

ADVANCED PLANNING

Business Insurance Nonqualified Executive Benefit Arrangements

COMPARATIVE SUMMARY OF LIFE INSURANCE-BASED EXECUTIVE COMPENSATION PLANS

PLAN TYPE	PLAN DESCRIPTION	PLAN OBJECTIVES	WHEN USED	FUNDING VEHICLE	ASSET OWNERSHIP/ CONTROL
NONQUALIFIED DEFERRED COMPENSATION PLANS (SERP AND DEFERRAL)	Contractual agreement to provide deferred benefits for the executive in addition to current earnings.	Additional retirement income for the executive without current tax liability. ¹	To provide a supplemental retirement plan for select executives.	"Informal" funding, typically through corporate-owned life insurance. ²	Employer
DEATH BENEFIT ONLY (DBO) ARRANGEMENT	Employer agreement to provide a survivor income benefit for select executives.	Death benefit protection for the executive's family with no current taxation.	When additional retirement benefits are not needed, but survivor income is an issue.	"Informal" funding, typically through corporate-owned life insurance. ²	Employer
ENDORSEMENT SPLIT-DOLLAR ARRANGEMENT³ (ASSUMPTIONS: NONEQUITY NONCONTRIBUTORY PLAN AFTER 09/17/03)	Contractual sharing of life insurance policy costs and benefits between the employer and the executive.	Death benefit for the executive with minimal current tax consequence.	When employer control and cost recovery are desired.	Permanent (cash value) life insurance funding. ²	Employer
EXECUTIVE BONUS (SEC. 162) ARRANGEMENT	Employer-paid, executive-owned life insurance.	Death benefit protection and cash value access for the executive and tax-deductible premiums for the employer. ¹	To provide supplemental life insurance with employer tax deduction.	Permanent (cash value) life insurance funding.	Executive
RESTRICTIVE EXECUTIVE BONUS ARRANGEMENT (REBA)	Employer-paid, executive-owned life insurance policy subject to a restrictive endorsement.	Death benefit protection and future cash value access for the executive and tax-deductible premiums for the employer. ¹	To provide supplemental life insurance with employer tax deduction and control.	Permanent (cash value) life insurance funding.	Executive/Employer
GROUP TERM CARVE-OUT ARRANGEMENT	Individual life insurance policy provided as a group life replacement for select executives.	Permanent rather than term insurance protection to valued executives.	To provide executives with individual policies maintained as an "executive bonus."	Permanent (cash value) life insurance funding.	Employer

¹Outstanding loans and withdrawals will reduce policy cash values and the death benefit and may have tax consequences.

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²For employer-owned life insurance policies issued after August 17, 2006, IRC §101(j) provides that death proceeds will be subject to income tax; however, where specific employee notice and consent requirements are met and certain safe harbor exceptions apply, death proceeds can be received income tax-free. Life insurance proceeds are otherwise generally received income tax-free under IRC §101(a).

³The Sarbanes-Oxley Act makes it a crime for publicly traded companies to, directly or indirectly, enter into a loan with certain directors and officers. It is unclear whether the Act applies to split-dollar arrangements. Contact your tax or legal advisors for the most recent developments.

INVESTMENT AND INSURANCE PRODUCTS ARE:

- NOT FDIC INSURED
- NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY
- NOT A DEPOSIT OR OTHER OBLIGATION OF, OR GUARANTEED BY, ANY BANK OR ITS AFFILIATES
- SUBJECT TO INVESTMENT RISKS INCLUDING POSSIBLE LOSS OF THE PRINCIPAL AMOUNT INVESTED

COMPARATIVE SUMMARY OF LIFE INSURANCE-BASED EXECUTIVE COMPENSATION PLANS

PLAN TYPE	EMPLOYER COST RECOVERY	EMPLOYER TAX DEDUCTIBILITY	ERISA REQUIREMENTS	EXECUTIVE TAX CONSEQUENCES	
				INCOME TAX	ESTATE TAX
NONQUALIFIED DEFERRED COMPENSATION PLANS (SERP & DEFERRAL)	Yes, via corporate-owned life insurance.	Benefits are deductible when paid to the executive.	A one-time Department of Labor notification at plan implementation.	No tax until benefit payout.	The present value of any contractual benefits is includible.
DEATH BENEFIT ONLY (DBO) ARRANGEMENT	Yes, via corporate-owned life insurance.	Benefits are deductible when survivor benefits are paid.	No	No tax due until survivor benefit payout.	Estate exclusion is possible but requires careful planning to ensure that the executive has no policy rights; and the executive cannot be entitled to postretirement benefits under any other contractual plan.
ENDORSEMENT SPLIT-DOLLAR ARRANGEMENT ³ (ASSUMPTIONS: NONEQUITY NONCONTRIBUTORY PLAN AFTER 09/17/03)	Yes, through policy values paid upon death or plan termination. ¹	No	Established and maintained per “written instrument” with named fiduciary(ies).	Executive is taxed annually on the reportable economic benefit. Rollout: policy equity taxation if policy is transferred to the executive.	Death proceeds includible in the executive’s estate if they had an ownership right in the policy.
EXECUTIVE BONUS (SEC. 162) ARRANGEMENT	No	Yes	No	Employer-paid premiums are taxable income.	Death proceeds includible in executive’s estate if they had an ownership right in the policy.
RESTRICTIVE EXECUTIVE BONUS ARRANGEMENT (REBA)	No	Yes, when properly structured.	The conservative position is to structure the arrangement as a noncontributory top-hat welfare benefit plan with minimal Title 1 requirements.	Employer-paid premiums are taxable income.	Death proceeds includible in executive’s estate if they had an ownership right in the policy.
GROUP TERM CARVE-OUT ARRANGEMENT	No	Yes	No	Employer-paid premiums are taxable income.	Death proceeds includible in executive’s estate if they had an ownership right in the policy.

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