Symetra Life Insurance Company

SPLIT-DOLLAR PLAN

Help protect your key employees—and your competitive edge

Not a bank or credit union deposit, obligation or guarantee	May lose value
Not FDIC or NCUA/NCUSIF insured	Not insured by any federal government agency

Reward and retain valued executives

High-quality employees provide a competitive edge that can help take your business to the next level. An employer-sponsored, split-dollar life insurance arrangement can help you attract and retain your industry's top talent and stand out as an attractive employer.

Is a split-dollar life insurance arrangement right for your business?

Consider a split-dollar arrangement if:

- ✓ **You want to attract and retain top talent.**
- ✓ **You have executives who need life insurance protection.**
- ✓ **You want flexibility to customize and choose who participates.**

What is a split-dollar life insurance plan?

A split-dollar life insurance plan is an arrangement between two parties (an employer and an executive employee) who share a permanent life insurance policy's premiums, cash values and death benefit. Generally, the employer has the cash flow to fund the policy's premiums, and the executive has a need for life insurance protection to help protect his or her family. Depending on the method used, the policyowner may be the business employer, the insured key executive or a third party entity established by the executive—commonly an irrevocable life insurance trust (ILIT).

Note: IRS Final Regulations on Split-dollar Arrangements ("final regulations") apply to split-dollar arrangements entered into or materially modified after Sept. 17, 2003. The final regulations require the parties in a split-dollar life insurance arrangement to be taxed under one of two "mutually exclusive regimes"—an "economic benefit regime" or a "loan regime." Under an economic benefit regime, the premium payments by the employer result in taxable "economic benefits" to the employee. Under a loan regime, premium payments by the employer are treated as a series of interest-bearing loans to the employee. In April 2007, the IRS released Notice 2007-34, which specifically addresses the application of 409A deferred compensation rules to split-dollar arrangements. Split-dollar arrangements that have a deferred compensation component may be subject to the 409A rules.

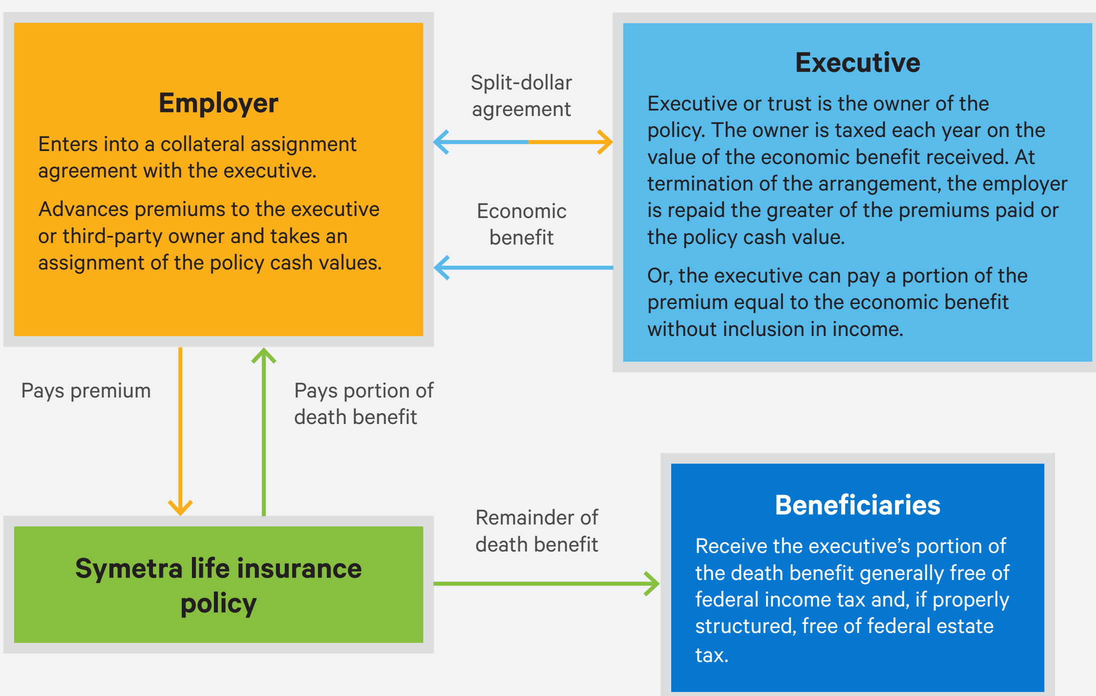
Types of split-dollar plans and taxation

Non-equity collateral assignment split-dollar

An arrangement 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 policyowner collaterally assigns all of the policy's cash value to the employer and receives only the benefit of life insurance protection. At termination of the arrangement, the employer is typically repaid the greater of premiums advanced or the policy's cash value. The assignment is released, resulting in full ownership by the executive or a trust.

Taxation: During the course of the arrangement, the executive pays income tax on the economic value associated with the life insurance benefit received, or contributes a portion of the premium payment equal to the economic benefit rather than be taxed on it. The measure of economic benefit is provided in IRS Table 2001 or the insurer's alternative term rates.[1] The taxable benefit to the executive is not tax deductible by the employer. If the policy is owned by a trust, the executive will be deemed to have gifted the economic benefit or portion of the premium payment to the trust.[2]

How the strategy works



Post-retirement: The split-dollar arrangement is generally terminated at the executive's retirement. The employer receives the greater of premiums paid or the policy cash value. To the extent that any policy value is transferred to the employee, income will be recognized.

[1] In calculating the economic benefit value, IRS Revenue Ruling 66-110 and Notice 2002-8 apply and provide for the use of the current published premium rates charged by an insurer for individual 1-year term life available to all standard risks.

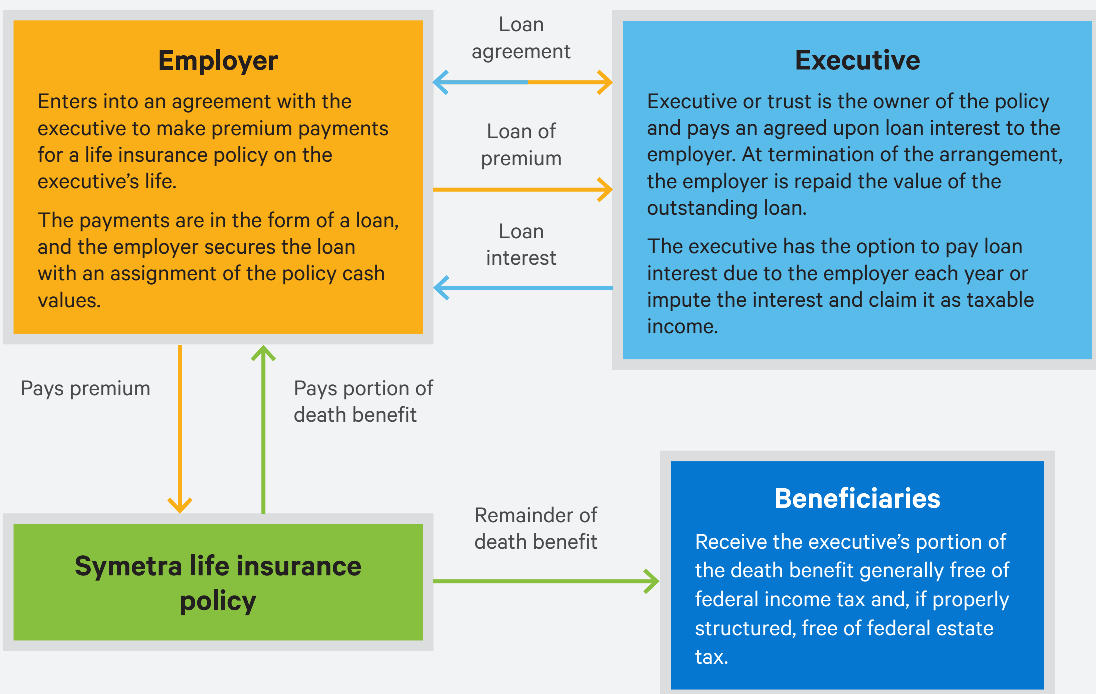
[2] Any gift to an ILIT that is intended to be a present interest and completed gift must be made to an ILIT which contains "Crummey power" language.

Loan regime split-dollar

An arrangement (referred to as a "section 7872 loan")[3] 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 that are structured as either demand or term notes and are secured by the policy 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.

Taxation: During the course of the arrangement, loan interest can be imputed to the executive, who pays income tax on it. If the executive is not charged at least the applicable federal rate (AFR),[4] taxable income equal to the difference between the AFR and the interest rate charged is imputed income to the executive subject to the treatment of below-market loans under Internal Revenue Code §7872. The imputed interest income (referred to as "forgone interest") may be tax deductible by the employer.[5] If the life insurance policy is owned by a trust, the executive will be deemed to have gifted the imputed interest income to the trust.[6]

How the strategy works



Post-retirement: The split-dollar arrangement is generally terminated at the executive's retirement. The employer receives the outstanding loan balance. To the extent that any loan balance is forgiven to the executive, income will be recognized.

[3] 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.

[4] The AFR is published monthly by the IRS. A loan regime split-dollar arrangement may use blended annual short term interest for a demand loan or an appropriate term interest rate for a term loan.

[5] Foregone interest is deemed a transfer from the employer to the executive/owner and then paid back by the executive/owner to the employer as interest income. Refer to Internal Revenue Code §1.7872-15(e)(3).

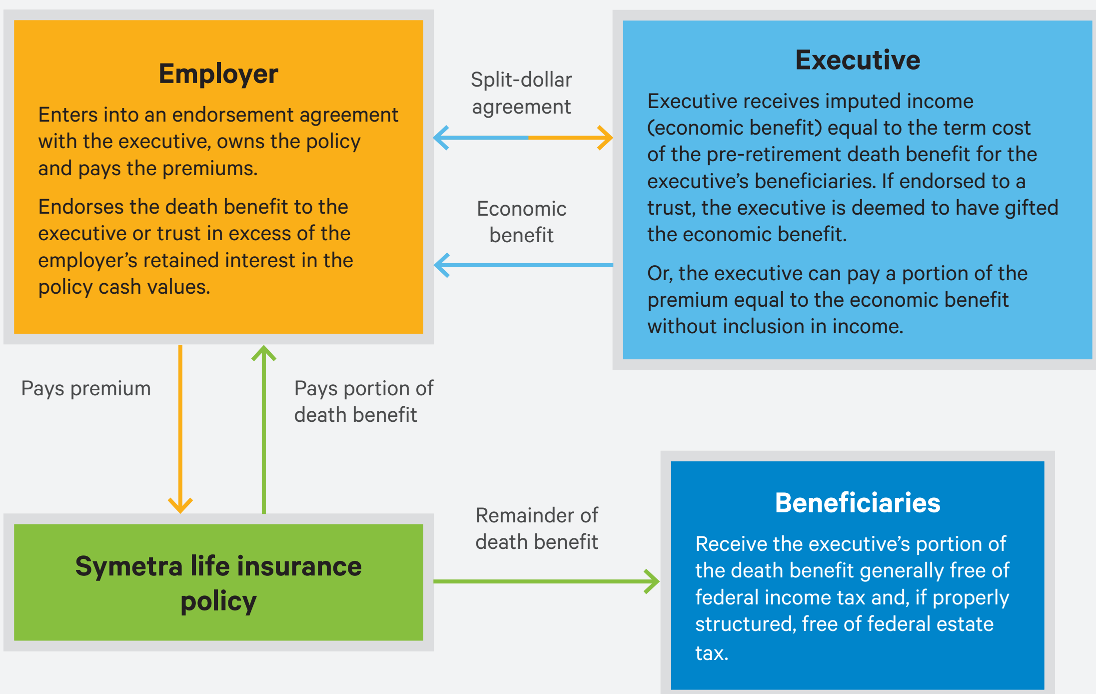
[6] Any gift to an ILIT that is intended to be a present interest and completed gift must be made to an ILIT which contains "Crummey power" language.

Endorsement split-dollar

An arrangement in which the employer owns the life insurance policy on the life of the executive.[7] Typically, the employer endorses some or all of the death benefit to the executive for pre-retirement death benefit protection in the event the executive dies while employed. At termination of the arrangement, the endorsement to the executive is terminated.

Taxation: During the course of the arrangement, the executive pays income tax on the economic value associated with the life insurance benefit received, or contributes a portion of the premium payment equal to the economic benefit rather than be taxed on it. The measure of the economic benefit is provided in IRS Table 2001 or the insurer's alternative term rates.[8] The taxable benefit to the executive is not tax deductible by the employer. If the life insurance policy is endorsed to a trust, the executive will be deemed to have gifted the economic benefit or portion of the premium payment to the trust.[9]

How the strategy works



Post-retirement: The split-dollar arrangement is generally terminated at the executive's retirement and the policy reverts to the employer for full control of the death benefit and cash value. The employer may choose to provide the executive with supplemental retirement benefits from the policy cash values as a bonus or sell it to the executive. Receipt of the employer's interest in the policy will be taxable income to the executive. If any value is transferred to the executive, income will be recognized, and the split-dollar arrangement may be subject to Internal Revenue Code §409A final regulations. The sale of the policy to the executive will be taxable income to the employer to the extent the proceeds of the sale exceed cost basis in the policy.

[7] Life insurance policies owned by the employer of the life insured are subject to Internal Revenue Code §101(j) and may impose income tax on the death benefit unless certain exceptions apply. Exceptions include the "notice and consent" requirements. Refer to IRS Notice 2009-48 for further guidance.

[8] In calculating the economic benefit value, IRS Revenue Ruling 66-110 and Notice 2002-8 apply and provide for the use of the current published premium rates charged by an insurer for individual 1-year term life available to all standard risks.

[9] Any gift to an ILIT that is intended to be a present interest and completed gift must be made to an ILIT which contains "Crummey power" language.

Exit strategies for split-dollar arrangements

Before entering a split-dollar arrangement, the employer and executive should agree to a termination—or "roll-out"—strategy to ensure an appropriate outcome when exiting the plan. The exit strategy should outline how premium advances will be repaid to the employers and how the policy will be funded on an ongoing basis (if necessary). Problems may occur if there are inadequate policy values to carry out these objectives.

Remember that when a split-dollar agreement is terminated, if the employer passes something of value to the executive to which he or she is entitled, the employer will be entitled to a tax deduction for the amount given up, and the executive will include a corresponding amount as ordinary income in the year received.

Several exit strategies are available:

Death benefit
If the executive dies while the agreement is in place, a portion of the death benefit proceeds can be used to repay the employer the greater of premiums paid or policy values, or—if using loan regime split-dollar—any outstanding loan amount.

Policy cash values
If the policy cash value exceeds the amount to repay the employer, and the employer agrees, the executive can withdraw and/or borrow policy cash value to repay the greater of premiums paid or policy value, or—if using loan regime split-dollar—any outstanding loan amount. The distribution of policy cash value will reduce the death benefit and may cause the policy to lapse.[9]

Other resources
The executive or third party trust may repay the employer from other personal or trust assets.

Transfer of the policy
If using an endorsement split-dollar plan, the employer can transfer the policy ownership to the executive or trust as an income taxable bonus based on the policy value. The bonus amount will be treated as a gift from the executive if a trust is used.[10]

[9] 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.

[10] Any gift to an ILIT that is intended to be a present interest and completed gift must be made to an ILIT which contains "Crummey power" language.

Benefits

A split-dollar plan has numerous advantages for employers and their most essential executives.

Business owners

Executive retention
A split-dollar plan provides a selective, additional benefit to help reward and retain key executives.

Flexibility
Flexibility to customize and choose who participates, unlike the restrictions of traditional retirement plan benefits.

Simplicity
An easy-to-administer, cost-effective way to provide a valuable employee benefit, with no ERISA participation, reporting, or disclosure requirements and minimal administrative costs.

Cost recovery
The employer can recover the costs of the split-dollar arrangement from the death benefit proceeds if death occurs during employment or from policy cash values when the agreement is terminated.

Executives

Life insurance protection
Life insurance protection is provided at a reasonable cost, and beneficiaries receive death benefits generally free of federal income taxes and, if properly structured, free of federal estate taxes.

Flexible design
The policy can be tailored to meet an executive's individual needs.

Minimize income taxes
The income tax costs to the executive can be covered with a cash bonus from the employer.

For executive or trust ownership

Tax-deferred growth
The potential policy cash value accumulation grows tax-deferred inside the life insurance policy.

Tax-advantaged income
Tax-free supplemental income may be attained through a combination of policy loans and withdrawals. But note that distributions from the policy will reduce the policy cash value and may reduce the death benefit payable to beneficiaries.[11]

[11] 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.

Considerations

Formal agreement

Split-dollar arrangements require that formal, written agreements are in place.

Cash flow

Employers must have cash flow to fund the life insurance premiums.

Economic benefit costs

The economic benefit costs will increase with the insured's age. If a survivorship policy is used, the economic benefit will increase on the first death.

Switch dollar

When economic benefit costs increase and become less economical, the collateral assignment may be terminated and a promissory note established with an initial loan balance that includes all previous premiums paid or an amount equal to the life insurance policy's cash value, if greater.

Modified endowment contracts (MECs)

Pledging a life insurance policy classified as a modified endowment contract (MEC) as collateral will be treated as if a distribution has been made from the policy even if no actual distributions have been made. At this point, any cash value in excess of basis (premium paid) is taxable as ordinary income. In addition, to the extent there is gain in the contract, a 10% additional tax may occur if the owner of the policy is under age 59½.[12]

Final split-dollar regulations

The final split-dollar regulations will determine how split-dollar plans can be structured after September 17, 2003. For split-dollar arrangements where the employer is designated as the owner of the policy or where the executive is designated as the owner of the policy but does not have access to any portion of the policy cash value, an economic benefit regime will apply. For split-dollar arrangements where the executive is designated as the owner of the life insurance policy and has access to all or a portion of the policy cash value, a loan regime will apply.

Is a split-dollar life insurance plan right for your business?

If you want to retain and attract top talent within your industry, have executives who need life insurance protection, and want the flexibility to customize and choose who participates, a split-dollar plan may be appropriate for your business.

Contact your insurance professional for more information.

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Guarantees and benefits are subject to the claims-paying ability of the issuing life insurance company.

Neither Symetra Life Insurance Company, nor its producers or employees give tax or legal advice. Clients should consult with their attorney or tax professional for more information.

[12] Refer to Internal Revenue Code (IRC) §72(e)(10) and IRC §72(e)(4)(a).