



Lafayette Life  
Insurance Company

A member of Western & Southern Financial Group

ADVANCED MARKETS

EXECUTIVE  
COMPENSATION



## Split Dollar Life Insurance

*Rewarding Select Employees  
with Lafayette Life*

# Rewarding Select Employees

- In today's competitive world, attracting and retaining key employees can be critical to the success of an enterprise.
- Therefore, finding a cost-efficient, simple-to-administer method of rewarding select employees is important.

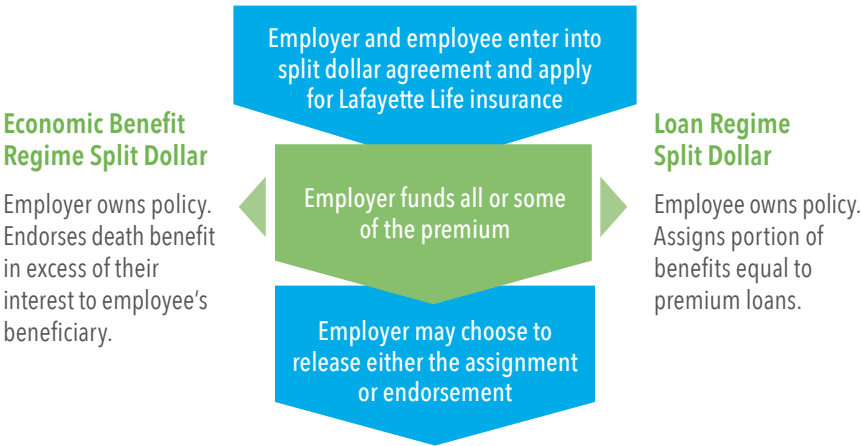
## One possible solution is a split dollar arrangement using life insurance.

In essence, this arrangement can share or split the cost of providing an incentive program. Which split dollar plan you select depends upon the goal of the incentive program and how much control over the life insurance policy you desire.

Split dollar arrangements are non-qualified incentive plans. There is no ERISA or IRS pre-approval required with a split dollar arrangement.

## How Does A Split Dollar Reward Program Work?

In a business setting there are two basic split dollar arrangements. One is the *economic benefit regime* and the other is the *loan regime*. Which arrangement you select depends upon the level of business ownership and control of the life insurance policy cash value and death benefit.



## Economic Benefit Regime

- If the business desires control over all the policy cash value as well as recovery of its premium contributions, then this is an **economic benefit regime** (aka *endorsement*) split dollar arrangement. This arrangement may informally fund supplemental retirement benefits to the employee in lieu of traditional deferred compensation arrangements.

The taxation of this benefit is measured by the economic benefit per thousand of the insured's death benefit protection using specific IRC table rates.<sup>1</sup> The premium paid on this policy is a non-deductible business expense. Also, it is also important the employer complies with the Notice and Consent requirements as well as reporting requirements stipulated in IRC 101(j) for employer-owned life insurance.<sup>2</sup>

## Loan Regime

- If control by the business is less of a concern, and the employee desires ownership over the policy cash values, then this is a **loan regime** (aka *collateral assignment*) split dollar plan. The Lafayette Life insurance policy cash value is owned by the employee.

The insured and business enter into a collateral assignment agreement. The premium is loaned by the business to the employee. The loan rate charged must be reasonable and at least equal to the published IRC Applicable Federal Rates. The tax impact to the employee is reportable income equal to this annual loan interest.<sup>3</sup>

**Your Lafayette Life agent is prepared to work with you and your advisors to create the programs that are best for your company. Call today to learn more.**

1 Split dollar arrangements are governed by Treasury Regulations issued in 2003 outlining the tax treatment of post-September 17, 2003, arrangements.

2 Prior to issuance of the life insurance policy, the business needs to complete the Notice and Consent requirements as stipulated in IRC 101(j). Since the passage of the Pension Protection Act in August of 2006, employer-owned life insurance must comply with requirements under Section 101(j) of the Internal Revenue Code. The requirements include completion of consent and notice requirements signed by the employee and retained in the employer's records. Additionally, when the business files annual tax reports, it needs to include Form 8925 Report of Employer Owned Life Insurance Contracts. The failure to comply with these regulations may subject the death proceeds to income taxation when paid to the beneficiary business.

3 Loan regime split dollar plans may not be appropriate for use with officers in publicly traded companies. Sarbanes-Oxley Act prohibits indirect loans to corporate officers.

## THE LAFAYETTE LIFE INSURANCE COMPANY

With more than 115 years of service to policyholders, The Lafayette Life Insurance Company is a financially strong provider of individual life insurance, annuities, and retirement and pension products and services. Lafayette Life is a member of Western & Southern Financial Group, Inc., a family of financial services companies whose heritage dates back to 1888. Find out more about our financial strength and distinguished history at [LafayetteLife.com](https://LafayetteLife.com).



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