

Non-equity endorsement split dollar plan

The concept

An employer assists an employee in acquiring life insurance protection by purchasing and owning a policy on the employee's life while permitting the employee to name a personal beneficiary for the death benefit in excess of the employer's premium contributions or policy cash value, whichever is greater. The employee is taxed annually on the value of the employee's life insurance protection.

Benefits

The employee obtains life insurance protection with the financial assistance of the employer. The employer, as the owner of the policy, is reimbursed its premium advances or policy cash value, whichever is greater, from the cash value during the employee's life or from the death proceeds at the employee's death. The employee is taxed at favorable rates on the value of the life insurance protection.

Tax considerations

- The measure of the value of the employee's life insurance protection for income tax purposes is the government's Table 2001 rates or the insurer's alternative one-year term rates, if available
- Because the employee has no interest in the cash value of the policy, the employee is only taxed annually only on the value of the life insurance protection

Steps

- The employer and employee enter into a written split dollar life insurance agreement
- The employer purchases and owns a policy on the employee's life
- The employee names a personal beneficiary for the amount of death benefit in excess of the employer's premium advances or the policy's cash value, whichever is greater
- The employer pays the policy premiums
- The employee reports each year on his or her taxes the value of the life insurance protection using the Table 2001 or insurer's one-year term rates, if available

- At the employee's death, the death benefit reimburses the employer for its premium advances or the policy's cash value, whichever is greater, with the balance paid income tax free to the employee's beneficiaries

How it works

