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A LOOK INTO GROUP TERM LIFE INSURANCE CARVE-OUT PLANS

August 2018

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A LOOK INTO GROUP TERM LIFE CARVE-OUT PLANS (“GTCO”)

How do I retain my key executives? What is a way to give my key employees an extra benefit? What are competitors doing to retain individuals? Chief Executive Officers (CEO) have many responsibilities, including looking at ways to retain their work force to have the strongest employees for their company. There are many options for CEOs to explore to determine what may be the best fit for the company and the key employee. One option the CEO may consider is a Group Term Life Insurance Carve-Out Plan.

Employer-sponsored life insurance has traditionally played an important role in an executive’s pre-retirement planning for family and financial obligations. Many view the group life insurance plans as a large part of their estate planning strategy. Group life plans however, are not portable at retirement thus creating a void in the Executive’s planning needs. A company can give its executives the opportunity to enhance their families’ financial security, both pre- and post-retirement, through ownership of individual life insurance coverage and policies.

UNDERSTANDING GROUP CARVE-OUT PLANS

Most employers offer their employees life insurance through a group term life insurance program. This coverage is easy to implement and relatively inexpensive to the employer. Unfortunately, employees must report an imputed income amount for any employer-provided coverage greater than \$50,000, and pay income tax at the Government’s Table I rates which are typically 3x - 4x greater than conventional rates. Additionally, it leaves the employee **no portability of the benefit upon termination of employment.**

As a solution to provide key executives additional or more efficient coverage, many employers utilize a common planning strategy, referred to as a **Group Term Carve-Out, funded with Split Dollar Life Insurance.** The GTCO Plan “carves-out” a group of key employees from the group life insurance plan and replaces the coverage in excess of \$50,000 with an employer-owned split dollar life policy.

In the Split Dollar Policy, an executive is covered under a Corporate Owned Life Insurance (COLI) or Bank Owned Life Insurance (BOLI) policy and receives the benefits of permanent life insurance for the same cost as term insurance. The employer provides life insurance protection to the employee by giving their employee the right to designate a portion of the death proceeds to their own beneficiary. The employer maintains ownership of the policy and controls the policy’s cash value.

Group Term Life Insurance has no portability of the benefit upon termination of employment

UNDERSTANDING GROUP CARVE-OUT PLANS (CONTINUED)

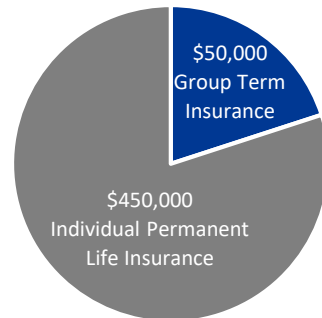
Before Group Term Carve-Out
\$500,000 Total Insurance



\$50,000 of Group Term Coverage is excluded from each employee’s taxable income. For the additional \$450,000 of Group Term Life Insurance coverage, there will be a taxable imputed income, based on the Government’s Table I rates.

(Taxable imputed income of \$1,242 for a 50-year-old)

Group Term Carve-Out Solution
\$500,000 Total Insurance



\$50,000 of Group Term coverage is excluded from each employee’s taxable income. For the \$450,000 of Permanent Life Insurance coverage, there will be taxable imputed income, based on the insurance carrier’s less expensive “low-term” rates.

(Taxable imputed income of \$542 for a 50-year-old)

ADVANTAGES

For Employee:

- Offers significant savings in premium and imputed income tax expense
- Employee chooses the beneficiary who receives death benefit protection income tax free.
- Can provide post-retirement life insurance coverage
- Serves as an alternative to group term insurance
- Replaces income lost upon the death of the insured

For Employer:

- Can be provided for a select group of executives
- Reduces the expense of group term life insurance premiums
- Can help cover costs associated with other executive benefit plans

**GTCO Plans can
provide post-
retirement life
insurance coverage**

GTCO PLAN - EMPLOYEE COST SAVINGS

The following chart shows an example of the employee cost savings associated with a GTCO Plan.

Age	Insurance Benefit	Annual Executive Taxable Income <i>(Group Term)</i> ¹	Annual Executive Taxable Income <i>(Split Dollar)</i> ²	Annual Savings	Cumulative Savings to Taxable Income Age 65
35	\$500,000	\$486	\$192	\$294	\$28,064
40	\$500,000	\$540	\$237	\$303	\$26,657
45	\$500,000	\$810	\$354	\$456	\$25,337
50	\$500,000	\$1,242	\$542	\$700	\$23,422
55	\$500,000	\$2,322	\$796	\$1,526	\$20,348
60	\$500,000	\$3,564	\$1,329	\$2,235	\$13,521
65	\$500,000	\$6,858	\$2,478	\$4,380	\$4,380

(1) Per Group Term Table I rates

(2) Per Northwestern Mutual Table 2016 Low rates

\$28,064 less taxable income for a 35-year-old for 30-years to age 65

CONCLUSION

GTCO Plans could be the answer for your company to help retain your employees by providing an extra and more cost efficient benefit on top of what is already provided. The next step is to explore who would be covered under the company's GTCO Plan and determine what you want the plan to accomplish. From there, an accurate plan can be put into place based on the needs of the employee and employer.

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David is the Co-Founder of Executive Benefits Network and a 32-year veteran of the financial services industry. David is a frequent speaker across the banking industry as an expert in the area of Nonqualified executive benefit plans and Bank Owned Life Insurance programs. David is the Chairman of The American College Foundation, member of the AALU Nonqualified Plan Committee, Trustee of the Village of River Hills, board member of the Milwaukee Country Club and Past-President of the Milwaukee Winter Club Youth Hockey Organization. He is a member of the Indiana Bankers Association, Wisconsin Bankers Association, Bank Holding Company Association, the Society of Financial Service Professionals and the MDRT Association's Court of the Table.



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Pat is a Co-Owner and Managing Director of Executive Benefits Network and a 18-year veteran of the financial services industry. Prior to entering the financial services industry, Pat worked as a senior accountant in audit for KPMG in the bank service area and as an attorney for Michael Best & Friedrich LLP where he concentrated on general corporate and securities law. Pat's career focus is in the BOLI/COLI marketplace, as well designing creative strategies for executive compensation planning, business succession planning and estate planning. Pat is a shareholder and Director of a bank in Iowa and is an active member in the State Bar of Wisconsin. He is a frequent speaker in industry meetings and seminars. He is a member of the Community Bankers of Iowa, Iowa Bankers Association and Wisconsin Bankers Association.

ABOUT EXECUTIVE BENEFITS NETWORK (EBN):

As the leading industry advisor, EBN specializes in the customized design, administration, and informal financing of Nonqualified Executive Compensation and Benefit Plans (Deferred Compensation Plans), as well as the procurement of Bank Owned Life Insurance (BOLI) programs to attract, retain, and reward key executive talent. We emphasize the importance of education and build long-lasting relationships with clients in all 50 states, and we have access to the highest rated insurance companies in the nation. Lastly, we believe that no two companies are alike in their needs; therefore, customization of executive benefit and compensation plans is paramount to a successful program.

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