A cost-efficient way to reward and retain key employees

A split-dollar plan that is mutually beneficial for the owner and their top talent

In a tightening job market, competition for talent can be fierce. Businesses may need to create incentive plans in addition to compensation to recruit and retain key executives.

The Lincoln *LifeComp*® Loan Regime Joint Ownership Split Dollar plan is a unique solution that can provide selected employees valuable benefits in a way that's financially attractive to both the business and its key executive. Through a joint ownership agreement, the business and the key executive will share in the life insurance policy's benefits.

Meet Dan and Ryan

Dan owns a commercial contracting company

Ryan, age 45, is his CFO

Ryan has been with Dan's company for nearly 10 years, and his contributions have led to its success. Dan wants to recognize his talent by structuring an incentive plan that also encourages him to stay until retirement.

The company's challenge

A benefit that will provide Ryan with:

- Immediate death benefit protection for his survivor at a low out-of-pocket cost to Ryan
- A valuable long-term economic incentive

And provide Dan's business with:

- A way to retain Ryan until retirement
- Flexibility and control over its investment
- Minimal impact to its financials
- The option to recoup its investment

Not a deposit
Not FDIC-insured
Not insured by any federal government agency
Not guaranteed by any bank or savings association
May go down in value

Insurance products issued by:
The Lincoln National Life Insurance Company

How the Lincoln *LifeComp*® Loan Regime Joint Ownership Split Dollar plan works

The business

Purchases and pays the premiums for a life insurance policy on the life of the key executive with a shared, joint ownership structure between the business and the participating employee.

The employee

Gets cost-effective death benefit protection for their heirs.

After the split-dollar agreement ends, the employee fully owns the policy, and distributions may be made on a tax-advantaged basis through withdrawal of basis (if any) or by policy loans.[1]

Advantages for the business

- Ability to include only select key employees to participate, including the business owners themselves
- A complement to existing tax-qualified or nonqualified plans
- No IRS or DOL approval required
- No postretirement business obligation
- Minimal impact to business financials
- Can recoup premiums paid
- Flexibility in transferring value to the key executive
- Access to Lincoln *LifeComp* Suite's complete accounting and administration system

Advantages for the employee

- Cost-effective death benefit protection for their heirs, generally paid income tax-free
- Tax-deferred growth of cash value
- Full ownership of the policy at retirement
- Access to future cash value for a tax-efficient supplement to their retirement income

The key executive retention strategy

Dan's company and Ryan jointly purchase a *Lincoln WealthAccumulate*® IUL policy. The Exec rider is added to the policy because it's important that the company maintains a strong balance sheet. The rider provides a 100% return of premiums for up to 10 years and preserves the asset quality of its books.

The company will pay an annual premium of $40,000 for the 20 years. The premium paid (the split-dollar loan) remains on the employer's corporate books as its ownership interest in the jointly owned policy, creating a balance sheet-friendly solution for Dan's business. The Lincoln *LifeComp* administrative system provides complete accounting and plan administrative services to ensure the plan remains on track and is reflected properly on payroll and corporate books.

While the split-dollar agreement is in effect, Ryan must pay loan interest to the company on the split-dollar loan balance.[2] Ryan receives a compensation bonus from his employer to pay the loan interest due each year. This leaves him with lower out-of-pocket costs equal to the income taxes payable on this bonus.[3] When Ryan turns 65, the company will end the split-dollar agreement and Ryan will retain ownership of all remaining policy benefits, including any cash values.

If Ryan passes away during the split-dollar agreement, the death benefit proceeds can be used to extinguish the split-dollar loan, with the remainder being distributed to Ryan's beneficiaries.

[1] Distributions are through loans and withdrawals, which will reduce a policy's cash value and death benefit. Loans are not considered income and are not taxable, while withdrawals are tax-free up to the policy's cost basis, provided the policy is not a MEC.

The outcome (year one)

For the company	
Premium paid (20 years)	$40,000
Ownership interest	$40,000
Portion of surrender value	$40,000
Death benefit	$40,000

For Ryan	
Premium paid	$0
Low out-of-pocket cost for bonus received to pay loan interest on a policy that provides a significant death benefit	$232
Value of death benefit	$1,117,192

When Ryan retires, the business may end the split-dollar agreement by withdrawing the split-dollar loan balance from policy cash values (cost recovery). Ryan would then fully own the policy and have tax-advantaged access to the remaining policy values through policy loans and the survivor death benefit.[4]

The outcome (when Ryan retires at 65)

For the company	
The company recoups the premium it's paid over the past 20 years by taking a withdrawal from policy cash values	$800,000

For Ryan	
Cumulative outlay for bonuses received	$60,328
Death benefit (age 66)	$1,418,824
Cash surrender value	$601,710
Annual retirement income: Income tax-free loans to supplement his retirement income taken from age 66 to age 85	$70,278

Assumptions: Male, age 45, standard nontobacco, *Lincoln WealthAccumulate*® IUL (2019) — 09/16/19, increasing death benefit, change to level and minimize to corridor at year 21, 100% premium allocation to indexed account, 5.88% gross return, $40,000 annual premium paid for 20 years, $800,000 policy withdrawal in year 21. Monthly participating loans taken in years 21 through 40. At 0% and current charges and no distributions, policy lapses in year 21. All values are stated as of the end-of-year value.

[2] Loan interest based upon the applicable federal rate (AFR). The AFR rates are published monthly by the IRS. These rates are used to calculate assigned interest charges. Interest on loans should not be less than the AFR for the loan to be considered by the IRS as a taxable event and not a gift. For illustrative purposes, the assumed AFR schedule is 2.42% for year 1, 2.5% for year 2, and 3% for years 3–20. This may not always be the case and should be taken into consideration when reviewing this concept.

[3] Compensation bonus subject to an assumed employee income tax rate of 24%.

[4] It is assumed that the Joint Ownership Agreement is canceled during policy year 21, and the employer withdraws $800,000 as a partial surrender of this policy.

Administration made easy with Lincoln *LifeComp*®

We make it easy for your business to keep track of the endorsements and report benefit costs with our *LifeComp* administration system. You get unique life insurance plan designs and comprehensive plan documentation and administration, including:

- Accounting reports
- Year-end reports
- Annual evaluation
- Postretirement services

Balance the benefits your employees want and the control your business needs with *LifeComp* business solutions.

Contact your Lincoln representative or the Lincoln Business Insurance team at BusinessInsuranceSolutions@LFD.com to learn more about next-level solutions with *LifeComp*.

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