

# Executive Life Insurance Death Benefit Plan

Keeping benefit plans simple may be the best solution-- weighing the advantages of different approaches to executive life insurance can result in finding the "best-fit" program for your company.



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## Executive Life Insurance Solutions

Supplement death benefit only (DBO) plans help companies address group life insurance restrictions on maximum coverage and provide executives with portability. Because incentive compensation has become such a significant factor for executives, the designs of death benefit plans now accommodate for total compensation. However, most are based upon a multiple of salary-- 1.5x, 2x, 3x, 4x, and so on. Yet, other programs simply provide a flat amount of coverage.

Typically in death benefit plans, the employer directly pays the beneficiary or beneficiaries named by the employee, having purchased corporate-owned life insurance to cover its exposure-- naming the company as the beneficiary of the policy. The insurance premiums are not tax deductible to the employer; however, the benefits are tax deductible.

### Select Type of Benefit Formula

Flat Amount

Multiple of Salary

Multiple of Total Compensation



Insurance  
Benefit

### Employer benefits

- Company can deduct benefit payments
- Company selects which executives participate
- Company can terminate the plan at any time
- Company can add coverage to recover costs

### Employee benefits

- Employee pays no annual tax
- Employee coverage can be based on more than salary
- Simplified underwriting may be possible



# Executive Life Insurance | Custom Designs

## 162 Bonus Alternative

With the 162 Bonus design, the company pays the executive a bonus and the executive uses the bonus to pay insurance premiums into a policy that is owned by the executive. Any amount of premium paid above the required cost of coverage is directed into a selection of investment funds to build cash value in the policy– which grows tax deferred. Section 162 bonus doesn't impose any restrictions on the employee. Technically, while the company recommends the bonus be used for life insurance, ultimately, the employee chooses whether or not the bonus payment will be made to the insurance program.

Premiums are tax deductible under Section 162 of the IRS Code to the corporation. The company-paid premium is considered taxable income to the executive. Policy cash value grows tax deferred and the death benefit is tax free. Post-retirement, the policy remains in force and no further premiums are needed.

## Split Dollar

The “split” in split dollar means the company and executive share the cost as well as the benefits of a cash value life insurance policy. The company pays insurance premiums into a company-owned policy. The death benefit is provided to the employee's beneficiary through an agreement that endorses a portion of the benefit to the beneficiaries designated by the executive. This agreement can be maintained post-retirement for the life of the insured executive.

Since executive life insurance plans are nonqualified benefits, premiums aren't a tax deductible expense to the employer like they are for qualified group life plans. The employee pays tax based on imputed income table rates, and the death benefit is received tax free by the beneficiaries. That arrangement makes split dollar executive life insurance cost-efficient for the company and for the executives.



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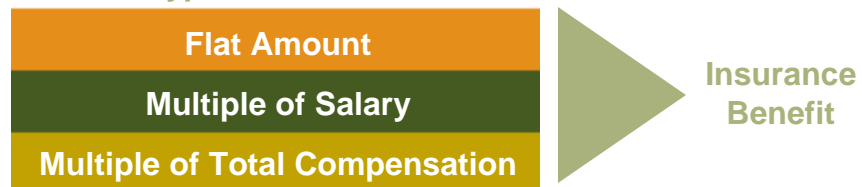
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