

# Endorsement split dollar arrangement using life insurance

Employer cost reimbursement with an incentive to retain and reward select employees

Issued by North American Company for Life and Health Insurance



Nothing contained in this brochure should be construed as tax or legal advice. North American and its agents do not provide any tax or legal advice. Please consult with and rely on a qualified legal or tax advisor before entering into or paying additional premiums with respect to any of the arrangements described.



# For the life of your business

## Split dollar

A split dollar plan is an arrangement in which the life insurance death benefit is split between two parties — the policyowner (usually an employer) and non-owner (usually an employee). Upon the death or retirement of the employee, the employer receives its interest in the policy. This interest is often an amount equal to the amount of premiums the employer paid. Any remaining death benefit is paid to the employee's beneficiary. Or upon retirement, the policy may be transferred to the employee along with any remaining cash value.

A split dollar plan can offer a number of benefits for both the employer and the employee.

### For the **employer**

- No discrimination tests or criteria. The employer can freely choose which key employee receives the benefit.
- No IRS pre-approval required.
- Flexible plan design and exit options.
- Alternative to offering equity in the company.
- Ability to recoup costs at retirement, termination, or death.
- Balance sheet asset

Potential costs to the employer may include:

- Life insurance premium payments
- Legal fees to create and maintain the split dollar agreement

### For the **employee**

- Generally tax-free death benefit.
- Opportunity to obtain life insurance benefit for minimal expense.
- May be designed so the employee owns the policy and potential cash value during retirement.
- An alternative to partial interest in the company.

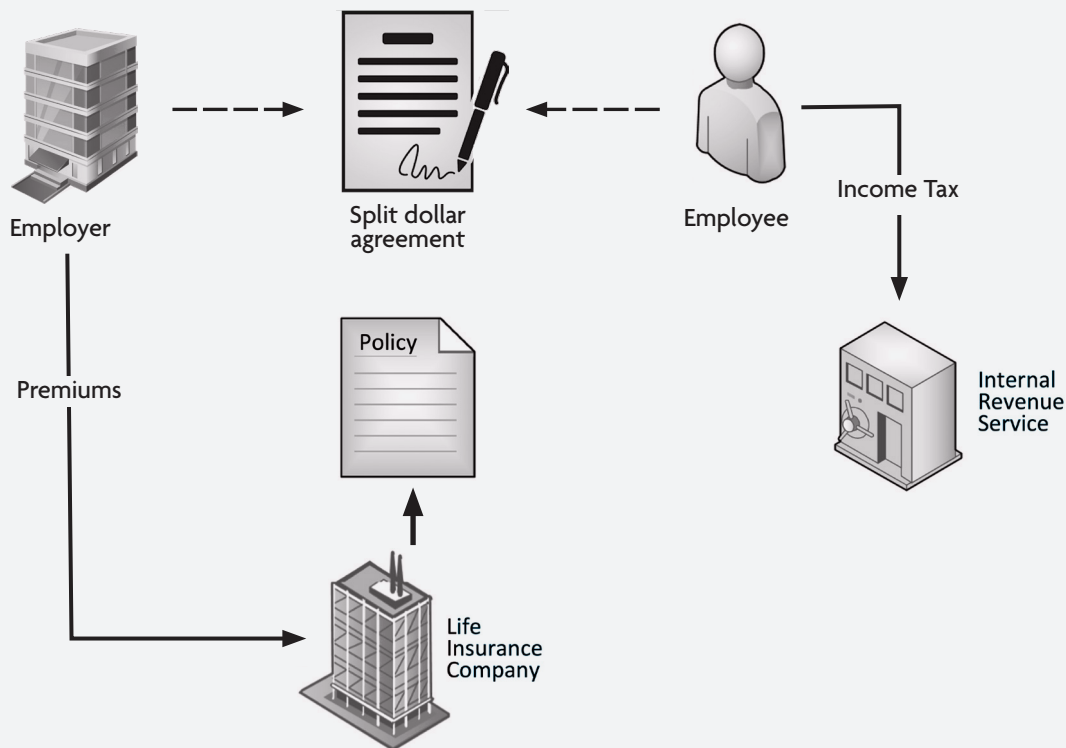
Potential costs to the employee may include:

- Life insurance premium payments
- Annual tax on the economic benefit of the policy
- Taxes, if the ownership of the policy is transferred to the employee

# How it works

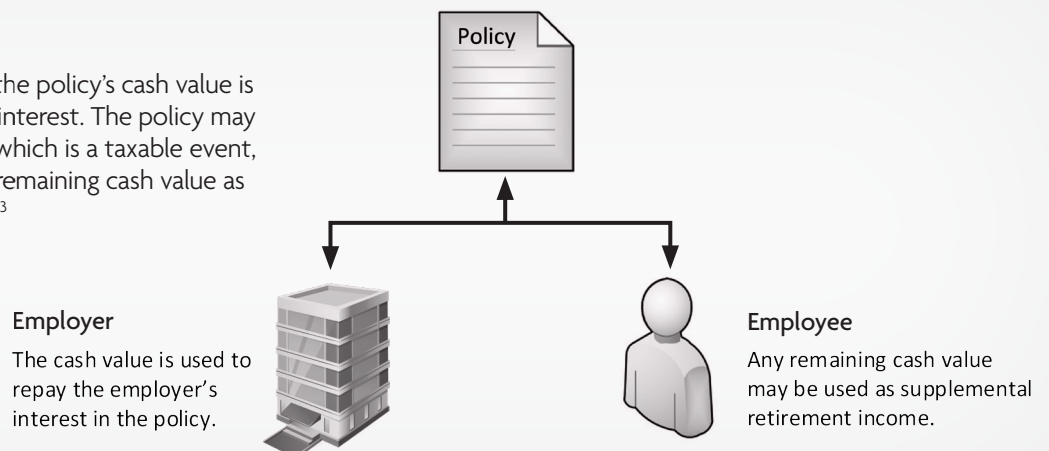
## Split dollar agreement

1. The employer selects an employee to cover with a life insurance policy.<sup>1</sup>
2. The employer and the employee enter into an agreement about how they will share the costs and benefits of the policy.
  - The employer generally pays the premium.
  - The employer retains an interest in the policy's cash value and/or death benefit.<sup>2</sup>
3. Based on the details of the agreement under the endorsement benefit arrangement, the employee pays tax on the value of premium paid by the employer. Under the endorsement regime, the employee pays tax on the value of the economic benefit of premium paid by the employer. This amount is typically determined through use of IRS Table 2001.



## Upon retirement

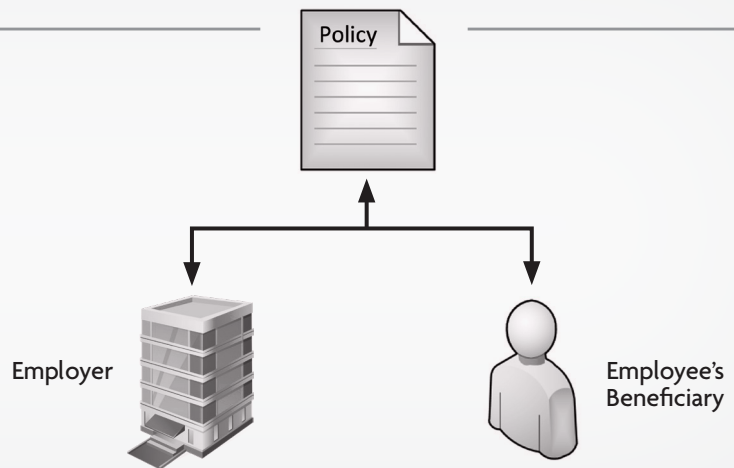
4. At the employee's retirement, the policy's cash value is used to pay back the employer's interest. The policy may be transferred to the employee, which is a taxable event, then the employee may use any remaining cash value as supplemental retirement income.<sup>3</sup>





## Upon death

5. Upon the death of the employee, a portion of the death benefit equal to the employer's interest is paid to the employer. Any remaining death benefit, is paid to the employee's beneficiary. Both parties generally receive death benefit proceeds income tax free.



## Retain your valuable workforce

1. Identify key employees within your company.
2. Work with a financial professional and key employees to find the right life insurance for their needs.
3. Meet with your attorney to draft a split dollar agreement.

**Talk to your financial professional today!**



# Details

Feature	Description
<b>Split dollar plan</b>	A split dollar plan is an arrangement between two or more parties to purchase and share the costs and benefits of a life insurance policy.
<b>Endorsement split dollar</b>	<p>With this design, the employer owns the life insurance policy. The value of the employee's right to the death benefit (the economic benefit) is measured each calendar year. The economic benefit is calculated using the IRS Table 2001.</p> <p>At rollout, the employer is due the greater of the cash value or premiums paid.</p>
<b>Premiums not tax deductible</b>	Premiums paid into the policy are not tax deductible for either the employer or employee.
<b>Retirement of the employee</b>	Upon transfer, the employee may use any remaining cash value as supplemental retirement income or for any other purpose.
<b>Death of the employee</b>	Upon the death of the employee, a portion of the death benefit equal to the employer's interest is paid to the employer. Any remaining benefit is paid to the employee's beneficiary. Both parties generally receive death benefit proceeds free from income tax.

There are multiple names for this sales concept, including Endorsement Split Dollar, Economic Benefit Regime, and Economic Split Dollar.

1. The employee must belong to a select group of management, which includes quantitative and qualitative elements. To meet the quantitative standard, plans should be limited to the top 15% of the workforce. To meet the qualitative test, a significant disparity should exist between the average compensation of the top-hat group and the average compensation of all other employees.
  2. To ensure the death benefit proceeds of any employer-owned policy retains its tax-favored treatment, it is essential to comply with the notice and consent requirements of IRC Section 101(j).
  3. Policy loans from life insurance policies generally are not subject to income tax, provided the contract is not a Modified Endowment Contract (MEC), as defined by Section 7702A of the Internal Revenue Code. A policy loan or withdrawal from a life insurance policy that is a MEC is taxable upon receipt to the extent cash value of the contract exceeds premium paid. Distributions from MECs are subject to federal income tax to the extent of the gain in the policy and taxable distributions are subject to a 10% additional tax prior to age 59½, with certain exceptions. Policy loans and withdrawals will reduce cash value and death benefit. Policy loans are subject to interest charges. Consult with and rely on your tax advisor or attorney on your specific situation. Income and growth on accumulated cash values is generally taxable only upon withdrawal. Adverse tax consequences may result if withdrawals exceed premiums paid into the policy. Withdrawals or surrenders made during a Surrender Charge period will be subject to withdrawal charges, processing fees, or surrender charges, and may reduce the ultimate death benefit and cash value. Surrender charges vary by product, issue age, sex, underwriting class, and policy year.
  4. A.M. Best is a large third-party independent reporting and rating company that rates an insurance company on the basis of the company's financial strength, operating performance, and ability to meet its obligations to contract holders. A+ (Superior) is the second highest rating out of 15 categories, and was affirmed for North American Company for Life and Health Insurance as part of Sammons Financial Group on August 13, 2024. S&P Global Ratings awarded its "A+" (Strong) rating for insurer financial strength on February 26, 2009 and affirmed on May 22, 2024 to North American Company for Life and Health Insurance as part of Sammons Financial Group. The A+ (Strong) rating is the fifth highest out of 22 available ratings for North American Company for Life and Health Insurance, member of Sammons Financial Group. A+ Stable Rated by Fitch Ratings. Fitch Ratings, a global leader in financial information services and credit ratings, on June 26, 2024, assigned an Insurer Financial Strength rating of A+ Stable for North American Company. This rating is the fifth highest of 19 possible rating categories. The rating reflects the organization's strong business profile, low financial leverage, very strong statutory capitalization and strong operating profitability supported by strong investment performance. For more information, read the Fitch Ratings report at <https://www.fitchratings.com/research/insurance/fitch-ratings-affirms-sammons-financial-group-inc-ratings-outlook-stable-26-06-2024>.
- To ensure the death benefit proceeds of any employer-owned policy retains its tax-favored treatment, it is essential to comply with the notice and consent requirements of IRC Section 101(j).
- Under an endorsement split dollar arrangement, you enter into an agreement with your employer. North American Company is not a party to this agreement and North American Company's only obligation is to administer the policy it issues consistent with the policy's terms and conditions.
- Under an endorsement split dollar arrangement, the value of the life insurance afforded the employee is taxable to the employee. The employer should provide the employee with tax reporting based on requirements specified in the tax code. The parties to the endorsement split dollar arrangement should seek their own independent legal and tax advice as to whether and how to enter into an endorsement split dollar arrangement based on the employer's and employee's unique circumstances.
- Neither North American Company nor its agents give legal or tax advice. Please consult with and rely on a qualified legal or tax advisor before entering into or paying additional premiums with respect to such arrangements.
- Life insurance products and all applicable endorsements and riders, are issued by North American Company for Life and Health Insurance, West Des Moines, Iowa. Product, features, endorsements, riders, or issue ages may not be available in all jurisdictions. Limitations or restrictions may apply.
- Sammons Financial® is the marketing name for Sammons® Financial Group, Inc.'s member companies, including North American Company for Life and Health Insurance®. Annuities and life insurance are issued by, and product guarantees are solely the responsibility of, North American Company for Life and Health Insurance.



## North American is a Sammons Financial Group company.

We are committed to our customers, distribution partners, employees and communities – and the deeply rooted belief that we grow stronger together.

With so much change happening in the world, people are looking for companies that can stand the test of time. They need a partner that can weather life's storms. That's us. For over a century, we have been here for our customers and honoring our commitments. And because we're privately owned, we don't measure our impact by the number of years we've been in business, investor goals or size of the company. We are proud of our impact of the financial futures we help secure, and the legacies we help establish.

We believe that we aren't here to serve just today's customers, but customers for generations to come. As we look ahead to our next hundred years, that fundamental principle remains rich in its vision. No matter how much change happens in the world around us, we strive to find new ways to create value for our customers.

Just like always.



North American has continued to earn high ratings, based on our financial strength, operating performance, and ability to meet obligations to our policyholders and contract holders. North American currently holds the following ratings:

A large, light gray, stylized leaf graphic that serves as a background element on the left side of the ratings section.

“A+”

**A.M. Best<sup>4</sup>** (Superior) (Second category of 15)

**S&P Global Ratings<sup>4</sup>** (Strong) (Fifth category of 22)

**Fitch Ratings<sup>4</sup>** (Stable) (Fifth category of 19)