the taxable nonqualified plan death benefit in addition to a tax-free split dollar death benefit.

WHAT IS SPLIT DOLLAR?

Split dollar life insurance is a written arrangement typically between an employer and an employee to share the costs and benefits of a life insurance policy. The employee is the insured, and the policy's premiums, cash values, and/or tax-free death benefit are split between the two parties. The policy owner can be the employer, employee, or a third party. Most split dollar arrangements provide pre-retirement benefits; however, some employers also include a post-retirement element.

A split dollar life insurance arrangement can be used to retain employees, reward key employees, and fund certain other benefit plans such as nonqualified deferred compensation plans.

TYPES OF SPLIT DOLLAR

Two primary rules govern the taxation of split dollar arrangements:

ENDORSEMENT SPLIT DOLLAR: The employer owns the policy and endorses a portion of the death proceeds to the employee's beneficiary. The employer is treated as giving "economic benefits" to the employee.

To ensure tax-free death proceeds under a split dollar arrangement, employers must follow the notice and consent requirements of Internal Revenue Code Section 101(j), and the insured must include as income on Form W-2 an "imputed income" amount for the economic benefit of his or her portion of the death benefit.

COLLATERAL ASSIGNMENT/LOAN REGIME: The employee owns the policy. The employer is treated as lending premium payments to the employee. Loan regime regulations generally govern the taxation of arrangements under which an employer's premium advances are secured by a collateral assignment of the policy.