



Employer Endorsement (Split Dollar Economic Benefit)

For over forty years, many professionals were involved in promoting or recommending split-dollar arrangements designed to minimize or eliminate tax liability associated with purchasing, gifting and funding life insurance premiums.

Employer Endorsement

Employer and employee enter into an endorsement split-dollar agreement.

Employer owns the policy (or is the deemed owner of the policy), pays the premiums, has access to all policy values, and gives the employee the right to designate the beneficiary for a specified amount of death benefit.

The employer can be the “deemed owner” for tax purposes even though the employee (or employee’s trust) is the actual owner, if the actual owner (trust) collaterally assigns all rights in the policy (except specified death benefit) to the employer (a non-equity, collateral assignment). This is a useful technique for estate planning purposes where the economic benefit costs are less than entering into a loan arrangement and the policy is owned by an ILIT to avoid “incidents of ownership” issues.

IRC §101(j) requirements of “notice and consent” paperwork should be completed.

The employee has annual compensation income equal to the “economic benefit” provided by designating the beneficiary.

The cost per thousand for a joint/survivor arrangement (2nd to die policy) is typically very low.

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.

Advantages:

- Provides a “golden handcuff” – if the Executive leaves employment, the Employer can terminate the endorsement.
- Employer maintains control over the policy.
- Is cost-neutral for the employer. Costs are recovered through death proceeds.
- Provides 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).

A proper endorsement arrangement used with estate planning must include a termination strategy (designed to pay Employer when the policy is transferred) other than death. Strategies can include utilizing GRATs, Installment Sales, SCINs, and policy cash values.

Notes:

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.