



Unlock the Potential of Cash Value Accumulation

Business Owner Solution using the
Enhanced Cash Surrender Value (ECSV) Rider on LifeTime Advantage Plus

Dynamic Duo

Endorsement Split Dollar Salary Continuation Plan

Company X would like to retain and reward a Key Employee (Male, Age 45, Preferred). The Company would like to provide the employee with pre-retirement death benefit coverage of \$500,000 for his surviving spouse. The company will fund the plan with \$25,000 a year, but is concerned about the negative impact the premium expense will have on its corporate balance sheet. At the Key Employee's retirement age of 65, the plan needs to provide values that can be accessed on a tax-advantaged basis so the Company can provide supplemental income to the retired Key Employee for 20 years.

Proposed Solution:

- The Company purchases a **West Coast Life LifeTime Advantage Plus UL** policy that has been max funded with the \$25,000 annual premium outlay. The policy is sold with an initial Death Benefit Option B to the Insured's age 65, then Option A thereafter.
- By using the ECSV rider, the policy is projected to have a cash surrender value of \$24,520 (end of year 1) which will be booked by the company on their balance sheet as an asset.
- The cash surrender value has helped offset the negative expense of the premium dollar. Year 2 and thereafter, the cash surrender value is projected to be greater than the accumulated premiums.
- The policy will be used to provide the pre-retirement death benefit and at the employee's retirement age of 65, the policy cash values that have accumulated on a tax-deferred basis, will be used to provide funds to supplement the now retired employee's retirement income.

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**West Coast Life
Insurance Company**
A PROTECTIVE COMPANY
Birmingham, Alabama

WCLAG.1336 (11.09)

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Closer look:

- Employer has death benefit coverage sufficient to provide complete Cost Recovery in all years.
- Company endorses \$500,000 of the death benefit to the Executive.
- Executive has to pay tax on the Death Benefit since it is considered a Reportable Economic Benefit (REB).
- The REB is calculated using IRS Table 2001 Rates. This example is based on a 33 percent tax bracket. The taxable value of the benefit in year 1 is \$765 ($\$765 \times .33 = \252 Net to IRS). The cost for the Endorsed Death Benefit is less expensive to the Employee because he only has to pay tax on the term cost for the \$500,000 of coverage that will be received by his spouse income tax free.
- At the Executive's retirement age of 65, the Endorsement Split Dollar Plan terminates and the Salary Continuation Plan begins.
- Company withdraws \$61,302 yearly from the policy values (on a tax-advantaged basis through policy withdrawals to basis and then policy loans). It uses this amount to fund the Salary Continuation Plan promised to the Key Executive.
- The Salary Continuation is tax deductible for the Company and taxable to the retired Executive.
- The Employer receives a tax deduction on the \$61,302 payment resulting in a yearly tax savings of \$20,843. This helps reduce their out of pocket expense for funding the plan.
- Based on current assumptions, the Employer will be able to access \$61,302 yearly from the policy values on a tax-advantaged basis by taking withdrawals to basis and then policy loans. It will then pay this amount out to the retired employee and receives a tax deduction on the income paid. The tax savings for the Employer is \$20,843. The tax savings helps reduce their out of pocket expense for funding the plan.

Results:

At the employee's age 85, the Salary Continuation Plan terminates. The net cost (premiums minus tax savings) for the Employer was \$83,140 to provide pre-retirement coverage of \$500,000 for the employee plus supplemental retirement income of \$1,226,040 ($\$61,302 \times 20$). Using the ECSV Rider provided a method to offset the cost of the premium dollars to fund the plan and helped to avoid a negative impact on the corporate balance sheet.

For more information about the ECSV Rider, please contact

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* The Enhanced Cash Surrender Value Rider is available only for employer-sponsored and premium financed policies. Premium financing may not be available in all states.

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