

# Generating Sales with Split Dollar!

Stated Differently:

There's no dollar like a split dollar for  
larger sales!

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# Disclosure

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# What is Split Dollar?

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An agreement between two parties to split a life insurance policy's:

- Cash values
- Death benefits
- Premiums



Think of it as individual coverage which is being provided by a policy that is being paid for by the business

# Talking the Talk...

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- **Two main types of Corporate Split Dollar**
  - Economic Benefit Regime/Endorsement Split Dollar
  - Loan Regime/Collateral Assignment Split Dollar
- **The critical difference between the two is the policy owner**
  - Endorsement – Employer Owned
    - Death benefit is endorsed over to the insured
    - Insured pays economic benefit or “rent” on endorsed portion
  - Loan Regime – Employee Owned
    - Death benefit is assigned back to the company as collateral for the loan
    - Insured pays interest on premium loans

# Starting the Conversation!



## For Endorsement Split Dollar (Company Owned)

- Purchasing key person insurance?
  - If the employee is that important to the operation, consider tying the employee to the business
- Term is a bet you *very, very rarely* will ever “win”: *Bet on being alive!*
- If you can’t get a tax deduction, make sure you get cost recovery
  - Use Enhanced Cash Value (ECV) Riders and true Corporate-Owned Life Insurance (COLI) products to create a significant corporate asset instead just having another expense
  - Tax free Long Term Care (LTC)/Chronic Care living benefits make cost recovery even more lucrative

Policy riders are available at an additional cost and may not be available for all products or in all states. Terms and conditions apply.

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# Non-Qualified Deferred Comp Simplified:

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- Based on short-term deferral exception:  
§ 409A, Reg. 1.409A-1(b)(4)
- Company owns\* and funds policy on executive
- A portion of the death benefit is endorsed over to the executive
- Executive is responsible for economic benefit charges (rent)
- Policy must be distributed within 2½ months of tax year end after service requirement is completed
- Minimal administration and no formal deferred comp compliance!

\* Subject to Employer-Owned Life Insurance (Section 101(j)) requirements

# Starting the Conversation!



## For Loan Regime Split Dollar (Personally Owned)

- Consider the C-Corporation Owner or Shareholder
  - They got a 40% pay raise with Tax Cuts and Jobs Act: Max tax bracket reduced from 35% to 21% ( $14/35=.4$ )
  - Unfortunately, that extra income gets taxed again at their personal rate when distributed
- Avoid the double taxation!
  - Loan increased profits to your personal policy
  - Consider Minimum Non-MEC designs to maximize cash accumulation
  - Add an LTC or Chronic Care rider for additional living benefits
- Pay premiums with money that has been taxed the least!

Policy riders are available at an additional cost and may not be available for all products or in all states. Terms and conditions apply.

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# Assuming A \$1M Profit, Consider The Corporate Tax Windfall:

	Dividend Distribution	Split Dollar Life Insurance
Corporate cash available (per year for 10 years)	\$140,000	\$140,000
Dan's tax on dividends (30%) <sup>1</sup>	\$42,000	n/a
Cash available to owner	\$98,000	\$140,000
Dan's tax on imputed interest (30%)	n/a	\$374 (yr 1) - \$18,438 (yr 15) <sup>2</sup>
Corp tax on imputed interest (21%) <sup>3</sup>	n/a	\$262 (yr 1) - \$12,907 (yr 15)
After-tax rate of return	4.14% (A/T equivalent)	5.92% illustrated (tax free)
Account/cash value at retirement (66)	\$1,510,618	\$1,819,805
Annual withdrawals ages 67-81	\$137,200	\$168,911
Death benefit age 85	n/a	\$479,427

**\* Based on a male, age 50. Assumes loans are forgiven and a policy distribution is taken to pay the tax liability.**

<sup>1</sup> 23.8% federal tax rate on qualified dividend distribution plus state income tax is assumed to total 30%.

<sup>2</sup> Initial AFR on demand note is 0.89%, assumed to increase gradually to 4.39% in year 5.

<sup>3</sup> The business is assumed to be incorporated in a state with zero corporate income tax, such as Delaware.

Case studies are offered to show how Crump can provide insurance solutions in the advanced sales marketplace. Results may vary, and this example does not guarantee a similar result. When case studies are based on real life applications of the strategy presented, client names, specific circumstances, and financial information have been changed to protect privacy.

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# Other Opportunities for Split Dollar?

IRC Sect. 162(m)(1) limits deductible compensation for nonprofits to \$1 million

A loan is not compensation and these high profile cases are all Loan Regime Split Dollar!

- Brenda Frese, University of Maryland
- Jim Harbaugh, University of Michigan
- Dawn Staley, University of South Carolina
- Dabo Swinney, Clemson
- James Franklin, Penn State
- Mack Rhoades, Baylor
- T.J. Oltzelberger, Iowa State



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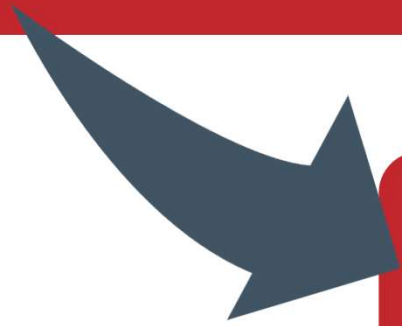
# Other Opportunities for Split Dollar?

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## IMPORTANT NOTE:

Some states prohibit loans to officers and directors of nonprofits



Work with  
Advanced Sales

# Other Opportunities for Split Dollar?

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Got a trust?

Limit gift tax exposure with Split Dollar!

Concerned about potential changes to the grantor trust rules?

Build in a mode of reclamation to what is otherwise an irrevocable commitment...

# Support, Support, Support...

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- **Crump Advanced Sales associates have expertise in all forms of Split Dollar**
  - Custom proprietary software to illustrate the strategy
  - Crump branded marketing material
  - Available for calls with agents, their clients, and their advisors
  - Successful Split Dollar planning requires a thorough review of all possible termination (rollout) techniques
- **Strong carrier relationships including those with administration support to take the case from “soup to nuts”**
- **Access to a top tier independent third party administrator when needed**

***Let us help you add split dollar planning to your business!***