A cost-efficient way to reward and retain your key employees

Strategy for business owners

Split-dollar plan: A mutually beneficial strategy for you and your top talent

You understand the vital role your key executive plays in the success of your business. In a tightening job market, competition for talent can be fierce. Compensation is one way to address the issue of recruiting and retaining key executives, but often compensation alone isn't enough. Your goal may be to create an incentive plan to motivate and reward key executives.

The Lincoln *LifeComp*® DollarFlex plan is a unique solution that can provide selected employees valuable benefits in a way that's financially attractive to both your business and your key executive. Through a joint ownership agreement, you and your key executive will share in the life insurance policy's benefits.

How the Lincoln *LifeComp* DollarFlex plan works:

- You decide which key employees are offered participation in the plan.
- Your business enters into a Lincoln *LifeComp* DollarFlex agreement with your key executive.
  - Lincoln's *LifeComp* Suite offers fill-in-the-blank plan documents to execute the agreement. There is no need for custom-drafted legal documentation.
  - The agreement specifies each co-owner's rights and defines how the contract's cash values and death benefits are to be divided.
- A policy is purchased on the life of your key executive with a shared, joint ownership structure between your business and the participating employee.
- Your business pays the premium due for the policy purchased.
  - For income tax purposes, these premium payments are treated as a loan to the employee.
- The loan amount becomes your ownership interest in the jointly owned policy.
- Your business may recover the premiums at the end of the split-dollar agreement through withdrawal of policy cash values. Or they may choose to transfer the business's net loan to the executive as additional compensation.
- After the split-dollar agreement ends, the employee fully owns the policy, and distributions may be made on a tax-advantaged basis through withdrawal of basis (if any) or by policy loans.

Insurance products issued by:
The Lincoln National Life Insurance Company

Meet Dan and Ryan

Dan is the owner of a commercial contracting company
Ryan, age 45, is his CFO

Ryan has been with Dan's company for nearly 10 years. He's an exceptionally valuable team player, whose contributions have been a driving factor to the company's success. Dan recognizes this and would like to structure an incentive plan to show Ryan how valuable he is to the organization while encouraging him to continue his employment until retirement.

The company's goal:

- Retain Ryan, a key employee, until retirement
- Provide immediate death benefit protection for Ryan's survivor at a low out-of-pocket cost to Ryan
- Also provide a valuable long-term economic incentive to Ryan
- Allow flexibility and control over the company's investment
- Minimal impact to business financials
- Allow the business the option to recoup its investment

The key executive retention strategy

To help ensure that Dan's business keeps key talent like Ryan, it enters into a Lincoln *LifeComp*® DollarFlex plan with Ryan.

Dan's company and Ryan jointly purchase a *Lincoln LifeReserve*® Indexed UL Accumulator policy. The Exec Rider[1] is added to the policy because it's important that the company maintains a strong balance sheet. The rider provides a 100% return of premiums for up to 10 years and remains a quick asset on its books.

The company will pay an annual premium amount of $40,000 for the next 20 years. The premium paid (the split-dollar loan) remains on the employer's corporate books as its ownership interest in the jointly owned policy, creating a balance sheet-friendly solution for Dan's business. The Lincoln *LifeComp* administrative system provides complete accounting and plan administrative services to ensure the plan remains on track and is reflected properly on payroll and corporate books.

While the split-dollar agreement is in effect, Ryan must pay loan interest to the company on the split-dollar loan balance.[2] Ryan receives a compensation bonus from his employer to pay the loan interest due each year. This would leave him with lower out-of-pocket costs equal to the income taxes payable on this bonus received.[3] When Ryan turns age 65, the company will end the split-dollar agreement, and he will own the policy, including the cash value.

The outcome (year one)

For the company		For Ryan	
Premium paid (20 years):	$40,000	Premium paid:	$0
Ownership interest:	$40,000	Low out-of-pocket cost for bonus received to pay loan interest that provides a significant death benefit:	$99
Portion of surrender value:	$40,000		
Death benefit:	$40,000	Value of death benefit:	**$951,705**

When Ryan retires, the business may end the split-dollar agreement by withdrawing their split-dollar loan from policy cash values. Ryan would then fully own the policy and have tax-advantaged access to remaining policy values through policy loans and survivor death benefit.[4]

The outcome (when Ryan retires)

For the company		For Ryan	
The company recoups the premium it's paid over the past 20 years by taking a withdrawal from policy cash values:	$800,000	Cummulative outlay for bonuses received:	$46,999
		Death benefit (end of year age 66):	**$673,005**
		Cash surrender value:	**$568,409**
		Annual retirement income: Income tax-free loans to supplement his retirement income taken from age 65 to age 85.	**$57,004**

Assumptions: Male, age 45, standard nontobacco, *Lincoln LifeReserve*® Indexed UL Accumulator increasing death benefit, changing to level and minimizing at year 21, 100% 1-Year Point-to-Point Strategy, 100% DCA premium allocation, Exec Rider. $40,000 annual premium paid for 20 years, monthly participating loans taken in years 21 through 40, 7.2% assumed rate (6% assumed rate on loaned monies). While the projected values use the max leverage of 1% above the guarantee loan charge of 5% during the participating policy loans, the actual crediting to policy values would not be limited in this manner. At 1% and current charges, policy lapses in year 21. All values are stated as of the end of year value.

[1] The rider is available at an additional cost. The Return of Premium benefit allows a 100% return of premiums for 10 years, grading down to 20% by year 14. You need to meet a specified policy funding requirement to keep the rider in-force.

[2] Loan interest based upon the applicable federal rate (AFR). The AFR rates are published monthly by the IRS. These rates are used to calculate assigned interest charges. Interest on loans should not be less than the AFR for the loan to be considered a taxable event and not a gift by the IRS. For illustrative purposes the assumed AFR schedule is 0.75% for 2016 and 1.70% for the following 14 years. This may not always be the case and should be taken into consideration when reviewing this concept.

[3] Compensation bonus subject to an assumed employee income tax rate of 33%.

[4] It is assumed that the Joint Ownership Agreement is cancelled during policy year 21 and the employer withdraws $800,000 as a partial surrender of this policy.

The advantages of the strategy

For the company

- Ability to include only select key employees to participate, including the business owners themselves
- A complement to existing tax-qualified or nonqualified plans
- No IRS or DOL approval required
- No post-retirement business obligation
- Minimal impact to business financials
- Can recoup premiums paid
- Flexibility in transferring value to the key executive
- Access to the Lincoln *LifeComp* Suite's complete accounting and administration system

For Ryan

- Cost-effective death benefit protection for his heirs, generally paid income tax-free
- Tax-deferred growth of cash value
- Full ownership of the policy at retirement
- Access to future cash value for a tax-efficient supplement to his retirement income

Keep your competitive edge. Ask your advisor about cost-efficient employee benefit solutions.

Not a deposit
Not FDIC-insured
Not insured by any federal government agency
Not guaranteed by any bank or savings association
May go down in value

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Products, riders and features are subject to state availability. Limitations and exclusions may apply.

The Lincoln *LifeComp*® Suite is offered only by specially trained representatives of Lincoln.

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