

EXECUTIVE BENEFITS INSIDER



457(F) VS. COLLATERAL ASSIGNMENT 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 457(f) Retirement Plan and Collateral Assignment Split-Dollar (CASD) Plan both have the potential to provide meaningful benefits to employees, important tax, financial, and operational differences exist. The following tables will compare the plans and their impact from a participant and company perspective.

DESIGN FEATURES

	457(F) RETIREMENT PLAN	CASD PLAN
Funding Strategy	No formal funding; can be informally funded.	Participant-owned, collaterally assigned life insurance.
Benefit Delivery	Paid by The Credit Union from general assets.	Access accumulated insurance cash value via loan/withdrawal.
Funding Asset Owner	The Credit Union.	Participant.
Nondiscrimination Requirements	None.	None.
Restrictions by State	None.	Varies by State.

PARTICIPANT CONSIDERATIONS

	457(F) RETIREMENT PLAN	CASD PLAN
Source of Retirement Benefits	Credit union assets.	Cash value in insurance policy used to provide retirement benefits through tax-favored withdrawals and loans.
Benefit Security Provided	Medium: no vesting until distribution, subject to risk of, participant termination, plan termination and sustained corporate commitment.	<ul style="list-style-type: none"> High, but future premium payments not guaranteed. The amount of the benefit payment can vary significantly depending on the performance of the policy. Interest rate and investment risk borne by the participant.
Taxation	Benefit is taxable to the participant at time of vesting. Payments can be scheduled to coincide with vesting to offset tax cost.	<ul style="list-style-type: none"> Cumulative premiums are treated as a loan to the participant every year until corporate recovery. Imputed interest on loans generally taxed to participant as income. The Credit Union can pay gross-up bonus for taxes.
Life of Plan Tax Cost	Income tax on distributions.	Tax on imputed interest preretirement (unless grossed up by The Credit Union).
Vesting	Can be cliff or graded. Consider taxation/timing when establishing vesting schedule.	Early termination results in cessation of future premium payments.
Control/Portability	Not portable in the event of early termination.	Participant has control of policy and may take policy after termination.
Death Benefit	Preretirement, benefit may be provided 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.
Death Benefit Taxation	Taxable to participant-named beneficiary.	Tax-free to participant-named beneficiary.

EMPLOYER CONSIDERATIONS

	457(F) RETIREMENT PLAN	CASD PLAN
Cash Flow Impact	Benefit payments are negative cash flow. Payments in excess of \$1 million in a year to a participant are subject to excise tax, which will result in additional negative cash flow.	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.
P & L Impact	<ul style="list-style-type: none"> The benefit is an expense. Accrual period is dependent on plan design. 	Gross-up, if applicable, is an expense.
Balance Sheet Impact	Benefit is a liability on balance sheet.	<ul style="list-style-type: none"> Asset—account receivable is recorded for loans but there is no net impact since cash is provided to fund the policies. Liability—no liability is recorded.

This material is intended for informational purposes only and should not be construed as legal or tax advice and is not intended to replace the advice of a qualified attorney, tax advisor or accountant. Please consult with your qualified attorney, tax advisor or accountant.

Securities offered through M Holdings Securities, Inc., a Registered Broker/Dealer, Member FINRA/SIPC. #35426771

M Benefit Solutions and M Holdings Securities, Inc. are affiliated companies.