CREATIVE COMPENSATION SOLUTIONS

Split Dollar Life Insurance: Applications & Benefits

Split dollar life (SDL) insurance policies can provide significant financial benefits by lowering the excise tax burden for employers and increasing aggregate (net) compensation for employees. These policies are increasing in prevelance as more employers gain an awareness and understanding of the benefits. *Win AD+* has unique experience structuring these arrangements and can provide detailed guidance to help educate key stakeholders, assess best options and facilitate the selection & implementation of SDL policies.

Which Employees Are Ideal Candidates for a Split Dollar Plan?

Head coaches, highly compensated assistant coaches, athletic directors (referred to as 'covered employees') and university leadership.

Once an employee is considered a covered employee in a particular year (e.g. they make > $1M and are subject to the federal excise tax), they remain a covered employee forever. Translation: The pool of employees where split dollar life insurance makes sense will grow over time.

Key Benefits:

1. Significant Tax Benefits to School & Employee
2. Future Insurance Payouts Help School Recoup Investment
3. Higher Net Lifetime Compensation For Employee

How Does SDL save a school money?

Effective January 1, 2018, the federal government implemented a 21% tax on compensation paid by not-for-profit employers to highly compensated employees - commonly referred to as the excise tax. Historically, Athletic Departments could freely negotiate compensation packages without consideration for this 'additional' tax burden. The excise tax and financial impacts of Covid-19 are leading schools and their employees to seek tax efficient compensation options. SDL policies help schools save money while benefitting employees.

How to calculate financial impact of the excise tax:

$1,000,000 is the key threshold. For all compensation over $1,000,000 given to an eligible employee, the employer effectively pays 21% in taxes to the federal government. For example, a coach making $2,000,000 per year means the employer must pay an additional $210,000 in federal taxes per year.

Understanding Split Dollar Life Insurance

	Split Dollar Program
Design	A method for employer and employee to purchase and share the benefits of one or more life insurance policies
Distributions	Proceeds paid out to employee over a period of years
Ownership	Owned by Employee with Institution retaining a Collateral Assignment on initial investment portion of policy
Pros for School	Classified as asset; enables school to recoup part of compensation paid out; not subject to excise tax; contributions are tax free, not reported as compensation
Pros for Coach	Policy earnings and withdrawals are tax free; flexible distributions to coach or beneficiaries; significant tax- free death benefit; higher net earnings

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Hypothetical Example

A 47 year old male football coach is making $2,000,000 per year over the next 6 years of his contract. The employer (University) desires to reduce the impact of the excise tax and increase net financial compensation paid to the coach by diverting $1,000,000 per year to fund a split dollar life insurance policy.

- The university will loan the coach $1,000,000 per year over the next 6 years ($6,000,000 total) to fund a life insurance policy, while maintaining a security interest in the policy for repayment of the loan.
- The impact of the excise tax on the school is reduced and the coach is taxed on the imputed interest from the loan (forgiven tax model). Over the next 6 years, the school saves $1,260,000 in excise tax payments.
- The coach will have access to any accumulated value that exceeds the principal and interest due on the loan and will be able to designate a beneficiary for any death benefit that is not used to repay the loan.
- The coach begins taking $300,000 per year (tax free) from the policy from age 65 to 90 ($7,500,000 total).
- Assume coach passes away at age 90, his family gets death benefit in policy of $583,916 (tax free, after university gets $6,000,000 loan repayment)

Coach Benefits

$7,500,000 in tax free policy withdraws from age 65 to 90

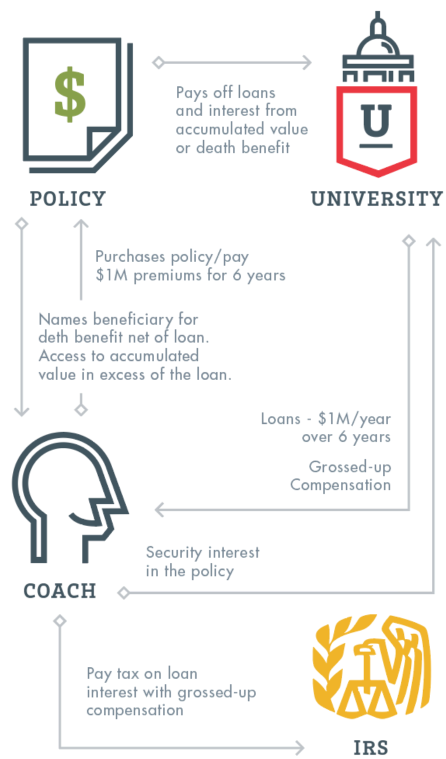
$583,916 (tax free) death benefit to beneficiaries

43% increase in net positive financial impact to coach

School Benefits

$6 Million Loan REPAID to University via Death Benefit

$1,260,000 of Excise Tax savings



Total Coach Receives with LBSD	**$8,083,916.00**
Total Without LBSD (after tax)	**$3,536,066.82**
Net $ Benefit	**$4,547,849.18**
Benefit %	**43.74%**

Assumption/Illustration Notes

Specific numbers will vary, illustration purposes only, following assumptions:

- Income taxed at 48.5% rate (37% federal +3% State+7.5% FICA)
- 5% fixed annual rate of return (generous, not including fees)
- 20% Capital Gains/dividends tax when withdraw


Every *Win AD+* engagement is designed based on the exact needs of your program.
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