Postretirement Death Benefit Liability Relief Program

Issue
Postretirement Endorsement Split-Dollar Plan Liability

Many banks provide their executives with life insurance as a valuable retention and reward tool. Historically, the most prevalent plan type has been the endorsement split-dollar life insurance arrangement where the bank owns the policy and endorses a portion of the death benefit to the executive pre and postretirement.

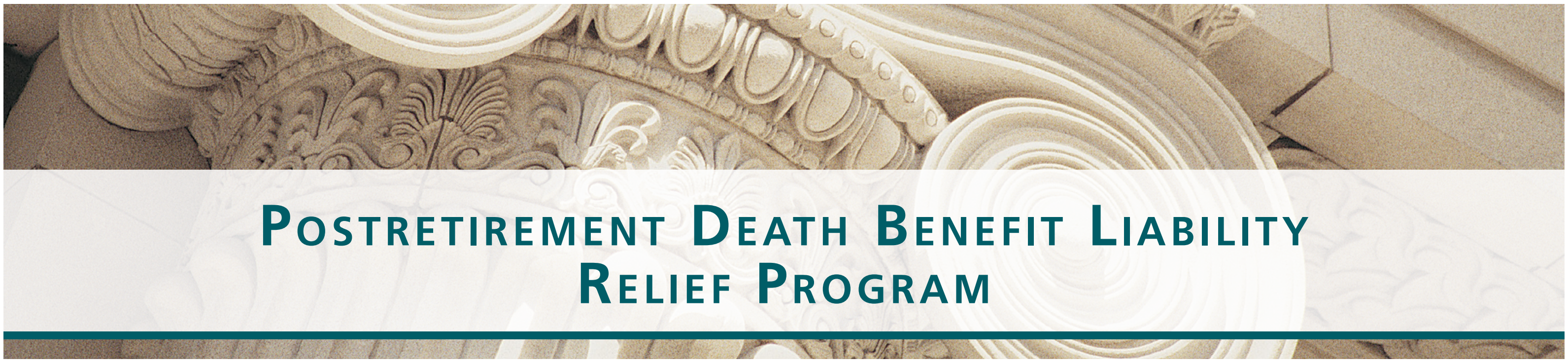
In 2006, FASB's Emerging Issues Task Force (EITF) concluded that endorsement split-dollar life insurance arrangements fall within the scope of FASB Statement 106 which meant that employers were to recognize a liability for future postretirement death benefits. As these programs age, the liability may see increases.

Potential Solution
Cancel Split-Dollar Plan and Install an Executive 162 Plan

The bank would terminate the Split-Dollar Death Benefit Plan, which removes the accrued liability, and institute an Executive 162 Life Insurance Plan that matches the executive's former benefit.

A win-win situation for the bank and the executives covered.

In this new program, the bank pays the premium on a life insurance policy on the life of the executive. The premium payment is treated as a bonus and is taxable to the executive and deductible by the bank. The bank may gross-up the bonus to pay for the taxes owed by the executive. The employee owns the life insurance policy. The bank then reverses the liability which will often offset the after tax cost of bonus payment.



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Cancel Split-Dollar Program

- Remove accrued liability (removes future expense)
- Bank keeps policy
- Bank continues to book cash surrender value with earnings used to offset employee benefit costs

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Install Executive 162 Plan

- Bank bonuses premium payment to executive (may pay additional bonus to eliminate executive's tax burden)
- Bank expenses bonus payment (current expense)

Results

Bank

- Bank removes burdensome liability
- Bank is able to deduct expense now
- Bank keeps original policy and enjoys tax favored cash value growth and 100% of death benefits
- Reduces administrative requirements (no imputed income reporting; no tracking of former employees)

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Executive

- Owns policy (portable)
- Removes imputed income tax liability
- Increased policy flexibility—access to cash value for retirement income, etc. (subject to taxes and potential 10% MEC penalty)
- May utilize for estate tax purposes—if executive structures so that he/she has no incidence of ownership within the last 3 years prior to death, death benefits may be estate tax free

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