Business planning

Equity loan regime split dollar plan

The concept

An employer assists an employee in acquiring life insurance protection by lending money to the employee for the purposes of making the premium payments on the life insurance policy. The employee pledges the policy as collateral for the loan and retains the ability to name the beneficiary for the balance of the death benefit.

Benefits

For this strategy, the employee obtains life insurance protection with the financial assistance of the employer. The employer's loan, by way of the collateral assignment, is protected and reimbursed either from the cash value of the policy at retirement or the death benefit at death. The employee determines the beneficiary(ies) for the balance of the policy.

Tax considerations

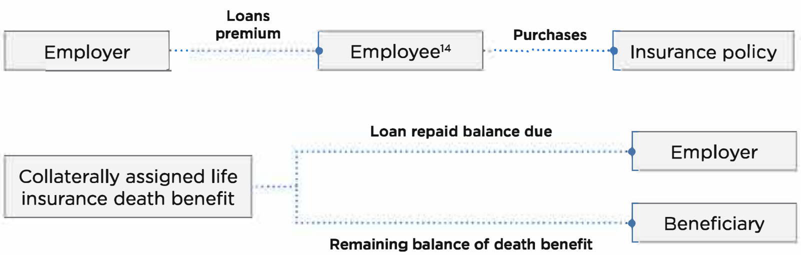
- The employee is taxed on the imputed interest income of the loan
- If the employee is limited to the death benefit (nonequity collateral assignment), the arrangement is treated as an endorsement split dollar plan and the employee is taxed on the economic benefit of the life insurance

Steps

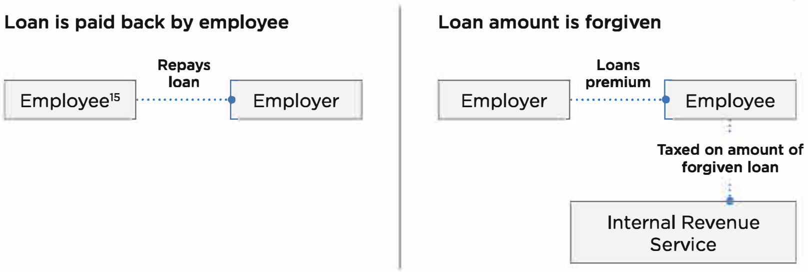
- The employer and employee enter into a written split dollar life insurance agreement
- The employer creates a loan for the employee for the payment of premiums, and the policy is put in place with a collateral assignment in favor of the employer
- The employee names the beneficiary(ies) of the amount in excess of the loan

How it works

During working years



Upon separation from service/end of agreement



[14] The employee is taxed on the imputed interest income of the loan.

[15] The agreement is terminated and the employee owns the life insurance policy free and clear of pledge.