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Key person plus strategy

Protect your business from the loss of key employees

Your challenge

Employers often award cash bonuses to their key employees[1] as incentive to stay with the company. These bonuses can be spent shortly after receiving them and have a minimal impact on key employee retention. How much would it cost to replace your top executives? Is your business protected in case your cash bonus isn't enough to retain your key employees?

Because your business is your life

A potential solution

You can provide a benefit that goes beyond traditional cash compensation. Key person plus is an endorsement split-dollar strategy that provides:

- Protection for your business against the departure of a key executive.
- A pre-retirement death benefit to the executive's beneficiaries.
- A potential supplemental retirement benefit for the executive.

Why is life insurance an ideal tool for this strategy?

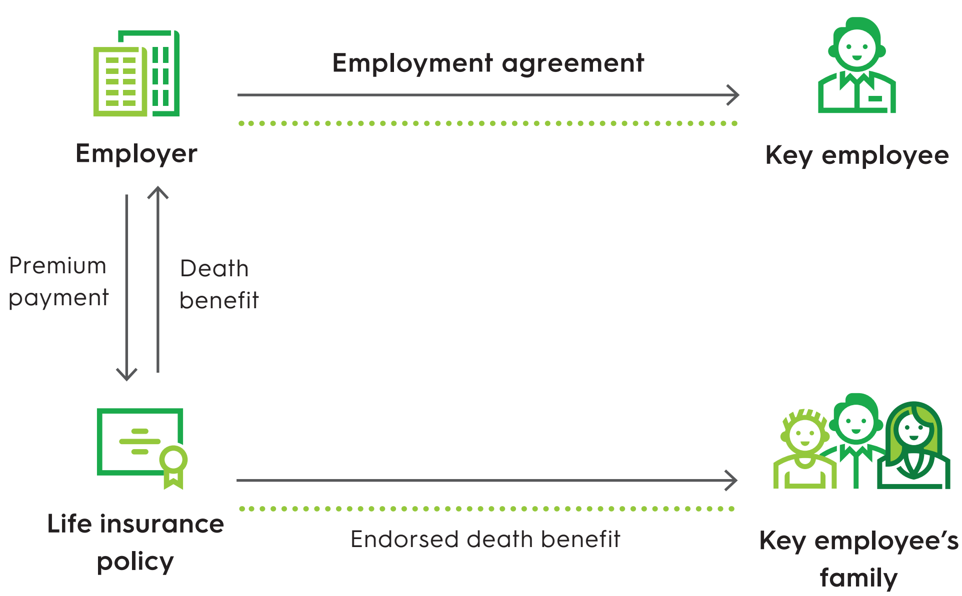
With the key employee's consent,[2] permanent cash value life insurance can be an excellent resource for accumulating funds needed to pay future obligations:

- Your company is the owner and beneficiary of the life insurance policy. The key employee is the insured, and a portion of the death benefit is endorsed to the executive as a survivor benefit.
  - The premiums you pay into cash value life insurance policies can grow tax free.
- When the insured dies, a portion of the policy's death benefit is paid to your company according to the terms of the arrangement.

How does key person plus strategy work?

While the key employee works for you:

- Your company purchases a life insurance policy insuring the key employee's life. Working with a licensed attorney, you establish a split-dollar agreement that endorses a portion of the death benefit to the key employee.
- The company pays the premium, and the employee is taxed on the "reportable economic benefit" of the premium. The reportable economic benefit is a calculation of the tax obligation for the death benefit provided in this type of life insurance arrangement. It is calculated using term life insurance rates.[3]
  - As an alternative, the employee can repay your company the income taxes on the policy's economic benefit.
- The endorsement serves as a pre-retirement death benefit for the executive's dependents, should the employee die while employed with your company.



When the key employee retires:

- The arrangement is terminated.
- Your company retains ownership of the policy.
- The company may use the policy's cash values to pay supplemental retirement income to the executive as deferred compensation.

- Your company may choose to transfer the policy to the executive as an income taxable bonus.
- When the executive dies, the company recovers the cost of the arrangement through the policy's death benefit proceeds.[4]

Company benefits	Key employee benefits
• Life insurance cash value is a company asset. • Simple strategy to implement. • Potential cost recovery. • Provide benefits to select employees.	• Low-cost death benefit coverage compared to key employees purchasing life insurance independent of the company. • Potential supplemental retirement income.

Company considerations	Key employee considerations
• Premiums are not deductible. • Requires drafting of legal split-dollar agreements by a licensed attorney. • Split-dollar agreements may be subject to IRS guidelines for nonqualified deferred compensation.	• Taxed annually on the economic value of the premium paid. • No access to or control of the policy. • Policy is owned by your company, not the executive.

At Securian Financial, we're here for family. And we're here because of it.

Family doesn't have to branch from your tree, but it always shares your roots. Roots woven by common understanding, shared values and mutual respect. Those who believe a rewarding life is really about being present in the here and now, and that your financial picture should support the everyday moments as much as the major milestones. That's why our insurance, investment and retirement solutions give you the confidence to focus on what's truly valuable: banking memories with those who matter most.

Learn more

Want to help ensure the ongoing success and growth of your business? Contact your financial professional today to find out how you can implement a key person plus strategy.

1. Key employees must be either highly compensated employees or management.

2. Section 101(j) of the Internal Revenue Code requires that an employer must provide notice and seek consent before placing life insurance on the life of an employee.

3. Currently established IRS table rates of ART.

4. Your company will receive the life insurance death benefit income tax-free if it meets the requirements of Internal Revenue Code Section 101(j).

A life insurance policy informally funding the non-qualified deferred compensation plan is subject to the notice and consent rules for employer-owned life insurance (EOLI). Failure to comply with those rules will subject any death benefit paid to the employer to income tax.

Please keep in mind that the primary reason to purchase a life insurance product is the death benefit.

Life insurance products contain fees, such as mortality and expense charges (which may increase over time), and may contain restrictions, such as surrender periods.

Policy loans and withdrawals may create an adverse tax result in the event of a lapse or policy surrender, and will reduce both the surrender value and death benefit. Withdrawals may be subject to taxation within the first fifteen years of the contract. Policy owners should consult their tax advisor when considering taking a policy loan or withdrawal.

This information may contain a general discussion of the relevant federal tax laws. It is not intended for, nor can it be used by any taxpayer for the purpose of avoiding federal tax penalties. This information is provided to support the promotion or marketing of ideas that may benefit a taxpayer. Taxpayers should seek the advice of their own tax and legal advisors regarding any tax and legal issues applicable to their specific circumstances.

The Policy Design you choose may impact the tax status of your policy. If too much premium is paid, the policy could become a modified endowment contract (MEC). Distributions from a MEC may be taxable and if the taxpayer is under the age of 59½ may also be subject to an additional 10% penalty tax.

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