# Combine key person coverage with an employee benefit

## An endorsement split-dollar plan for your business clients

Your client relies on a key employee for their business's success. Whether this employee is a partner, top executive or has unique skills, their loss could create significant risk. It could lead to business disruption, loss of profits, and the financial burden of recruiting and training a suitable replacement.

## Meet Tiffany and Bill

*Tiffany owns a technology consulting firm.*
*Bill, age 45, is a principal consultant.*

Bill joined Tiffany's firm eight years ago. As a member of the firm's senior management, Bill has been instrumental in strengthening and building client relationships.

Tiffany recognizes the value Bill brings to her firm and is concerned about losing him to a competitor or unexpected death. To address these challenges, Tiffany meets with her financial professional.

### Tiffany's challenge

**Tiffany wants a benefit that may provide Bill with:**

- A reward for his contribution to the firm
- A cost-effective way to obtain survivor benefits for his family

**And provide the firm with:**

- Protection from the loss of Bill to death or competition
- Control and flexibility for the financial needs of the business
- A cost-effective way to accomplish these goals

Insurance products issued by:
The Lincoln National Life Insurance Company



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## How an endorsement split-dollar plan works

**The business**

Pays all premiums for a policy on the employee's life and endorses a portion of the policy to the employee. The employer is entitled to 100% of policy cash values during the lifetime of the insured.

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**The employee**

While the life insurance policy is owned by the business, a portion of the death benefit will be payable to the employee's beneficiary while minimizing the income tax consequences to the employee.

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## The business protection strategy

Tiffany's financial professional recommends an endorsement split-dollar agreement. **With Bill's written consent, the firm purchases a $1 million *Lincoln VUL$^{ONE}$** variable universal life policy on his life.** The policy has a death benefit protection that's guaranteed for life[1] to help manage the financial risk in the event of Bill's premature death. *Lincoln VUL$^{ONE}$* also provides a cash value growth potential linked to market performance with the freedom to choose from an array of investment options.

**The firm endorses $500,000 of the policy's death benefit to Bill while he continues to work for them until he retires at age 65.** This benefit helps provide Bill's beneficiary with additional financial security if he were to pass away during his employment at the firm.

**Tiffany's technology consulting firm maintains a $500,000 death benefit for the purpose of key employee coverage.** The firm will own the policy and all the policy cash values and be responsible for paying the premiums. Because the policy is owned by the firm, it gives the firm greater flexibility in repurposing the policy in the future to address other business planning needs.

**Bill pays the economic benefit for his portion of the death benefit.** This amount is calculated based on *Lincoln LifeElements®* One-Year Term rates. The firm gives Bill a bonus to cover this cost. So, Bill's out-of-pocket cost is merely the tax he pays on the bonus he receives. Bill's beneficiary, Karen, is eligible to receive an income tax-free benefit in the event of his death while the split-dollar agreement is in effect.

**At Bill's retirement** the firm ends the endorsement split-dollar agreement and has the flexibility to keep the full policy or transfer the policy to the employee as a retirement benefit.

## The outcome (year one) – Bill is age 45

| For the technology consulting firm | |
|---|---|
| Annual premium paid | $18,264 |
| Death benefit for key person coverage | $500,000 |
| Death benefit endorsed to Bill | $500,000 |
| Total death benefit | $1 million |

| For Bill | |
|---|---|
| Annual premium paid | $0 |
| Economic benefit costs for $500,000 | $250 |
| Total W2 bonus for economic costs | $250 |
| Total out-of-pocket cost at 24% tax bracket | $60 |

## The outcome (year 20) – Bill is age 65 and retires

| For the technology consulting firm | |
|---|---|
| Cumulative premium paid for $1 million policy | $365,280 |

| For Bill | |
|---|---|
| Cumulative premium paid | $0 |
| Cumulative economic benefit costs for $500,000 | $10,897 |
| Total W2 bonus for economic costs | $10,897 |
| Total out-of-pocket cost at 24% tax bracket | $2,616 |

This hypothetical example assumes male, age 45, standard nontobacco, *Lincoln VUL*^ONE^, CVAT, level death benefit = $1,000,000. Annual premium of $18,264 payable to age 65; 8.00% gross/7.47% net rate of return; current charges. Employee tax bracket assumes 24%, employer tax bracket 30%. Economic benefit costs calculated using *Lincoln LifeElements*® One-Year Term rates.

At guaranteed charges and 0% rate of return, cash values are zero in year 31 with death benefit still guaranteed to maturity.

**Lincoln VUL*^ONE^ (2021).

[1] The ONE Rider is issued automatically at no additional charge. To maintain the guaranteed death benefit protection, automatic rebalancing is required and the use of the money market investment option is limited to the right-to-examine period, or as an account from which to transfer funds for the dollar cost averaging (DCA) program. We reserve the right to establish investment restrictions in the future under limited conditions as described in the prospectus. If the no-lapse benefit expires or terminates, the account value must be sufficient to keep the policy in-force, or additional premiums will be required to avoid a policy lapse. Paying only the premium required to satisfy the no-lapse guarantee may lessen the potential for buildup of the policy's account value. As long as the requirements of the rider are met, it will not terminate while the policy is in-force. The no-lapse guarantee is in effect if either of the rider's reference values, less indebtedness, is greater than zero.

## Administration made easy with Lincoln *LifeComp*®

We make it easy for your client's business to keep track of the endorsements and report benefit costs with our *LifeComp* administration system. They receive unique life insurance plan designs and comprehensive plan documentation and administration, including:

- Accounting reports
- Year-end reports
- Annual evaluation
- Postretirement services

Help your business clients balance the benefits their employees want with the control your clients need with *LifeComp* business plans.

Contact your Lincoln representative to see how you can help your clients protect their business while rewarding their employees with Lincoln life solutions.

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