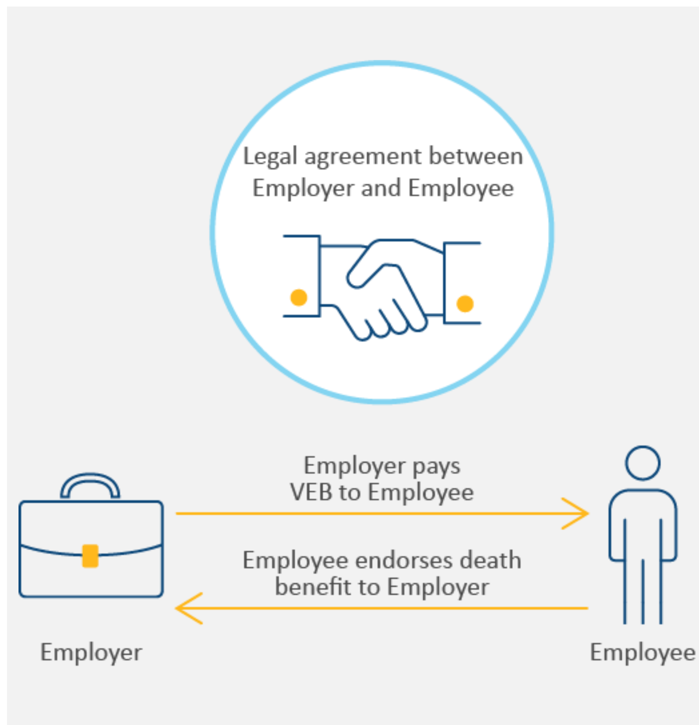
Reverse Split Dollar Agreements Between Employers and Employees

Reverse Split Dollar is an arrangement in which an employee owns a life insurance policy on her own life and endorses death benefit to her employer.

How it works during life



- Employer and employee enter into a written split dollar agreement drafted by an attorney.
- Employee owns the life insurance policy and endorses all or a portion of the death benefit to employer by filing a form with the insurance company. This endorsement of death benefit represents a transfer for value that makes the death benefit taxable unless an exception is available.
- Premium can be paid by employee, or by employer pursuant to a bonus plan arrangement drafted by an attorney. Employee would be income taxed on premium paid by employer. To the extent that the premium represents reasonable compensation to employee, it is deductible to employer.
- Each year, employer pays employee the value of the economic benefit (VEB) based upon a table for valuing insurance. VEB is income taxable to employee but is not deductible by employer.

How it works at death

- Employer generally receives the endorsed portion of the death benefit income tax free (if an exception to the transfer for value rule is available).
- Employee's beneficiaries generally receive the remaining death benefit, if any, income tax free.

How it works at termination

- To end the arrangement, the employer and employee terminate the split dollar agreement and remove the endorsement on file with the insurance company.
- Employee retains ownership of the policy, and employee's named beneficiaries will receive all the death benefit.
- Neither party owes money to the other.
- Termination is not an income taxable event.

Benefits of reverse split dollar

- Employee retains control of cash value as it grows tax deferred.
- Employer has inexpensive insurance for key person and/or buy sell, if applicable.
- Upon termination of the arrangement, employee controls entire policy, including death benefit.

