

# Split Dollar-Employer Endorsements

Essentials 2018

Many employers are seeking ways to reward and retain their top employees. Providing a meaningful life insurance benefit can mean the difference between keeping the key employee's loyalty or losing him or her to the competition. Endorsement split-dollar may be the strategy to achieve this objective while maintaining a cost-neutral position for the employer.

## Employer Endorsement Arrangement are Often Used For

- Providing a "golden handcuff" – if the Executive leaves employment, the Employer can terminate the endorsement.
- Providing needed life insurance coverage to an executive at a reasonable cost.
- Can be used in estate planning to reduce transfer tax costs associated with funding the irrevocable trust (ILIT).
- Can be cost-neutral for the employer. Costs are recovered through death proceeds.

## How to Structure an Endorsement Split Dollar Arrangement

1. The employer and the employee enter into an endorsement split dollar agreement.
2. The employer applies for an employer-owned life insurance policy on the employee. The notice and consent for Employer Owned Life Insurance (Form 15996) is submitted with the application.
3. The employer endorses a portion of the death benefit to the employee or the employee's life insurance trust.
4. The employer pays the premiums and the employee pays income tax on the economic benefit.
  - a. The economic benefit refers to the "term" cost of the death benefit and is calculated annually based on the employee's age.
  - b. The economic benefit is determined by an IRS table (currently Table 2001) that gives a cost per thousand for the death benefit provided based on the insured's age during the year.
  - c. The cost per thousand for a joint/survivor arrangement (second to die policy) is typically very low.
5. If the employee dies prior to retirement, the employer and employee's beneficiaries will each receive their portion of the death benefit proceeds.
6. When the employee retires, the endorsement terminates and the employer retains ownership of the policy. The policy's cash value may be accessed to pay supplemental retirement income to the employee.

## Considerations

- Endorsement Split-Dollar is a Welfare Benefit Plan for ERISA purposes and requirements.
- An Endorsement arrangement is not appropriate for Public Company executives due to Sarbanes-Oxley implications.
- IRC §101(j) requirements of "notice and consent" paperwork should be completed.

## Essentially

Today's competitive business environment requires employers to utilize creative means in keeping key performers. Since the employee's cost of an endorsement split dollar plan is only



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the income tax based on the economic benefit of the death benefit provided, the plan offers the employee a low-cost death benefit protection.

