Loan Regime Split-Dollar Arrangements

Help your clients protect their key employees—and their competitive edge

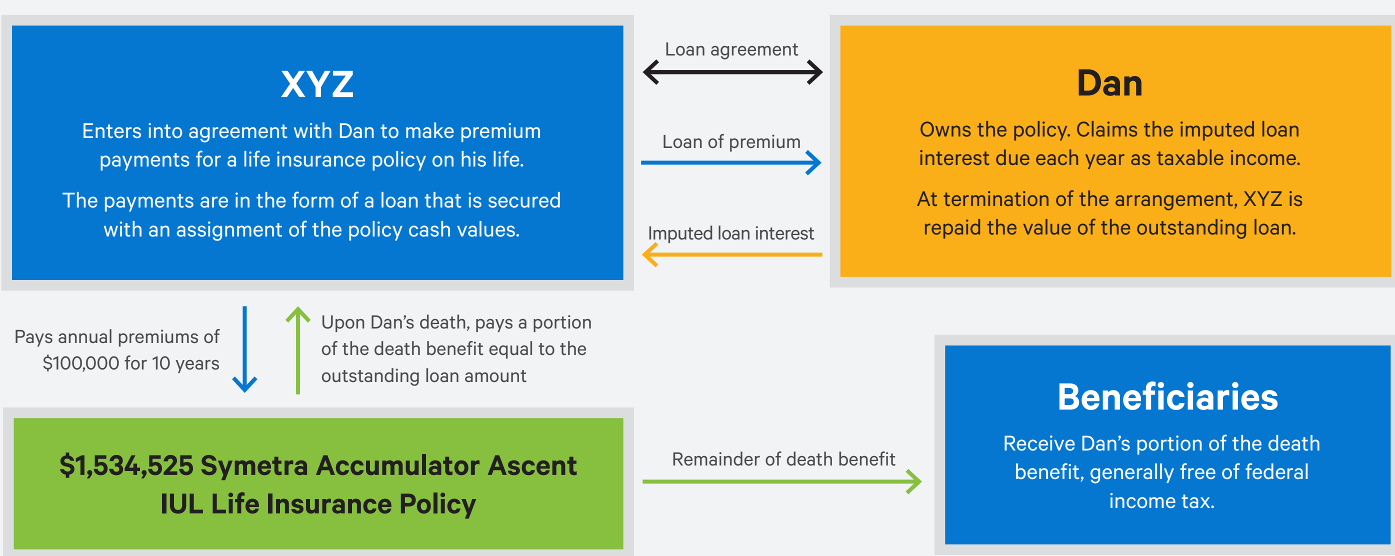
A flexible planning solution to help reward and retain valued executives

Loan regime split-dollar is an arrangement (referred to as a "section 7872 loan[1]) in which the key executive or a third-party trust owns the life insurance policy and the employer advances premium payments for the benefit of the executive. The advances are considered loans to the executive which are structured as either demand or term notes, and are secured by the policy cash values for repayment to the employer. At termination of the arrangement, the employer is typically repaid the outstanding loan balance and the assignment is released, resulting in full ownership by the executive or trust.

The loan regime split-dollar solution

In this hypothetical scenario, Dan (male age 45), a key executive for XYZ Company, has a need for life insurance protection and supplemental income for retirement. XYZ wants to provide an executive benefit for Dan by creating a "golden handcuff" design with the flexibility to control and recover costs. XYZ enters into an agreement with Dan to fund annual premium payments of $100,000 in a Symetra Accumulator Ascent Indexed Universal Life Insurance (IUL) policy for 10 years with an initial death benefit of $1,534,525 on his life.[2] The premium payments are in the form of a demand loan to Dan and XYZ secures the loan with an assignment of the policy's cash value. Dan owns the policy and imputes as income the loan interest due each year. In year 1, assuming an Applicable Federal Rate of 5%[3] and a federal income tax rate of 37%, Dan will have imputed annual loan interest of $ 5,000 and income tax due of $1,850. Upon death while the agreement remains in place, XYZ is repaid the outstanding loan balance, at which time the remainder of the death benefit is paid to Dan's beneficiaries.

How the strategy works



The Result

Upon Dan's retirement in 21 years, XYZ may terminate the arrangement and forgive the outstanding loan balance of $1,000,000 for a tax savings of $210,000 (21% tax rate). Dan will receive a bonus from XYZ in the form of a loan forgiveness in the amount of the outstanding loan balance and will have income tax due of $370,000 (37% tax rate), which he will take as a distribution from the life insurance policy.[4] At the end of year 21, Dan will have full ownership of the policy, a total after-tax outlay of **$286,750** with a death benefit of **$3,627,733**, and a net surrender value of **$2,233,371** for supplemental retirement needs.

Key executive's federal income tax bracket: 37.00%

Year	Age	Cumulative Employer Loan	Annual Loan Interest @ 5.00%	Bonus From Employer	Executive Loan Repayment	Executive Income Tax Due	Net Annual Policy Value Distributions*	Executive After-Tax Outlay	Executive Net Surrender Value	Executive Net Death Benefit
1	45	100,000	5,000	0	0	1,850	0	1,850	0	1,518,332
2	46	200,000	10,000	0	0	3,700	0	3,700	0	1,512,664
3	47	300,000	15,000	0	0	5,550	0	5,550	0	1,513,443
4	48	400,000	20,000	0	0	7,400	0	7,400	0	1,521,124
5	49	500,000	25,000	0	0	9,250	0	9,250	0	1,536,247
6	50	600,000	30,000	0	0	11,100	0	11,100	0	1,571,582
7	51	700,000	35,000	0	0	12,950	0	12,950	50,178	1,616,207
8	52	800,000	40,000	0	0	14,800	0	14,800	115,226	1,670,758
9	53	900,000	45,000	0	0	16,650	0	16,650	190,911	1,735,932
10	54	1,000,000	50,000	0	0	18,500	0	18,500	277,948	1,812,473
Total			**275,000**	**0**	**0**	**101,750**	**0**	**101,750**		
11	55	1,000,000	50,000	0	0	18,500	0	18,500	365,098	1,899,623
12	56	1,000,000	50,000	0	0	18,500	0	18,500	458,092	1,992,617
13	57	1,000,000	50,000	0	0	18,500	0	18,500	557,305	2,091,830
14	58	1,000,000	50,000	0	0	18,500	0	18,500	663,177	2,197,702
15	59	1,000,000	50,000	0	0	18,500	0	18,500	776,116	2,310,641
16	60	1,000,000	50,000	0	0	18,500	0	18,500	896,534	2,431,059
17	61	1,000,000	50,000	0	0	18,500	0	18,500	1,024,843	2,559,368
18	62	1,000,000	50,000	0	0	18,500	0	18,500	1,161,632	2,696,157
19	63	1,000,000	50,000	0	0	18,500	0	18,500	1,307,566	2,842,091
20	64	1,000,000	50,000	0	0	18,500	0	18,500	1,463,208	2,997,733
Total			**775,000**	**0**	**0**	**286,750**	**0**	**286,750**		
21	65	0	0	1,000,000	1,000,000	370,000	370,000	0	2,233,371	3,627,733
22	66	0	0	0	0	0	0	0	2,383,055	3,627,733
23	67	0	0	0	0	0	0	0	2,543,048	3,627,733
24	68	0	0	0	0	0	0	0	2,714,251	3,627,733
25	69	0	0	0	0	0	0	0	2,897,674	3,627,733
Total			**775,000**	**1,000,000**	**1,000,000**	**656,750**	**370,000**	**286,750**		

* Net Annual Policy Value Distributions from the life insurance policy are based on loans and withdrawals taken over the specified time period. Refer to footnote 4 for more details.

Contact Us

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See how Symetra Accumulator Ascent IUL may help your clients leave more to their beneficiaries. Call us for a custom illustration.

Symetra Accumulator Ascent IUL is a flexible-premium adjustable life insurance policy with index-linked interest options issued by Symetra Life Insurance Company, 777 108th Avenue NE, Suite 1200, Bellevue, WA 98004-5135. This policy is not available in all U.S. states or any U.S. territory. Where available, it is usually issued under policy form number ICC17_LC1.

Policy endorsements are not available in all U.S. states or any U.S. territory, and terms and conditions may vary by state in which they are available. Where available, the Putnam Dynamic Low Volatility Excess Return Index with Bonus Index Account is usually issued under endorsement form number ICC22_LE2.

Guarantees and benefits are subject to the claims-paying ability of Symetra Life Insurance Company.

Symetra Accumulator Ascent IUL has fixed and indexed accounts. Interest credited to the indexed accounts is affected by the value of outside indexes. Values based on the performance of any index are not guaranteed. The policy does not directly participate in any outside investment or index.

Allocations to the fixed account or index strategies are based on the allocation instructions provided at time of application, and may be subsequently changed in writing by the policyowner. When allocations occur, an index segment for each respective index strategy is created. Each index segment has its own index crediting method, index value, index cap, index spread, index floor, index participation rate, index segment term, and index start and maturity date. The index caps, floors and participation rates after the initial index segment term may be higher or lower than the initial rates, but will never be less than the guaranteed minimums shown in the policy. The index spreads after the initial index segment term may be higher or lower than the initial spreads, but will never be higher than the guaranteed maximum shown in the policy.

It is not possible to invest in an index.

There are other index strategies available within Symetra Accumulator Ascent IUL.

Except for the Putnam Dynamic Low Volatility Excess Return Index, the performance of an index does not include the payment or reinvestment of dividends in the calculation of its performance.

Symetra reserves the right to add, modify or remove any index strategy or crediting method. If any index is discontinued or if the calculation of any index is changed substantially, Symetra reserves the right to substitute a comparable index.

This is not a complete description of the Symetra Accumulator Ascent IUL product. For a more complete description, please refer to the policy.

There are additional tax, contractual and monetary considerations associated with Split-dollar plans. Before recommending this strategy to your clients, refer to the Split-Dollar Plan Brochure, form number LIM-1493, for additional details. Clients should consult with their attorney or tax professional before entering into a split-dollar arrangement.

[1] A section 7872 loan is governed by IRS Section 7872 split-dollar regime loans and will use the applicable federal tax rate (AFR) to measure taxation for income and gift tax purposes.

[2] Assumes Symetra Accumulator Ascent IUL policy with a $1,534,525 death benefit, funded with annual premiums of $100,000 for 10 years, initial crediting rate of 5.97%, using the 1-Year Point-to-Point Putnam Dynamic Low Volatility Excess Return Index™ with Bonus Strategy, current cost of policy charges and death benefit Option B (Increasing) switching to Option A (Level) in year 21. Policy distributions are withdrawals switching to loans in year 21.

[3] The AFR is published monthly by the IRS.

[4] Loans and withdrawals are only available prior to the death of the insured and will reduce the policy death benefit and cash surrender value. This may cause the policy to lapse and may be taxable. Withdrawals or loans on modified endowment contracts (MECs) may be subject to federal income tax and a 10% additional tax on amounts taken prior to age 59½.