



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 environment, attracting and retaining key employees is critical to the success of an business, making it important to find a cost-efficient and simple-to-administer method of rewarding select employees.

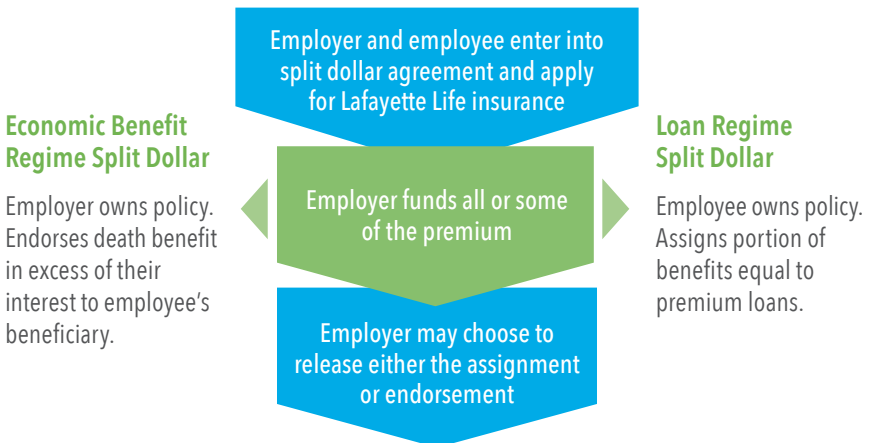
**One possible solution is a split dollar arrangement using life insurance.**

A split dollar arrangement allows the employer and employee to share the cost of providing an incentive benefit. The type of split dollar plan selected depends on the objectives of the incentive program and the desired level of control over the life insurance policy.

Split dollar arrangements are nonqualified incentive plans and generally do not require ERISA plan qualification or IRS pre-approval.

## How Does A Split Dollar Reward Program Work?

There are two primary types split dollar arrangements: the *economic benefit regime* and the *loan regime*. The appropriate structure depends on the extent to which the business seeks to retain policy ownership and control the policy's cash value and death benefit.



## Economic Benefit Regime

- If the business desires to retain ownership of the policy and control over the policy's cash value, as well as recover its premium contributions, an economic benefit regime (also known as the endorsement method) split dollar arrangement may be appropriate. This structure may be used to informally fund supplemental retirement benefits for 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 applicable IRC table rates.<sup>1</sup> The premium paid on this policy is a nondeductible 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 retaining policy control is less important to the business and the employee desires ownership of the policy and its cash value, a loan regime (also known as the collateral assignment method) split dollar arrangement may be appropriate.

The employer and insured employee enter into a collateral assignment agreement, and the employer advances the premium to the employee as a loan. The interest rate charged must be reasonable and at least equal to the applicable federal rate (AFR) published by the IRS. The employee generally recognizes taxable income each year equal to the loan interest determined under the applicable rate.<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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**No bank guarantee. Not a deposit. May lose value. Not FDIC/NCUA insured. Not insured by any federal government agency.**

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