



## 457(F) VS. LOAN REGIME SPLIT-DOLLAR PLANS

Offering retirement benefit plans using life insurance has long been an important element of an employer's ability to attract, retain, and reward their key management employees. While the two types of plans below both have the potential to provide meaningful benefits to employees, important tax, financial, and operational differences exist. The table below compares the plans and their impact from a participant and company perspective.

	457(F) RETIREMENT PLAN	LOAN REGIME SPLIT-DOLLAR PLAN
<b>DESIGN FEATURES</b>		
<b>Funding Asset</b>	The Credit Union-owned life insurance.	Participant-owned, collaterally assigned life insurance.
<b>Benefit Delivery</b>	Paid by The Credit Union from general assets.	Access accumulated insurance cash value via loan/withdrawal.
<b>Funding Asset Owner</b>	The Credit Union.	Participant.
<b>Nondiscrimination Requirements</b>	None.	None.
<b>PARTICIPANT CONSIDERATIONS</b>		
<b>Source of Retirement Benefits</b>	Credit union assets.	Cash value in insurance policy used to provide retirement benefits through tax-favored withdrawals and loans.
<b>Benefit Security Provided</b>	Medium: no vesting until distribution, subject to risk of plan termination and sustained corporate commitment.	High, but future premium payments not guaranteed. The amount of the benefit payment can vary significantly depending on the performance of the policy.
<b>Taxation</b>	Benefit is taxable to the participant at time of vesting. Payments can be scheduled to coincide with vesting to offset tax cost.	Cumulative premiums are taxed as imputed interest on a loan to the participant every year until corporate recovery.  The Credit Union can pay gross-up bonus for taxes.
<b>Life of Plan Tax Cost</b>	Income tax on distributions.	Tax on imputed interest preretirement (unless grossed up by The Credit Union).
<b>Vesting</b>	Can be cliff or graded. Consider taxation/timing when establishing vesting schedule.	Early termination results in cessation of future premium payments.
<b>Control/Portability</b>	Not portable in the event of early termination.	Participant has control of policy and may take policy after termination.
<b>Death Benefit</b>	Preretirement, benefit is equal to accrued liability payable by The Credit Union.	Payable from the insurance policy. Equal to policy in-force death benefit, less loan payback, if applicable.
<b>Death Benefit Taxation</b>	Taxable to participant-named beneficiary.	Tax-free to participant-named beneficiary.

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<b>EMPLOYER CONSIDERATIONS</b>		
<b>Cash Flow Impact</b>	Benefit payments are negative cash flow. Premiums to fund CUOLI are negative cash flow and death benefits paid to The Credit Union are positive cash flows.	Premiums paid are negative cash flow but recovered at loan repayment. Additional negative cash flow may exist equal to gross-up bonuses for tax on imputed interest, if applicable.
<b>P &amp; L Impact</b>	The benefit is an expense. Accrual period is dependent on plan design. CUOLI gains indirectly offset plan expenses.	Gross-up, if applicable, is an expense unless cost is recovered from policy.
<b>Balance Sheet Impact</b>	Benefit is a liability on balance sheet. CUOLI funding is carried as an asset to indirectly offset liabilities.	No net impact
<b>Administration</b>	Relatively straightforward to administer.	Complex to administer. Requires continual oversight to monitor policy performance and impact to benefits. Increased administration costs.

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