

## Overview

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Non Qualified Plans are Designed to Retain, Reward and Recruit Employees. These Plans Supplement Qualified Retirement Plan Benefits and can provide Tax Diversity.

### Potential Benefits

- Retain Key Employees
- Reward Performance
- Discriminatory
- Powerful Recruiting Tool

### Funding Methods

#### **Operating Cash Flow**

Diverts Income from Business

#### **Stocks & Bonds**

Owner Recognizes Tax Friction

#### **Life Insurance**

Grows tax free if designed correctly with tax advantaged distributions and death benefits are generally received tax free.<sup>1</sup>



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# Executive Benefit Planning



162 Bonus

Endorsement Split Dollar

Collateral Assignment Split Dollar

*This material is designed to provide general information about ideas and strategies. It is for discussion purposes only since the availability and effectiveness of any strategy are dependent upon your individual client's facts and circumstances. Clients should consult with their independent attorney and/or tax advisor before implementing any financial, tax, or estate planning strategy.*

## Overview

### Potential Benefits:

- Simple to Administer
- Discriminatory Non-Qualified Benefit
- Provides Current Tax Deduction to Employer
- Provides Roth Like Benefit to Employee. Income Tax Now, Potential For Tax Free Retirement Income
- Provides Tax Diversity to Employee as Distributions May Not Be Taxed.<sup>1</sup>
- Provides Death Benefit to Employee

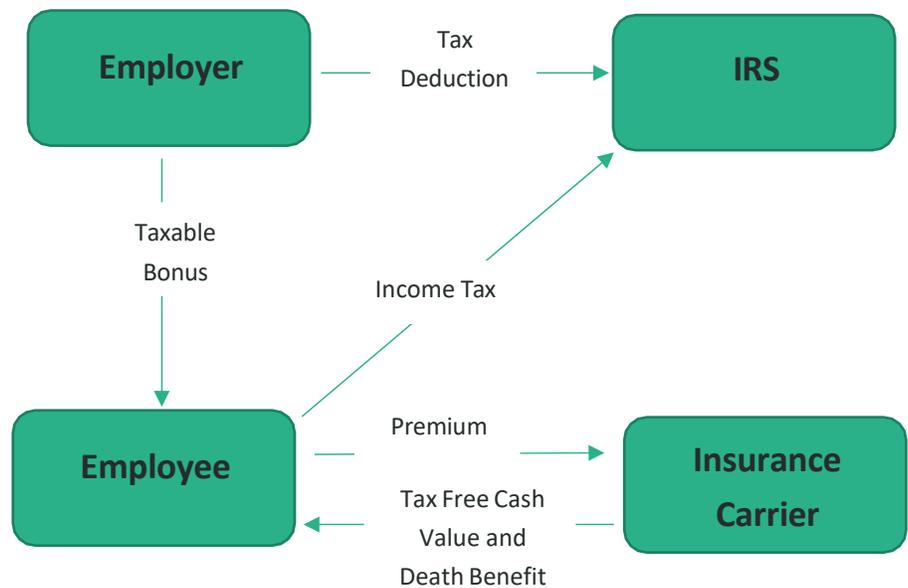
### Considerations:

- Creates Taxable Income to Participant Today
- Provides Tax Education to Employer Today

## 162 Bonus

### Roth Like Benefit Provides Employee with Pre-Retirement Death Benefit and Tax Free Retirement Income

#### *Life Insurance Policy Owned by Employee*



*Shown for illustrative purposes.*

### Steps:

1. Employer Makes Taxable Bonus to Employee
2. Employer Gets Current Tax Deduction
3. Employee Pays Tax on Bonus
4. After Tax Premium Used to Purchase Cash Value Insurance
5. Employee Has Death Benefit & Tax-Free Retirement Income

## Overview

### Potential Benefits:

- Simple to Administer
- Provides Employer with Maximum Control Since Policy Is Owned By them
- Gives Employee an Effective Tax-Deferral Since Policy Owned by Employer and policy cash values are an asset on the business' balance sheet
- Provides Pre- Retirement Death Benefit to Employee
- Provides Key Person Coverage to Employer

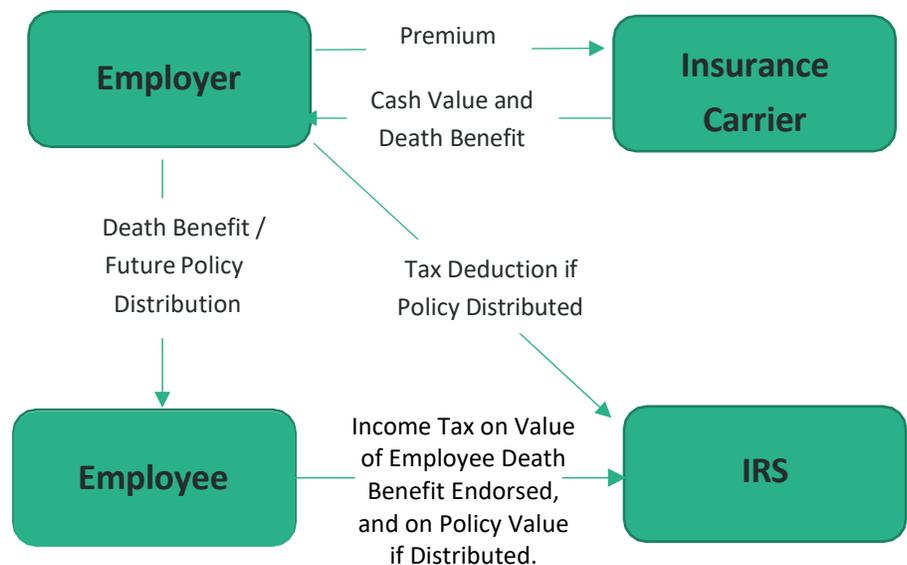
### Considerations:

- Tax Deduction to Employer if Policy Distributed
- If Policy Distributed Must be Done as Lump Sum
- Employee Recognizes Tax Annually on Value of Employee Death Benefit Endorsed, and on Policy Value if Distributed.

## Endorsement Split Dollar

### Executive Benefit That Provides Effective Tax-Deferral to Employee Plus Pre- Retirement Death Benefit While Providing Employer with Maximum Control

#### *Life Insurance Policy Owned by Employer*



*Shown for illustrative purposes.*

### Steps:

1. Employer Takes Out Insurance Policy on Key Employee
2. Employer Endorses Portion of Death Benefit to Employee
3. Portion of Death Benefit Retained by Employer as Key Person Coverage
4. Policy May be Distributed to Key Employee at Undetermined Point in Future
5. If Policy Distributed Employer Receives Tax Deduction
6. Employee Receives Taxable Income Annually on Value of Employee Death Benefit Endorsed, and on Policy Value if Distributed

## Overview

### Potential Benefits:

- Discriminatory Non-Qualified Benefit
- Provides Employer with Receivable Equal to Premiums Loaned
- Only Current Tax to Employee is Loan Interest Forgiven
- Loan May Be Forgiven At Retirement or Earlier To Reward Valued Employee (see tax considerations).
- Provides Pre-Retirement Death Benefit to Employee
- Potential to Give Employee Tax Efficient Retirement Income

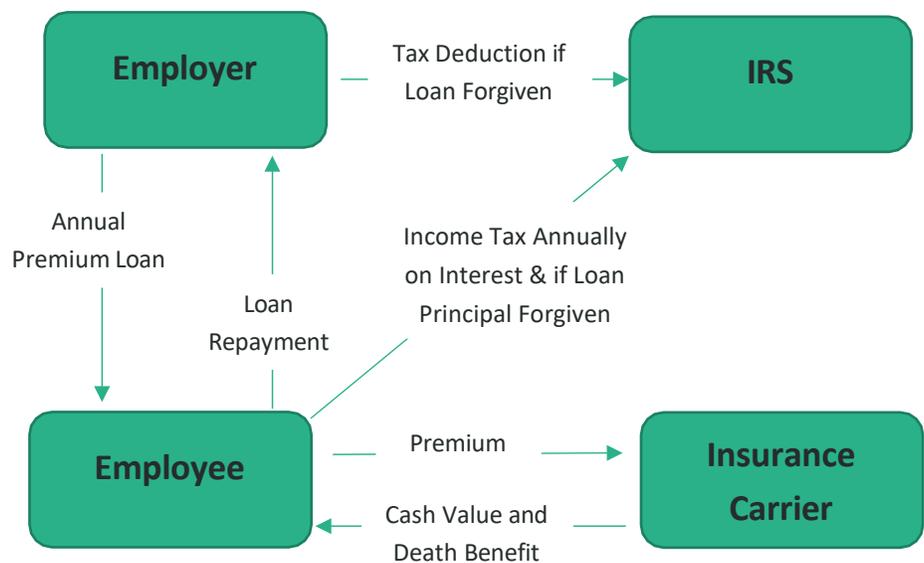
### Considerations:

- Tax Deduction to Employer if Loan Forgiven
- Tax to Employee if Loan is Forgiven
- Employer Loses Opportunity Cost on Loaned Dollars

## Collateral Assignment Split Dollar

A Powerful Tool That Provides Employer with a Balance Sheet Neutral Loan to Employee. Provides Employee with Potential for Tax Free Retirement Income and Death Benefit.

### *Life Insurance Policy Owned by Employee*



*Shown for illustrative purposes.*

### Steps:

1. Employer Makes Annual Premium Loan to Employee
2. Employee Purchases Cash Value Life Insurance Policy
3. Employer Has Receivable in Policy Equal to Cumulative Loan
4. Employee Has Pre-Retirement Death Benefit
5. If Loan Forgiven Employer Receives Tax Deduction
6. If Loan Forgiven Employee Has Taxable Income
7. Provides Tax Efficient Retirement Income to Employee

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All insurance illustrations presented to clients should contain all pages.

<sup>1</sup>Tax-free income assumes, among other things: (1) withdrawals do not exceed tax basis (generally, premiums paid less prior withdrawals); (2) policy remains in force until death; (3) withdrawals taken during the first 15 days policy years do not occur at time of, or during the two years prior to, any reduction in benefits; and (4) the policy does not become modified endowment contract. See IRC Secs. 72, 7702(f)(7)(B), 7702A. Any policy withdrawal, loans and loan interest will reduce policy values and may reduce benefits.

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<b>Are Not Deposits</b>	<b>Are Not Insured by Any Federal Government Agency</b>	<b>Are Not a Condition to Any Banking Service or Activity</b>



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