

Deferred Equity Split Dollar

The Plan Description

Of all the strategies used by employers to provide unique fringe benefits for their valuable executives, this variation is one of the most efficient. With this plan, the employer pays all (or substantially all) the premium due on a cash value life insurance policy on the life of a valued executive.

The policy is owned by the employer and, through use of a policy endorsement, the executive is given rights to name beneficiaries for a portion of the death benefit. Any remaining death benefits are paid to the employer. During the initial phase of this plan, the policy cash values are the property of the employer and are carried as assets on its books.

By way of a "conditional assignment" agreement executed at the inception of the plan, the employer agrees it will transfer its interest in the plan to the executive at a specified future date, e.g. after a specific term of years or, perhaps, at retirement. If the employee does not meet the conditions agreed upon, no transfer takes place.

When the employer's interest is transferred, the employer has taxable income to the extent its cash value exceeds its cost basis and an income tax deduction equal to the policy cash value less the executive's cumulative premium share, if any. (Reg. 1.83-6(b).) At the point of transfer, the executive has taxable income equal to the policy cash value less his/her cumulative premium share, if any. (IRC Sec. 83 and PLR 8310027.) The source of the funds for the executive's resulting income tax is generally one or more of the following: 1) withdrawal or loan on the policy; 2) bonus from the employer; or 3) out-of-pocket cash.

After the transfer, the executive has unfettered access to plan cash values through the policy's loan and withdrawal provisions, and this source of continuing cash flow is often used to supplement the executive's retirement income.

Split dollar plans have yearly income tax ramifications. The IRS has issued rulings specifying that, unless an offsetting payment is made, an executive covered with a split dollar arrangement is in receipt of a taxable economic benefit to the extent relief is provided from paying premiums personally. Income tax calculations are not, however, derived from the premium paid by the employer. Instead, they are based on the premium relief the executive has experienced -- measured by certain term insurance rates available from the issuing insurance company or, at the taxpayer's option, from a special term-type rate table published by the government. Either method usually creates an advantageous spread between the actual policy premium and the cost of the plan to the executive.

Low cost benefits for the executive, combined with an impressive array of cash value for the employer during the plan's initial phase and the executive thereafter, constitute a program that may be financially irresistible to both employer and executive. This is particularly evident in the accompanying presentation.

Note: IRS Notice 2002-8 issued in January 2002 should have no adverse impact on this plan.

Deferred Equity Split Dollar Using Variable Universal Life (VUL)

Illustration of Values of The Policy Used in the Plan

Values Page: 1
Date: 08/01/2002

Presented By: [Licensed user's name appears here]

For: Robert Haynes
Hudson Mills, Inc.

Male Age 45	Employer's Tax Bracket 34.00%	VUL Interest Rate 10.00%	Initial Payment 50,000	Initial Death Benefit 1,250,000
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Year	(1) Net Payment	(2) Pre-Tax Partial Withdrawal	(3) Year End Accum Value*	(4) Year End Cash Value*	(5) Death Benefit
1	50,000	0	50,826	33,326	1,250,000
2	50,000	0	106,107	71,107	1,250,000
3	50,000	0	166,005	128,755	1,250,000
4	50,000	0	230,926	193,676	1,250,000
5	50,000	0	301,324	264,074	1,250,000
6	0	92,426	217,087	184,317	1,157,549
7	0	0	231,532	200,832	1,157,549
8	0	0	246,900	218,614	1,157,549
9	0	0	263,242	237,716	1,157,549
10	0	0	280,615	258,193	1,157,549
11	0	0	299,099	280,126	1,157,549
12	0	0	318,771	303,593	1,157,549
13	0	0	339,702	328,664	1,157,549
14	0	0	361,997	355,443	1,157,549
15	0	0	385,765	385,765	1,157,549
20	0	0	531,306	531,306	1,157,549
25	0	0	740,815	740,815	1,157,549
30	0	0	1,067,337	1,067,337	1,157,549
35	0	0	1,587,639	1,587,639	1,667,021
40	0	0	2,347,018	2,347,018	2,464,369
	250,000	92,426			

40 Year Summary

Cum. Payments	250,000
Cum. Pre-Tax Withdrawals	92,426
Cash Value	2,347,018
Death Benefit	2,464,369

*This is an example of an InsMark "supplemental" illustration for variable universal life insurance. In a real presentation, this footnote will refer to an accompanying "basic" illustration from a specific life insurance company and a prospectus.

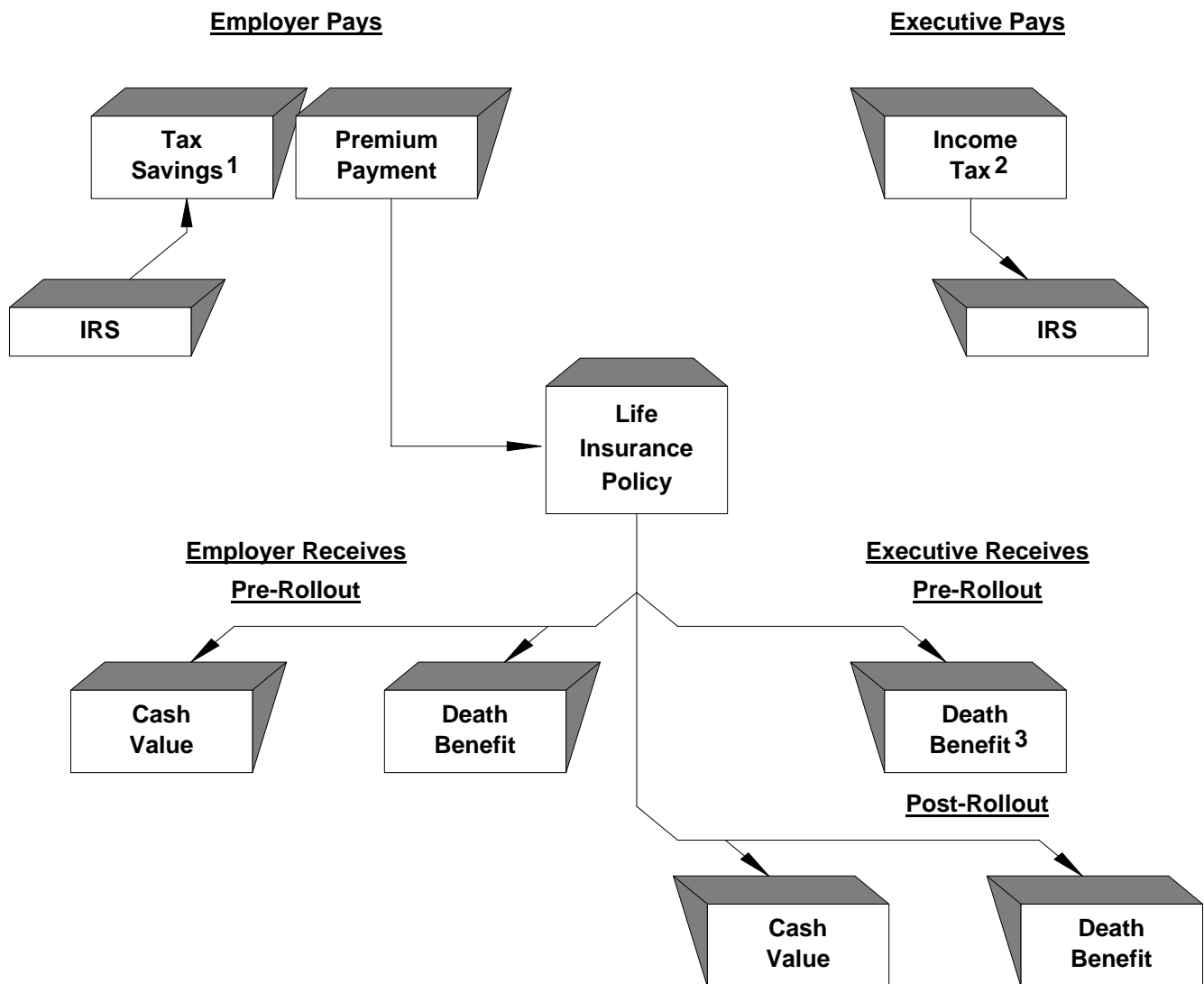
Deferred Equity Split Dollar Using Variable Universal Life (VUL)

Who Pays What - Who Receives What

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Flow Chart Analysis



(1) See Employer's Analysis page for details.
(2) See Executive's Analysis page for details.

(3) Equal to remaining balance after employer's portion is deducted.

