

Split-Dollar Charitable Coverage

Tax Efficient Talent Retention

- + Large hospital system is led by an nationally recognized, entrepreneurial leader. The hospital system is constantly competing with the for profit sector for this leader's talents.
- + In recognition of his service and in an effort to retain this key leader, they planned to pay him a \$5m cash bonus.... Until TDC got involved and showed them a better way.
 - » We recommended Split-Dollar Life Insurance as the alternative to paying cash compensation which is tax inefficient, must be reported on the 990 and would likely make the executives compensation not meet the reasonableness test.
 - » Saving the hospital system \$1M in total cost and delivering the full \$5M value to the leader.



What is Split-Dollar Life Insurance?

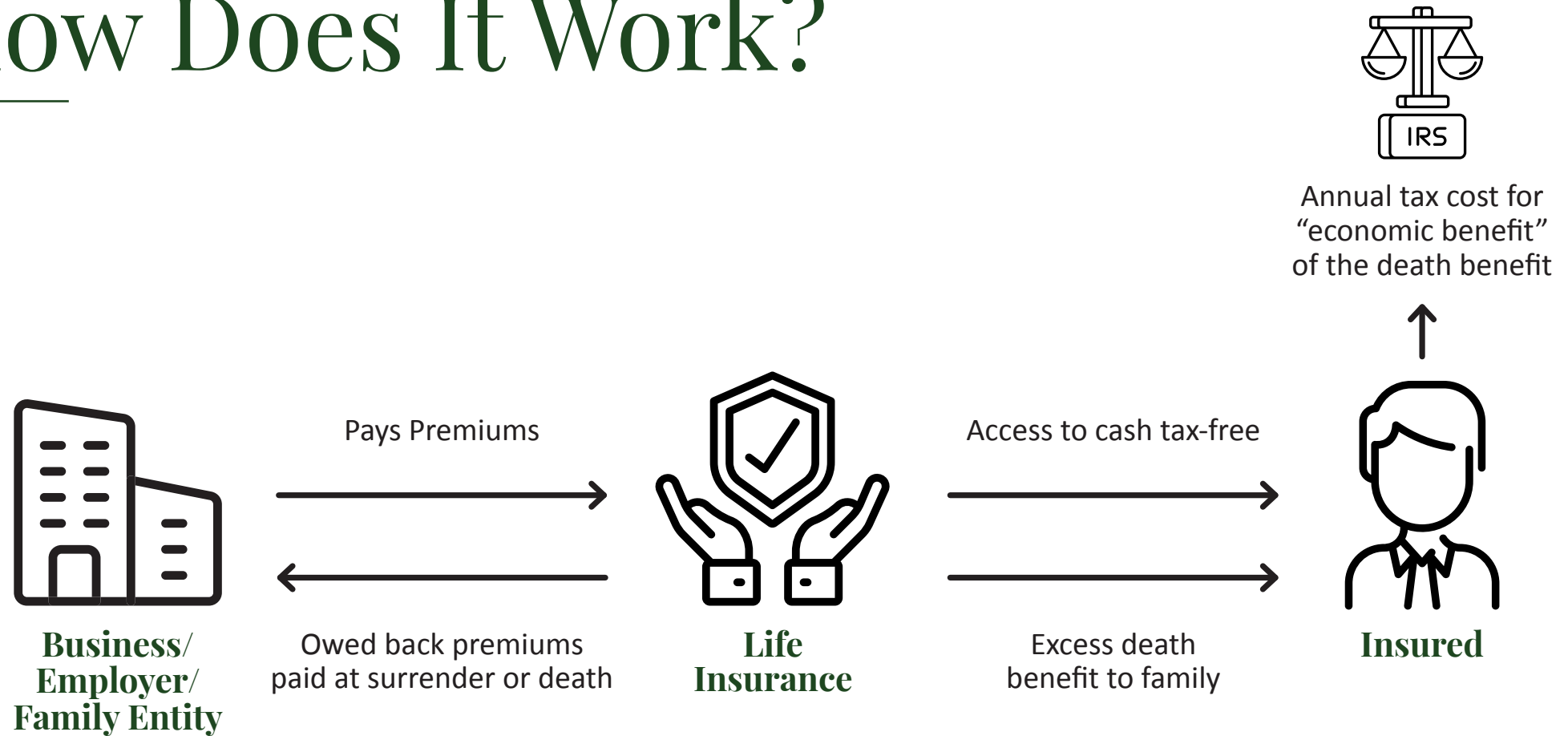
It's not a "type of policy" but simply an arrangement between two parties to split the cost and benefit of a life insurance policy.



POLICY

SPLIT

How Does It Work?



Bottom Line

Premium funding that is income and estate tax smart!

Side by Side Comparison of Cash Compensation vs. Split Dollar

	\$5M Cash	\$5M Split-Dollar Loan
Gross Cash Payment	\$5,000,000	\$5,000,000
Excise Tax Cost to Nonprofit ⁽¹⁾	\$1,050,000	\$0
Income Tax to Exec ⁽²⁾	\$2,000,000	\$0
Net Value to Exec	\$3,000,000	\$5,000,000
Repayment Back to Nonprofit ⁽³⁾	\$0	\$5,000,000
	Simple Tax Inefficient 990 Issues Expense	Ongoing Management Tax Efficient Loan Death Benefit Flexibility
	Spending \$6M to deliver \$3M	Delivering full \$5M value

(1) Assumes 21% excise tax.

(2) Assumes 40% income tax.

(3) Interest on loan can be imputed, paid annually or accrued depending on situation.

Loan Based Split Dollar Option Using IUL and Whole Life Combo

Mr. Nonprofit Executive

A	B	C	D	E	F	G	H	I	J	K	L
Policy Year	End of Policy Year Age	Nonprofit				Executive					
		Net Payment	Cumulative Net Payments	Loan Receivable	Cumulative Charge to Earnings (D-E)	Net Payment (1)	After-Tax Cash Flow from Policy for Retirement Income	Policy Surrender Value	Surrender Value Net of Loan	Death Benefit	Death Benefit Net of Loan
1	2020 / 2021	\$5,000,000	\$5,000,000	\$5,081,000	-\$81,000	\$0	\$0	\$454,094	-\$4,626,906	\$19,267,398	\$14,186,398
2	2021 / 2022	\$0	\$5,000,000	\$5,163,312	-\$163,312	\$0	\$0	\$1,361,969	-\$3,801,343	\$20,470,770	\$15,307,458
3	2022 / 2023	\$0	\$5,000,000	\$5,246,958	-\$246,958	\$0	\$0	\$2,405,541	-\$2,841,417	\$21,409,768	\$16,162,810
4	2023 / 2024	\$0	\$5,000,000	\$5,331,959	-\$331,959	\$0	\$0	\$3,542,918	-\$1,789,041	\$22,399,991	\$17,068,032
5	2024 / 2025	\$0	\$5,000,000	\$5,418,337	-\$418,337	\$0	\$0	\$4,752,897	-\$665,440	\$23,435,134	\$18,016,797
6	2025 / 2026	\$0	\$5,000,000	\$5,506,114	-\$506,114	\$0	\$0	\$5,005,504	-\$500,610	\$22,753,624	\$17,247,510
7	2026 / 2027	\$0	\$5,000,000	\$5,595,313	-\$595,313	\$0	\$0	\$5,267,850	-\$327,463	\$22,547,738	\$16,952,425
8	2027 / 2028	\$0	\$5,000,000	\$5,685,957	-\$685,957	\$0	\$0	\$5,567,759	-\$118,198	\$13,443,364	\$7,757,407
9	2028 / 2029	\$0	\$5,000,000	\$5,778,070	-\$778,070	\$0	\$0	\$5,877,747	\$99,677	\$13,564,883	\$7,786,813
10	2029 / 2030	\$0	\$5,000,000	\$5,871,675	-\$871,675	\$0	\$0	\$6,199,592	\$327,917	\$13,686,919	\$7,815,244
	Totals	\$5,000,000	\$5,000,000	\$5,871,675		\$0	\$0			\$13,686,919	\$7,815,244
11	2030 / 2031	\$0	\$5,000,000	\$5,966,796	-\$966,796	\$0	\$0	\$6,591,881	\$625,085	\$10,125,447	\$4,158,651
12	2031 / 2032	\$0	\$5,000,000	\$6,063,458	-\$1,063,458	\$0	\$0	\$6,988,146	\$924,688	\$10,451,829	\$4,388,371
13	2032 / 2033	\$0	\$5,000,000	\$6,161,686	-\$1,161,686	\$0	\$0	\$7,408,267	\$1,246,581	\$10,837,003	\$4,675,317
14	2033 / 2034	\$0	\$5,000,000	\$6,261,505	-\$1,261,505	\$0	\$0	\$7,853,347	\$1,591,842	\$11,237,009	\$4,975,504
15	2034 / 2035	\$0	\$5,000,000	\$6,362,941	-\$1,362,941	\$0	\$0	\$8,324,761	\$1,961,820	\$11,651,875	\$5,288,934
16	2035 / 2036	\$0	\$5,000,000	\$6,466,021	-\$1,466,021	\$0	\$0	\$8,832,300	\$2,366,279	\$12,091,799	\$5,625,778
17	2036 / 2037	\$0	\$5,000,000	\$6,570,771	-\$1,570,771	\$0	\$0	\$9,369,904	\$2,799,133	\$12,622,016	\$6,051,245
18	2037 / 2038	\$0	\$5,000,000	\$6,677,217	-\$1,677,217	\$0	\$0	\$9,939,595	\$3,262,378	\$13,178,053	\$6,500,836
19	2038 / 2039	\$0	\$5,000,000	\$6,785,388	-\$1,785,388	\$0	\$0	\$10,543,012	\$3,757,624	\$13,761,091	\$6,975,703
20	2039 / 2040	\$0	\$5,000,000	\$6,895,311	-\$1,895,311	\$0	\$0	\$11,181,522	\$4,286,211	\$14,371,646	\$7,476,335
	Totals	\$5,000,000	\$5,000,000	\$6,895,311		\$0	\$0			\$14,371,646	\$7,476,335
21	2040 / 2041	\$0	\$5,000,000	\$7,007,015	-\$2,007,015	\$0	\$744,552	\$11,072,118	\$4,065,103	\$14,108,137	\$7,101,122
22	2041 / 2042	\$0	\$5,000,000	\$7,120,529	-\$2,120,529	\$0	\$744,552	\$10,952,572	\$3,832,043	\$13,748,625	\$6,628,096
23	2042 / 2043	\$0	\$5,000,000	\$7,235,882	-\$2,235,882	\$0	\$744,552	\$10,823,061	\$3,587,179	\$13,384,206	\$6,148,324
24	2043 / 2044	\$0	\$5,000,000	\$7,353,103	-\$2,353,103	\$0	\$744,552	\$10,682,945	\$3,329,842	\$13,015,858	\$5,662,755
25	2044 / 2045	\$0	\$5,000,000	\$7,472,223	-\$2,472,223	\$0	\$744,552	\$10,531,783	\$3,059,560	\$12,644,117	\$5,171,894
26	2045 / 2046	\$0	\$5,000,000	\$7,593,273	-\$2,593,273	\$0	\$744,552	\$10,370,803	\$2,777,530	\$12,297,353	\$4,704,800
27	2046 / 2047	\$0	\$5,000,000	\$7,716,284	-\$2,716,284	\$0	\$744,552	\$10,194,151	\$2,477,867	\$12,101,613	\$4,385,329
28	2047 / 2048	\$0	\$5,000,000	\$7,841,288	-\$2,841,288	\$0	\$744,552	\$10,010,041	\$2,159,753	\$11,887,982	\$4,046,694
29	2048 / 2049	\$0	\$5,000,000	\$7,968,317	-\$2,968,317	\$0	\$744,552	\$9,789,832	\$1,821,515	\$11,654,754	\$3,686,437
30	2049 / 2050	\$0	\$5,000,000	\$8,097,404	-\$3,097,404	\$0	\$744,552	\$9,558,733	\$1,461,329	\$11,400,282	\$3,302,878
	Totals	\$5,000,000	\$5,000,000	\$8,097,404		\$0	\$7,445,520			\$11,400,282	\$3,302,878
31	2050 / 2051	\$0	\$5,000,000	\$8,228,582	-\$3,228,582	\$0	\$744,552	\$9,305,757	\$1,077,175	\$11,122,768	\$2,894,186
32	2051 / 2052	\$0	\$5,000,000	\$8,361,885	-\$3,361,885	\$0	\$744,552	\$9,028,294	\$666,409	\$10,819,953	\$2,458,068
33	2052 / 2053	\$0	\$5,000,000	\$8,497,348	-\$3,497,348	\$0	\$744,552	\$8,723,845	\$226,497	\$10,489,351	\$1,992,003
34	2053 / 2054	\$0	\$5,000,000	\$8,635,005	-\$3,635,005	\$0	\$744,552	\$8,389,907	-\$245,098	\$10,128,835	\$1,493,830
35	2054 / 2055	\$0	\$5,000,000	\$8,774,892	-\$3,774,892	\$0	\$744,552	\$8,023,070	-\$751,822	\$9,735,461	\$960,569
36	2055 / 2056	\$0	\$5,000,000	\$8,917,045	-\$3,917,045	\$0	\$0	\$8,395,162	-\$521,883	\$10,082,348	\$1,165,303
37	2056 / 2057	\$0	\$5,000,000	\$9,061,501	-\$4,061,501	\$0	\$0	\$8,775,704	-\$285,797	\$10,440,262	\$1,378,761
38	2057 / 2058	\$0	\$5,000,000	\$9,208,297	-\$4,208,297	\$0	\$0	\$9,163,409	-\$44,888	\$10,808,411	\$1,600,114
39	2058 / 2059	\$0	\$5,000,000	\$9,357,471	-\$4,357,471	\$0	\$0	\$9,556,493	\$199,022	\$11,185,908	\$1,828,437
40	2059 / 2060	\$0	\$5,000,000	\$9,509,062	-\$4,509,062	\$0	\$0	\$9,952,617	\$443,555	\$11,570,794	\$2,061,732
	Totals	\$5,000,000	\$5,000,000	\$9,509,062		\$0	\$11,168,280			\$11,570,794	\$2,061,732
41	2060 / 2061	\$0	\$5,000,000	\$9,663,109	-\$4,663,109	\$0	\$0	\$10,350,072	\$686,963	\$11,961,675	\$2,298,566
42	2061 / 2062	\$0	\$5,000,000	\$9,819,651	-\$4,819,651	\$0	\$0	\$10,769,164	\$949,513	\$12,213,383	\$2,393,732
43	2062 / 2063	\$0	\$5,000,000	\$9,978,729	-\$4,978,729	\$0	\$0	\$11,216,155	\$1,237,426	\$12,484,557	\$2,505,828
44	2063 / 2064	\$0	\$5,000,000	\$10,140,384	-\$5,140,384	\$0	\$0	\$11,699,569	\$1,559,185	\$12,782,038	\$2,641,654
45	2064 / 2065	\$0	\$5,000,000	\$10,304,658	-\$5,304,658	\$0	\$0	\$12,231,176	\$1,926,518	\$13,114,642	\$2,809,984
46	2065 / 2066	\$0	\$5,000,000	\$10,471,593	-\$5,471,593	\$0	\$0	\$12,796,569	\$2,324,976	\$13,589,251	\$3,117,658
47	2066 / 2067	\$0	\$5,000,000	\$10,641,233	-\$5,641,233	\$0	\$0	\$13,385,162	\$2,743,929	\$14,156,750	\$3,515,517
48	2067 / 2068	\$0	\$5,000,000	\$10,813,621	-\$5,813,621	\$0	\$0	\$13,997,737	\$3,184,116	\$14,749,292	\$3,935,671
49	2068 / 2069	\$0	\$5,000,000	\$10,988,802	-\$5,988,802	\$0	\$0	\$14,634,009	\$3,645,207	\$15,367,351	\$4,378,549
50	2069 / 2070	\$0	\$5,000,000	\$11,166,821	-\$6,166,821	\$0	\$0	\$15,293,723	\$4,126,902	\$16,011,354	\$4,844,533
	Totals	\$5,000,000	\$5,000,000	\$11,166,821	-\$6,166,821	\$0	\$11,168,280			\$16,011,354	\$4,844,533

*See source illustrations for full details.

(1) Assumes long-term AFR interest rate of 1.62%.
 (2) Life expectancy from the Society of Actuaries 2015 VBT Table ANB. Life expectancy based on a pool of lives, not specific to insured.