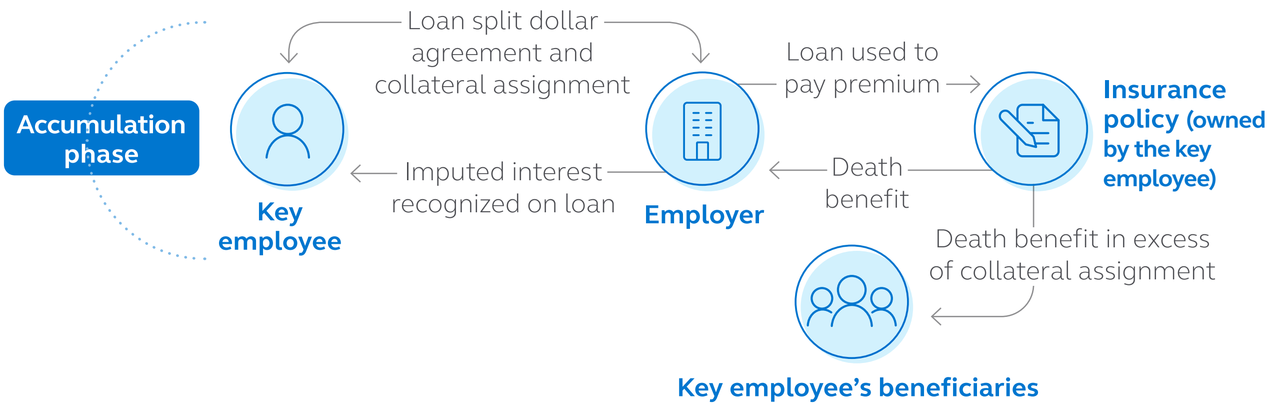
Shared benefits for you and your key employees

Having the right tools and resources in place to recruit, reward, retain, and retire key employees can make all the difference to the success of your company.

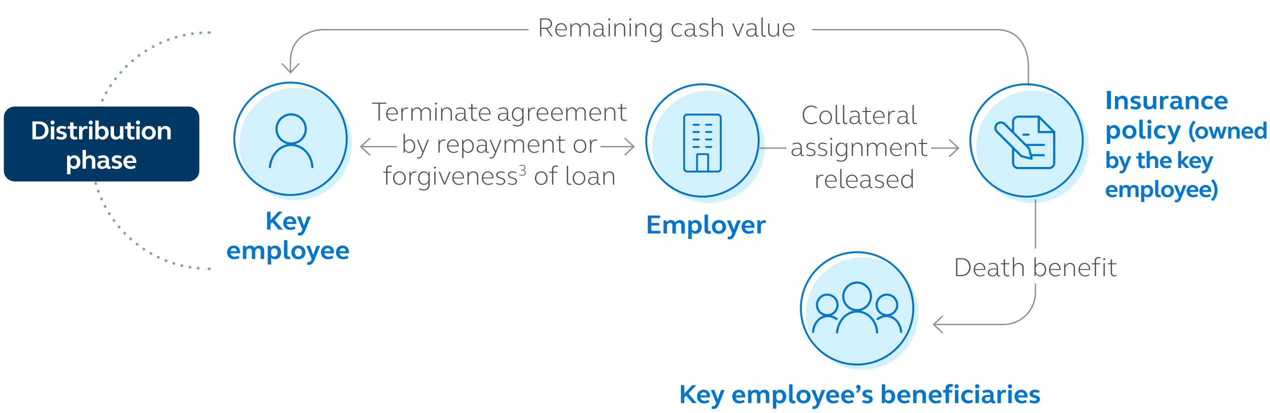
A loan split dollar plan can reward select key employees by helping them enhance their retirement income or help meet other financial security goals. It can also provide survivor benefits for their families. And this plan offers options for recovering your costs for this benefit.

Here's how it works

You enter into a written split dollar agreement with a key employee, which results in the purchase of a cash-value life insurance policy. A loan from you to the key employee provides proceeds to pay the premium on the policy owned by the key employee. Imputed interest[1] will be taxable income to the key employee during the accumulation phase. A portion of the cash value and death benefit equal to the loan is assigned back to you as collateral.



It's important to define an exit strategy at plan implementation. During the distribution phase[2], the loan is paid off or forgiven and the collateral assignment is terminated. This gives the employee sole access to the remaining policy benefits for supplemental retirement income and/or survivor benefits.



What you need to know

There are many advantages to this plan, just as there are some things to consider.

For you

Increase morale. It's an effective way to recruit, reward, retain, and retire key employees.

Secure the loan. The collateral assignment on the policy secures the company's interest in the loan repayment.

Receive a tax deduction. If you choose, you may use bonuses, which are tax deductible, to pay the key employees' income tax on the loan interest. If the loan is forgiven at plan termination, an additional deduction may be available.

Recover costs. If desired, you may recover your investment in the plan upon plan termination.

For your key employees

Save on protection. Provides life insurance protection at a current cost (imputed interest[1]) to the key employee that's significantly less than the full policy premium.

Receive multiple benefits. In addition to tax-advantaged supplemental retirement income, the plan can also provide access to funds to address unplanned events—such as death, disability, chronic illness, and other financial needs, since the funding is provided by a life insurance policy.

Pay taxes. During the accumulation phase, income tax is due only on the imputed loan interest.[1] During the distribution phase, loans may be forgiven through employer bonuses. These bonuses may be increased to offset the key employee's taxable income.

Learn more

Contact your financial professional today.

1 "Imputed interest" is the interest at a minimum level required by tax law. Often, the key employee won't pay any interest on the loan, but instead will be taxed as if a minimum level of interest had been paid.

2 This distribution phase is sometimes referred to as the rollout.

3 Employers might want to avoid making any promise of future loan forgiveness. Doing so could create a funded deferred compensation plan and trigger unexpected ERISA requirements and income tax consequences. Forgiveness of the loan creates taxable income for the employee, but cash values from the policy may be used to help pay taxes due.

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