



Below is a view of the Workbook Main Window from the InsMark Illustration System used for Blog #182 along with a description of the proposal.

Client Workbook Edit Tools Options Help

Workbook Main Window

Proposals for the workbook: Blog #182

Proposal Description	Sales Concept	Policy Data (if applicable)			
		Policy Notation	Initial Premium	Death Benefit	Name of Product
1. C Corp Tax Bracket = 21%	End. Split \$-Salary Continu...	Blog #182 (ESD+SC #1)...	\$56,000	\$2,200,000	Indexed UL
2. S Corp Tax Bracket = 37%	End. Split \$-Salary Continu...	Blog #182 (ESD+SC #2)...	\$45,000	\$2,200,000	Indexed UL

**InsMark System: InsMark Illustration System**

**Module: Endorsement Split Dollar with Salary Continuation at Retirement**

**Workbook file name: Blog #182.lii**

**Important Note:** If you haven't studied Blog #182, you must do so to get the logic of this plan.

**Proposal 1:**

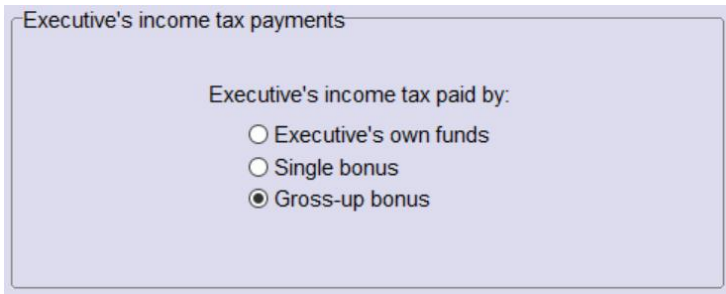
This is the plan featured in Blog #182. Critical to preparing the illustration is a calculator available on the first tab of the Endorsement Split Dollar with Salary Continuation at Retirement module located on the Split Dollar tab of the InsMark Illustration System. Use this feature to establish the necessary data for your life insurance illustration. Below is the calculator's result which was my starting point for the illustration in Blog #182.

<p>Executive's tax data</p> <p>Executive's tax bracket: <input type="text" value="37.00"/> %</p> <p><input type="checkbox"/> Use second tax bracket: <input type="text" value="15.00"/> %</p> <p>Starting in year: <input type="text" value="10"/></p>	<p>Employer's tax data</p> <p>Employer's tax bracket: <input type="text" value="21.00"/> %</p> <p><input type="checkbox"/> Use second tax bracket: <input type="text" value="15.00"/> %</p> <p>Starting in year: <input type="text" value="10"/></p>
<p>Calculator</p> <p>Use this Calculator to determine the policy loans* required to provide the executive with a level amount of after tax retirement income salary continuation.</p> <p><b>Salary continuation for executive:</b> Desired amount of level after tax retirement income: <input type="text" value="\$200,000"/></p> <p><b>Solution:</b></p> <p>To accomodate this, your source data requires loans* of: \$250,794</p> <p>In the employer's 21.00% income tax bracket, these loans allow the employer to pay the executive pre-tax salary continuation of: \$317,460</p> <p>In the executive's income tax bracket of 37.00%, the tax on this income is: \$117,460</p> <p>Subtracting this tax reduces the retirement income to your desired amount of: \$200,000</p> <p>*A combination of withdrawals to basis; loans thereafter can also be used.</p>	

The calculator produces different results based on the executive's and employer's tax brackets.

Other than this, it is a rather straightforward illustration of an employer-owned policy insuring the life of a key female executive using an endorsement split dollar format. We used \$2.2 million of Indexed Universal Life policy with twenty premiums of \$56,000. We assigned \$2 million of the policy death benefit for the personal use of the covered executive for thirty years. At the beginning of year 21, we illustrated participating loans on the policy of \$250,794 (as indicated by the calculator) for ten years in order to produce salary continuation of \$317,460 which results in \$200,000 of after tax cash flow for the executive.

Endorsement split dollar creates relatively small income tax consequences to the executive based on IRS Table 2001 during the thirty years the executive shares the policy death benefit. We selected a gross-up bonus from the employer to cover these costs using this prompt located on the Split Dollar Costs tab:



Executive's income tax payments

Executive's income tax paid by:

- Executive's own funds
- Single bonus
- Gross-up bonus

Note: Some may wonder why I calculated the after tax amount of salary continuation at retirement as COLI-funded Supplemental Executive Retirement Plans (SERPs) generally illustrate before tax benefits. I did so for two reasons:

- I believe after tax is a more realistic number for a client to evaluate.
- Many of our licensees reflect the impact of executive benefits within InsMark's Wealthy and Wise, and that System deals solely with after tax results.

Note: Some may question whether loan regime split dollar or executive bonus might be better choices for this executive. Endorsement Split Dollar with Salary Continuation at Retirement is designed for an employer who wants to reflect all policy cash values on its balance sheet and also welcomes the presence of key person indemnification through its share of the policy death benefit.

#### **Proposal 2:**

S corporations have a different cost structure for Endorsement Split Dollar with Salary Continuation due to the absence of the 21% income tax bracket. I have included an example for an S corporation in the digital workbook file available in Blog #182. Due to the new pass-through rules affecting S corporations, there are a variety of tax bracket possibilities. Proposal 2 assumes no benefit from the new pass-through rules.

Other than this, Proposal 2 is a straightforward variation of Proposal 1.

**Important Note #1:** Special plan documentation is required to support Endorsement Split Dollar with Salary Continuation at Retirement. InsMark's Cloud-Based Documents On A Disk™ (DOD) contains comprehensive sets of specimen documents for this plan in the Business Owner's Benefit Plans section of documents. If you are licensed for DOD, go to [www.insmark.com](http://www.insmark.com) and select "My InsMark" from the home page for access to the full version of DOD.

If you are not licensed for DOD, [this link](#) will take you to the DOD product site for more information or you can contact Julie Nayeri at [julien@insmark.com](mailto:julien@insmark.com) or 888-InsMark (467-6275). Institutional inquiries should be directed to David Grant, Senior Vice President - Sales, at [dag@insmark.com](mailto:dag@insmark.com) or (925) 543-0513.

**Important Note #2:** The life insurance illustrations referred to in this report assume the nonguaranteed values shown continue in all years. This is not likely, and actual results may be more or less favorable. Actual illustrations are not valid unless accompanied by a basic illustration from the issuing life insurance company.

**Important Note #3:** The information in this report is for educational purposes only. In all cases, the approval of a client's legal and tax advisers must be secured regarding the implementation or modification of any planning technique as well as the applicability and consequences of new cases, rulings, or legislation upon existing or impending plans.

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