Split-Dollar Life Insurance

CONCEPT APPLIED:

Employers use split-dollar to buy life insurance as a valuable fringe benefit for key employees. Family businesses use this arrangement to benefit family members or a trust established for the family's benefit.

HOW IT WORKS:

There are two split-dollar methods:

1. Endorsement—employer-owned policy with an agreement on the employee's rights; and

2. Loan Regime—employee-owned policy that assigns policy benefits as collateral for the employer's premium advances.

Taxation generally depends on which method is used.

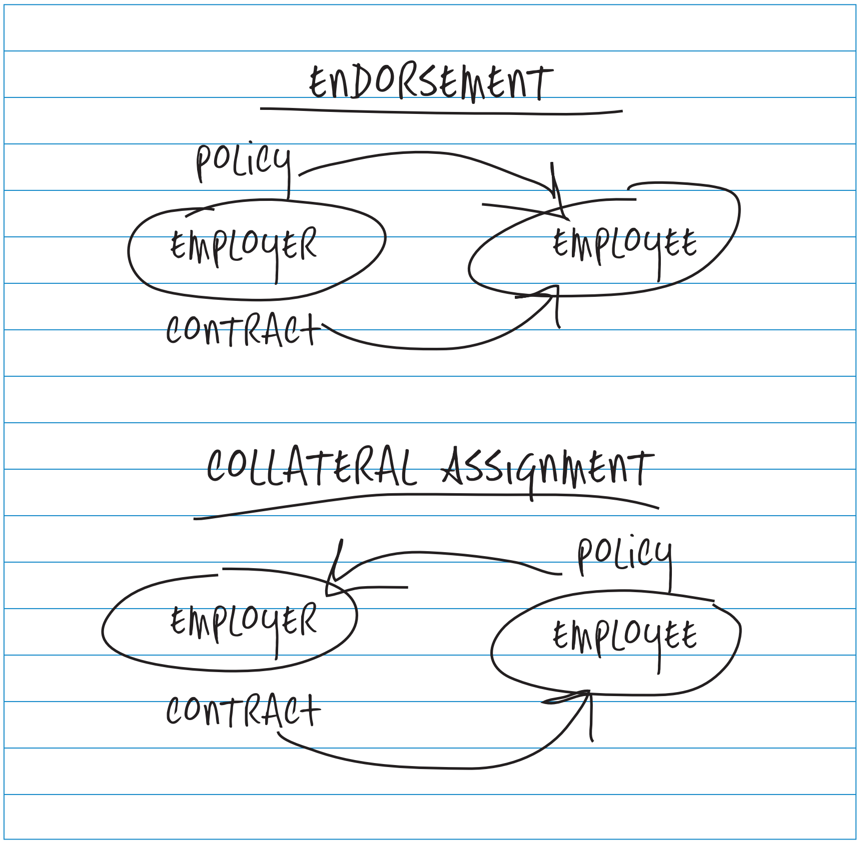
For either method, if the employer's share of cash value is limited to net premiums paid while the employee has access to the policy's remaining cash value, it is an equity arrangement. If the employee has no interest in the policy's cash value, it is a non-equity arrangement.

WHY IS IT USEFUL?

A split-dollar arrangement can be an effective way for employers to cement a solid working relationship with key employees. It's also an arrangement that can play an important role in transferring wealth in family businesses.

50 WORDS OR LESS

A wide variety of split-dollar arrangements exist today. All involve two or more people or entities splitting the costs and benefits of some sort of permanent life insurance. It's a simple concept that offers an individual a different way to buy life insurance.



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To ensure the death benefit proceeds of any employer-owned policy retains its tax-favored treatment, it is essential to comply with the notice and consent requirements of IRC Section 101(j).

Under an endorsement split dollar arrangement or a loan split dollar agreement, the employee enters into an agreement with their employer. Midland National is not a party to this agreement and Midland National's only obligation is to administer the policy it issues consistent with the policy's terms and conditions.

Under an endorsement split dollar arrangement, the value of the life insurance afforded the employee is taxable to the employee. The employer should provide the employee with tax reporting based on requirements specified in the tax code. The parties to the endorsement split dollar arrangement should seek their own independent legal and tax advice as to whether and how to enter into an endorsement split dollar arrangement based on the employer's and employee's unique circumstances.

Under a split dollar agreement, classified as a welfare benefit plan, the employee must belong to a select group of management, which includes quantitative and qualitative elements. To meet the quantitative standard, plans should be limited to the top 15% of the workforce. To meet the qualitative test, a significant disparity should exist between the average compensation of the top-hat group and the average compensation of all other employees.

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