



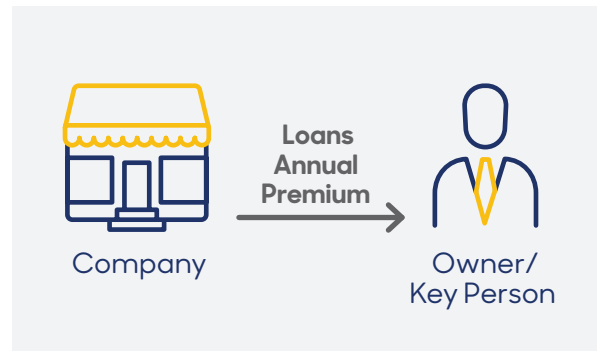
**SUCCESS
STRATEGIES**
Advanced Sales

Split Dollar Squared

Funding a “Retirement Buy-Sell” with a Corporate Split Dollar Loan

SITUATION A

Business owners can use after-tax corporate funds (taxed at 21%, compared to the 37% highest personal tax rate) to offer an attractive benefit to key people, including themselves. One way to do this is to have the company loan the premiums on a life insurance policy that provides the key person survivor benefits during the working years, as well as supplemental income at retirement.



SITUATION B

Business owners need buy-sell plans in order to direct what happens to their business shares in the event of death, disability or exit from the business. One of the best ways to fund a buy-sell plan is to use life insurance since the funds will be available from day 1.

CHALLENGES. Buy-Sell plans are typically structured so that each owner owns a policy on each other, or the company owns a policy on each owner. There are challenges that each present, a primary one of which is that both do not allow the business owners to retain the policy for their own personal needs, aside from the buy-sell need. In the **Retirement Buy-Sell**, the owners can own permanent policies on their own lives and address their other needs.

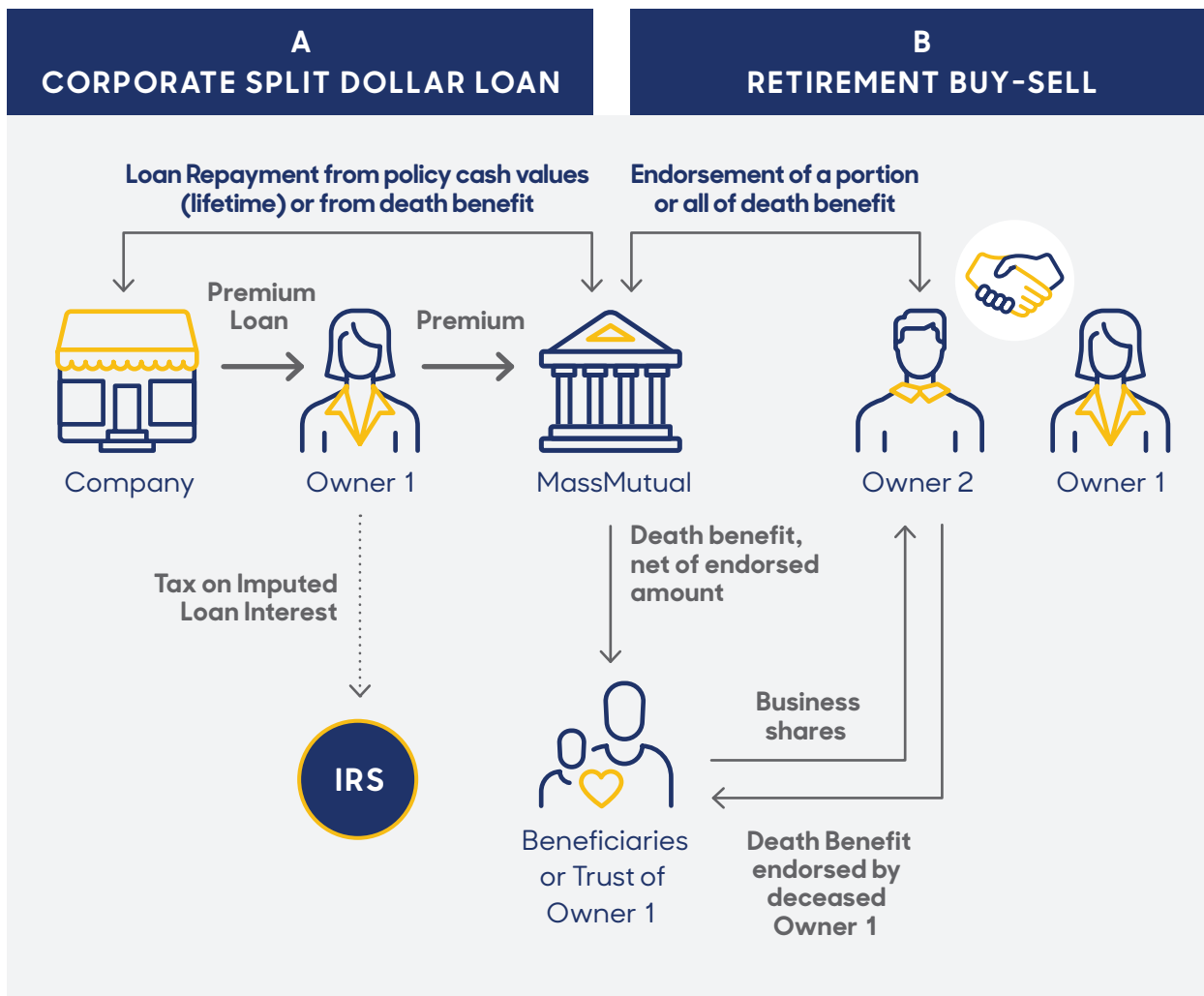




Powerful Duo

POWERFUL DUO

By using a corporate loan to fund the life insurance needed for a Retirement Buy-Sell, business owners can accomplish both the funding of a business continuation need and a retirement and insurance benefit for themselves. **Consider the following example if Owner 1 dies:**





Split Dollar Plans

COMBINING A CORPORATE SPLIT DOLLAR LOAN WITH A CROSS ENDORSEMENT BUY-SELL PLAN

By combining the two arrangements, it is possible to use the company's low taxed dollars to make annual loans in the amount of premiums to the business owner or other key person. The business owner can then fund a buy-sell plan, while also addressing his or her personal or retirement needs.¹

THE CORPORATE SPLIT DOLLAR LOAN is a non-qualified executive benefit plan in which:

- An employer loans the annual premium on a life insurance policy on the life of a business owner or other key person.
- The key person is the insured and owner of the policy and has the right to name the beneficiary of the death proceeds.
- A collateral assignment is filed with the insurance company that requires the portion of the policy's potential cash surrender values that covers the cumulative loan balance be assigned to the company in the event the key person departs the company during lifetime, before the cumulative loan is repaid.
- The death benefit is also reserved for the company during the loan term to repay the loan in the event of the key person's death.
- During the loan term, tax on the imputed loan interest is included in the key person's income.
- Once the loan is repaid, typically from cash surrender values or the death benefit, the collateral assignment is released, and the key person retains all rights to the policy.

RETIREMENT BUY-SELL is a second type of split dollar plan (Cross Endorsement Split Dollar plan) in which:

- Business owners own a policy on their own lives and endorse over to each other a portion or all the death benefit for as long as the buy-sell plan is in place.
- In return for the endorsement, each owner pays each other the economic value of the endorsed death benefit amount, which is based on either an insurance company's term rates per 1000 of coverage, if it meets the IRS guidelines, or the government's 2001 term table rates. The difference between what is received and what is paid is the cost of the endorsement to the owner.
- Whatever portion of the death benefit that is not endorsed, if any, is reserved for other designated beneficiaries.
- At some time in the future, the endorsement ends and the full death benefit on each owner's policy remains with each owner.
- In retirement, because the owners each own their own policies, they may use the cash surrender values to supplement retirement.



Contact Advanced Sales at 1-800-601-9983 Option #2
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¹ Access to life insurance policy cash values through borrowing or partial surrenders will reduce the policy's cash value and death benefit, increase the chance the policy will lapse, and may result in a tax liability if the policy terminates before the death of the insured.

