



Executive Trifecta[®]
A Leap Forward in Key Executive Coverage
(Basic and Advanced Variations)

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Note: This article does not deal with Executive Trifecta used by S Corporations, Limited Liability Companies, and Partnerships. See the Concept Library article at www.insmark.com entitled “Executive Trifecta Enhancement Provides New Executive Benefit Markets” for a discussion of pass-through entities.

The word “Trifecta” refers to a winning sequence of three, and *Executive Trifecta* delivers three, very powerful, sequential benefits:

- 1) Selected executives whose deaths would cause a serious financial loss for an employer are insured in favor of the employer thereby providing indemnification for such a loss.
- 2) During their participation, each insured executive is provided with employer-paid survivor income benefits should death occur while employed.
- 3) At the executive’s retirement, disability, or involuntary severance from employment without cause, the life insurance policy is contractually transferred to the participating executive (as a deferred bonus) thereby creating a supplemental retirement asset. After the policy transfer, any payment of the life insurance death benefit is made directly to the executive’s personal beneficiaries.

Who are the prospects for *Executive Trifecta*? They can be found in any business with valuable executives, and effective with the release of Version 14.1 of the InsMark Illustration System, *Executive Trifecta* has two variations (Basic and Advanced) available under the Executive Benefits tab, as follows:

Basic Variation (new):

After working with several users, we discovered that in many of their cases, the amount of coverage needed to indemnify the business against loss caused by the death of a key executive did not need the complex calculations of the Advanced Variation (see below). With the Basic Variation, the user inputs the amount of life insurance coverage to indemnify the employer against the loss of the key executive under the module’s Key Executive Coverage tab. This provides much simpler data entry when that amount is known in advance (e.g., stock redemption coverage or a client-designated number).

Additional input establishes the amount of survivor income benefit payable to the executive's beneficiaries as well as the details of the transfer of the policy to the executive at retirement (or at an earlier date such as achieving a specific sales, revenue, or profit goal).

Advanced Variation:

While more complex, this variation calculates the amount of life insurance coverage used to indemnify the employer against the loss of the key executive by introducing assumptions as to how long it will take a replacement executive to match the performance of the deceased executive. It also calculates differences in compensation between the two executives.

Additional input establishes the amount of survivor income benefit payable to the executive's beneficiaries as well as the details of the transfer of the policy to the executive at retirement (or at an earlier date such as achieving specific sales, revenue, or profit goals).

Overview

Most firms would not consider operating without insuring against the loss of its property. The same logic should apply to its human capital -- a far more vital asset to the successful continuation of any business. Property can be rebuilt; not so with a human life. We believe *Executive Trifecta* is a major breakthrough in executive benefit planning. It recognizes a very fundamental principle: *If an executive is valuable enough to be considered for special executive benefits, that individual should also be considered for key executive coverage to indemnify the business;* the corollary being: *If an executive is valuable enough to be considered for key executive coverage to indemnify the business, that individual should also be considered for special executive benefits.* Too often, one is provided without the other. Even in the case of COLI benefit arrangements, the business is typically indemnified solely for the funding cost related to the benefit provided. While providing big benefits for both the executive and the employer, *Executive Trifecta* also avoids conflict with the Final Split Dollar Regulations as well as Sarbanes-Oxley.

Case Studies

Case Study #1 (Basic Variation): Tom Cabot, age 45, is a key executive with Ferris Metallurgical, Inc., a parts supplier for a truck manufacturer. The firm has requested a proposal that includes a death benefit of \$1,000,000 for the benefit of Ferris Metallurgical, Inc. A survivor benefit of \$70,000 a year for 10 years (total \$700,000) requires an additional face amount of \$370,525 (time value of money and an income deduction on the survivor benefits paid reduces the funding costs from \$700,000 to \$370,525).

The report illustrates a transfer of the policy to Tom at the beginning of year 21 (Tom's age 65) with a policy withdrawal offsetting Tom's income tax on the transfer. Additional withdrawals and loans are illustrated that provide Tom with \$70,000 a year in after tax retirement cash flow.

Notes re the Funding of the Survivor Income Benefit: Tom Cabot's family's survivor benefit of \$100,000 a year for 10 years (total \$1,000,000) requires a face amount of \$529,322 (time value of money and an income deduction on the survivor benefits paid reduces the firm's funding costs from \$1,000,000 to \$529,322). A Survivor Benefit calculator is embedded in the program's illustration module to facilitate this calculation.

Notes re Policy Transfer, Policy Loans, and Withdrawals: The report for Tom Cabot, age 45, reflects a transfer of the policy to Tom at the beginning of year 21 (his age 65) with a policy withdrawal offsetting Tom's income tax on the transfer. Additional withdrawals and loans are

illustrated beginning in that same year that provide Tom with \$70,000 a year for 10 years in after tax retirement cash flow.

[Click here](#) to review the reports for **Case Study #1**.

Case Study #2 (Advanced Variation): Magnus Electronics, Inc., wants to analyze the cost of replacing two of its key executives should they die while employed -- taking into account the expected financial performance and compensation of each executive compared to their hypothetical replacements who may take several years to ramp up to similar levels of performance.

The two executives are Tony Callahan, Marketing Vice President, Age 45, and Frank DiNicola, Sales Vice President, Age 35. Included in each executive's plan are provisions for: 1) a specific amount of key executive coverage to be retained by the firm should death occur prior to retirement; 2) a specific amount of key executive coverage to be retained by the firm to fund the cost of survivor income benefits paid to each executive's family should death occur prior to retirement; and 3) a transfer of each policy to the insured executive at retirement.

Notes re the Funding of the Survivor Income Benefit: Tony Callahan's family's survivor benefit of \$200,000 a year for 10 years (total \$2,000,000) requires a face amount of \$1,058,644 (time value of money and an income deduction on the survivor benefits paid reduces the firm's funding costs from \$2,000,000 to \$1,058,644).

Frank DiNicola's family's survivor benefit of \$250,000 a year for 5 years (total \$1,250,000) requires an additional face amount of \$746,296 (time value of money and an income deduction on the survivor benefits paid reduces the funding costs from \$1,250,000 to \$746,296). A Survivor Benefit calculator is embedded in the program's illustration module to facilitate this calculation.

Notes re Policy Transfer, Policy Loans, and Withdrawals: The report for Tony Callahan, age 45, reflects a transfer of the policy to Tony at the beginning of year 21 (his age 65) with a policy withdrawal offsetting Tony's income tax on the transfer. Additional withdrawals and loans are illustrated beginning in that same year that provide Tony with \$125,000 a year for 10 years in after tax retirement cash flow.

The report for Frank DiNicola, age 35, reflects a transfer of the policy to Frank at the beginning of year 31 (his age 65) with a policy withdrawal offsetting Frank's income tax on the transfer. Additional withdrawals and loans are illustrated beginning in that same year that provide Frank with \$100,000 a year for 10 years in after tax retirement cash flow.

Case Study 2 is organized as follows:

Composite of Corporate Costs and Benefits
Detailed reports for Tony Callahan
Detailed reports for Frank DiNicola

[Click here](#) to review the reports for **Case Study #2**.

Illustration Resources and Training

If you are licensed for the InsMark Illustration System, you can download a Workbook containing the menu prompts we used to create the two **Case Studies** discussed above at <http://www.insmark.com/WorkbookDownload/ConceptLibrary.html>. Look for the file named "ExecutiveTrifecta(CL).III" and double click on it to import it into your InsMark Illustration

System. Be certain you have installed Version 14.1 of the InsMark Illustration System before accessing this Workbook.

Note: Although the above referenced Workbook does not reflect it, you can mix Basic and Advanced *Executive Trifecta* illustrations within the same Composite.

If you are not licensed for the InsMark Illustration System and would like more information, please visit <http://www.insmark.com/ProductCenter/InsMarkIllustrationSystem/index.html> or call an InsMark Account Executive at 1-888-InsMark (467-6275). Corporate accounts should contact David Grant, Senior VP - Sales, at 1-925-543-0513.

Specimen Documentation

Specimen documents for *Executive Trifecta* can be found in Version 18.0 (and higher) of InsMark's Documents On A Disk[®] ("DOD"), and Version 15.0 (and higher) of the InsMark Illustrations System has a direct link to these DOD documents on the lower right side of the Workbook window (when in the *Executive Trifecta* illustration or Composite module). These DOD documents include a Technical Preface which has a significant amount of tax detail -- including remarks about the effect the Deferred Compensation Provisions of Code Section 409A have on *Executive Trifecta* and concludes that the plan should meet the requirements of Section 409A. *Executive Trifecta* is a recent innovation of InsMark, and there is no source other than DOD for the documentation of a single key executive policy used in funding the three benefits associated with this concept.

Who are the prospects for *Executive Trifecta*? They can be found in any business with valuable executives.

IRS Circular 230 Disclosure

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