

# Complimentary Split-Dollar Reviews

## WHAT IS SPLIT-DOLLAR?

A split-dollar arrangement is a plan in which two or more parties share the benefits and responsibilities of a life insurance policy. Generally, one party needs the coverage, and another is willing to cover the premiums. The split-dollar rules provide two regimes for splitting the premium, cash values, and death benefit: the economic benefit regime and the loan regime.

- Private split-dollar is an arrangement where a grantor covers the cost of a trust-owned policy. The technique is used to navigate transfer taxes while providing liquidity outside the taxable estate.
- In a business context, the company covers the cost of the coverage for an owner or key employee. The practice is used to provide an executive benefit, such as golden handcuffs or supplemental retirement income.

## HOW DOES THE ECONOMIC BENEFIT REGIME WORK?

One party owns the cash value and pays the premium (the “owner”); the other gets death benefit protection (the “non-owner”). In exchange for the death benefit protection, the non-owner promises to repay the owner’s premium advances. Additionally, to preserve the income-tax-free nature of the proceeds the nonowner also recognizes and accounts for the term cost of the protection annually.

## HOW DOES THE LOAN REGIME WORK?

One party owns the cash value and borrows the premiums from the other. The non-owner advances premiums to the policy-owner in exchange for the promise to be repaid plus interest each year the loan is outstanding. The borrower’s cash value and death benefit are subject to the repayment obligation.

## HOW OFTEN SHOULD A SPLIT-DOLLAR PLAN BE REVIEWED?

Even the best-conceived split-dollar plan will fail if not reviewed regularly. Depending on the plan type, economic benefit or loan regime, an annual review is required to determine the amount of the term cost or interest and how the parties will account for it.

## CAN CBS HELP ME WITH A SPLIT-DOLLAR CASE?

Absolutely. Read on to learn about our split-dollar services.

# Complimentary Split-Dollar Services

## PRE-SALE SUPPORT

CBS Brokerage helps advisors model split-dollar, present it to their clients, educate the client's other advisors, select the best carrier, and walk you through every step on the front-end.

## POST-SALE SUPPORT

Like any investment, split-dollar plans require diligent monitoring. To that end, we administer every aspect of the arrangement on the back-end annually to provide the relevant parties with the proper accounting information for their records and tax returns. We also track policy performance.

## COMPLIMENTARY SPLIT-DOLLAR REVIEWS

Carriers, BGA's and experienced insurance professionals often recommend split-dollar, but very few stay involved to keep the plan in compliance. The consequences for falling out of compliance can be very severe, such as causing the proceeds to be income-taxable, having the proceeds included in the taxable estate, or having premium loans re-characterized as taxable gifts.

CBS Brokerage offers complimentary split-dollar audits for existing split-dollar plans – including arrangements we didn't market. Our complimentary assessment entails reviewing the relevant legal documents, policy performance, and administration history to uncover potential split-dollar risks. Additionally, we help devise a plan to keep arrangements on track in the future. Our process includes:

### Document Review

- Split-dollar Agreement
- Promissory Note(S), if applicable
- Collateral Assignments

### Performance Review

- Inforce illustrations and annual statements to confirm split-dollar performance

### Administration Review

- Economic Benefits
- Loan Interest
- Tax Reporting (1099's, W-2's & 709's)

### Plan for the Future

- Provide split-dollar data annually
- Educate responsible parties

## WHY SHOULD YOU OFFER REVIEWS?

Offering value-add services rather than only products or asset management will set you apart. Reviewing split-dollar plans opens various sales opportunities, such as wealth transfer, retirement, and risk management planning. Additionally, offering reviews will expand your network, bringing you meaningful contact with your client's other business partners and advisors.

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