

# Split SERP

## A Supplemental Executive Retirement Plan With Endorsement Split Dollar

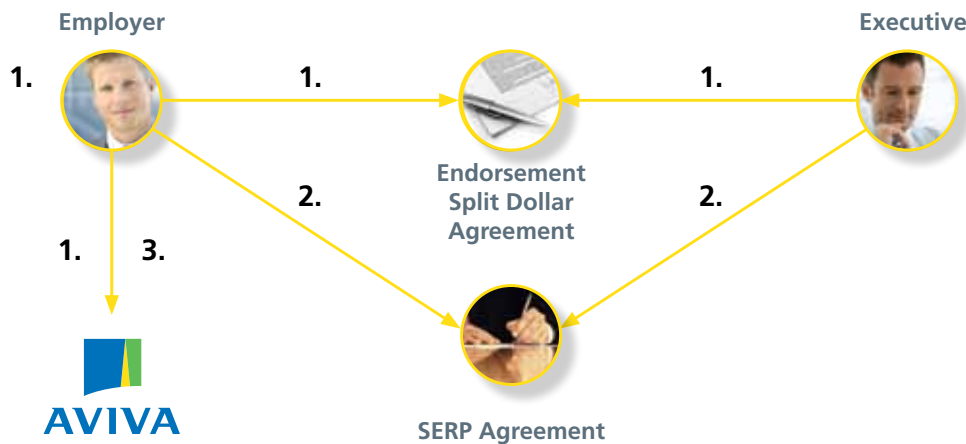


### Split SERP Plan – What is it?

The Split SERP concept combines two effective executive benefits to provide a pre-retirement income tax-free death benefit and supplemental retirement income.

Endorsement Split Dollar is an employer-owned life insurance arrangement where a specific dollar amount of death benefit is assigned or endorsed over to the executive's personal beneficiary. This will provide an income tax-free lump sum benefit to family members if the executive dies prior to retirement. At retirement, the endorsement is terminated and retirement benefits stipulated in the Supplemental Executive Retirement Plan are paid to the executive.

#### While the Executive is employed:

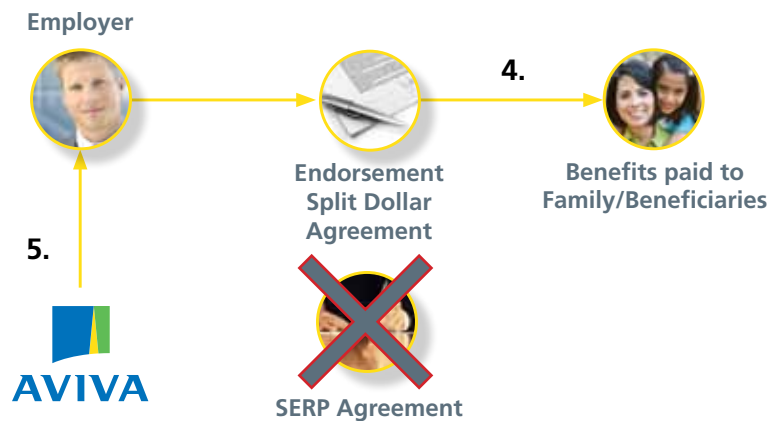


1. An Endorsement Split Dollar agreement is entered into between the employer and the executive. The employer applies for and owns a permanent life insurance policy on the executive's life. Employer endorses a portion of the death benefit to the executive's personal beneficiary. The employer reports annual economic benefit as compensation to executive and the executive pays income tax on the annual economic benefit (measured by IRS Table 2001). The endorsement of the death benefit terminates upon retirement.
2. A separate Supplemental Executive Retirement Plan (SERP) agreement is also entered into between the employer and the executive. The employer promises a retirement benefit to the executive provided certain employment conditions are met. If the executive dies prior to retirement, the executive's heirs will not receive any annual benefits under the SERP agreement but will receive an income tax-free lump sum payment under the Endorsement Split Dollar.
3. The employer pays the entire life insurance policy premium. The insurance premiums are not deductible by the employer.

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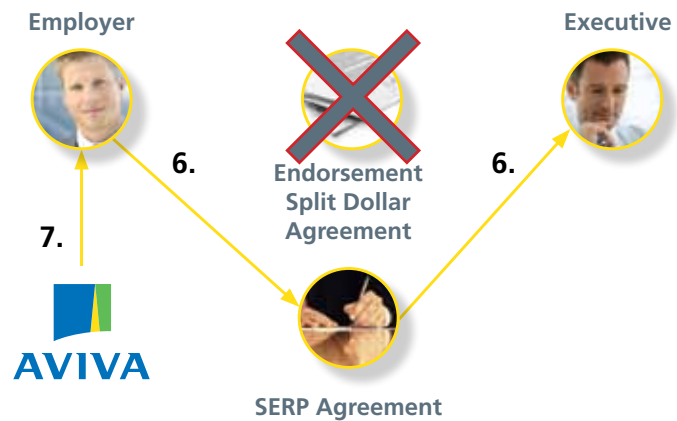
## If the Executive dies prior to retirement:

4. If the executive dies prior to retirement, an income tax-free survivor death benefit is paid to the executive's beneficiaries stated to the Endorsement Split Dollar agreement.
5. The SERP agreement terminates and the employer may recover the after-tax cost of both agreements from the death benefit received. The executive's heirs do not receive any benefits under the SERP agreement.



## If the Executive lives to retirement:

6. When the executive retires, the Endorsement Split Dollar agreement terminates. Pursuant to the SERP agreement, the executive receives the promised retirement benefit from the employer and pays income tax on the amount received. The employer gets an income tax deduction for the retirement benefit paid to the executive (provided compensation is reasonable).
7. At retirement, the employer pays promised benefits from current assets and may recover after-tax cost of the benefit payments out of policy values.<sup>1</sup>



## Tax Points

- The employer cannot deduct premium payments.
- Retirement benefits provided to the executive are deductible (provided total compensation is reasonable).
- The executive will have taxable income equal to the value of the life insurance protection received (measured by IRS Table 2001) and retirement benefits received from the employer. The executive's beneficiaries will generally receive an income tax-free death benefit from the Endorsement Plan and any post-retirement survivor benefits will be taxable to the heirs.
- Death benefit proceeds will be included in the executive's estate if any incidents of ownership are retained.

<sup>1</sup> Loans and withdrawals reduce any available cash values. In addition, loans against a policy accrue interest at the current rate and decrease the death benefit by the amount of the outstanding loan and interest.

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