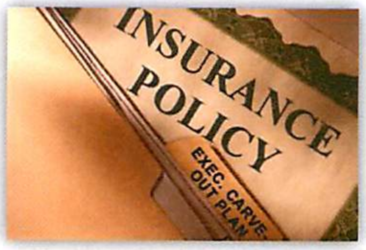
Executive Carve-Out Plan

An Alternative to Group Term

Executive Carve Out Defined

An executive carve-out plan is a plan which provides life insurance coverage on selected employees, by carving out all or a portion of their coverage under an employer-sponsored group term plan, and also provides them with individual policies.



Primary Objective

- To provide additional benefits to the employee in the form of accumulated cash values and post retirement coverage.

Plan Design

The plan may be designed either as:

- A bonus plan [IRC Sec. 162(a)], or
- A collateral-assignment split-dollar arrangement, taxed under the loan regime.

Advantages	IRC Sec. 162 Bonus Plans	Split-Dollar Loan Regime
Employer cost tax deductible	Yes	No
Employer cost recoverable	No	Yes
Cash value available to employee	Yes	Maybe[1]
Post retirement benefits	Yes	Yes
Employer discretion for coverage	Yes	Yes

[1] Subject to collateral assignment.

Executive Bonus Plan

IRC Sec. 162

An executive bonus plan is a method of compensating selected key employees by paying the premiums of a life insurance policy on the employee's life.

Some Requirements to Make the Plan Work

- Employer cannot be the beneficiary, either directly or indirectly, of the insurance. See IRC Sec. 264(a)(1).
- The amount of the premium is additional compensation to the executive. (Subject to unreasonable compensation rules.)
- There should be a written agreement between employer and employee.
- Executive must pay current income tax on the amount of the net premium paid by the employer. (Employer can bonus the extra money needed to pay the tax or it can be paid by policy loans or withdrawals.)

Benefits to Employer

- Can reward key executives.
- Selective participation is allowed (no discrimination rules).
- Premium costs are tax-deductible.
- Creation of plan is simple.
- No administration.
- Amounts of coverage on various employees can differ.
- Plan can be terminated without IRS approval or restrictions.

Benefits to Executive

- Executive owns the policy[1] and cash values. If he or she changes employers, the policy is not lost.
- Accumulating cash values will help in emergencies, at retirement or for personal investments.
- The death benefit may be income tax free. See IRC Sec. 101(a).
- Proceeds may be used for estate settlement costs.

[1] Some tax practitioners feel that an executive could agree (through a policy endorsement) not to change ownership or borrow against the policy without the employer's consent.

How an Executive Bonus Plan Works

IRC Sec. 162

Employer

- Pays premium.
- Includes the premium in the employee's taxable income.[1]
- Deducts the premium as a business expense.[2]

Employee

- Purchases and owns the policy.
- Pays the tax on the premium.
- Names beneficiaries.
- Can borrow against cash values.[3]

Insurance Company

AFTER DEATH OCCURS

Employee's Heirs

Family or other named beneficiaries receive the policy proceeds at the death of the executive.[4]

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[1] Employer may also choose to bonus the tax amounts to the employee, creating a net-no-cost scenario for the employee.
[2] See Reg. 1.162-9, Bonuses to Employees.
[3] Some tax practitioners feel than an executive could agree (through a policy endorsement) not to change ownership or borrow against the policy without the employer's consent.
[4] Death benefit is generally received free of income tax. See IRC Sec. 101(a).