Allianz

Allianz Life Insurance Company of North America

LIFE ADVANCED MARKETS

Split-dollar life insurance agreement (endorsement approach): Example agreement

Outlines the terms, conditions, and obligations between the employer and key employee regarding the compensation arrangement.

A split-dollar arrangement is an agreement between the employer and employee in which they split rights to a life insurance policy's accumulation values and death benefit. There are different approaches to designing this arrangement.

Using the endorsement approach, a company can offer life insurance to an employee but keep control of the policy. The employer purchases a cash value life insurance policy on the life of the key employee and names the employer as beneficiary.

The employer endorses a portion of the death benefit to the employee, who then designates a beneficiary to receive their share of the death benefit. The employer retains the right to the greater of the policy's cash values or the premiums paid.

Keep in mind that any strategy that includes life insurance is contingent on the health underwriting of the insured and financial underwriting. Employers should consult with financial professionals and tax professionals to determine whether it is an appropriate strategy for their specific situation.

All legal documents need to be drafted by an attorney; this example is provided as a reference for your discussions.



Indexed Universal Life (IUL)
With its death benefit protection, accumulation potential, and the opportunity for loans and withdrawals, IUL can be a valuable tool for small businesses to address key-employee compensation, business succession, and business-owner estate-planning strategies.



NEED ADDITIONAL HELP? Call the Life Case Design Team at **800.950.7372.**

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Clients should consult their own legal counsel to ensure that any agreements meet their specific needs and comply with applicable laws and regulations. The provision of this specimen document does not imply endorsement or approval of any specific terms or conditions contained within it. It is not adapted to the specific circumstances or objectives clients may have.

Allianz Life Insurance Company of North America does not provide financial planning services.

Indexed universal life (IUL) insurance policies provide a death benefit that is generally paid income-tax-free to beneficiaries, and the potential to build tax-deferred accumulation value. IUL requires qualification through health and financial underwriting.

Policy loans and withdrawals will reduce the available cash value and death benefit and may cause the policy to lapse, or affect guarantees against lapse. Withdrawals in excess of premiums paid will be subject to ordinary income tax. Additional premium payments may be required to keep the policy in force. In the event of a lapse, outstanding policy loans in excess of unrecovered cost basis will be subject to ordinary income tax. If a policy is a modified endowment contract (MEC), policy loans and withdrawals will be taxable as ordinary income to the extent there are earnings in the policy. If any of these features are exercised prior to age 59½ on a MEC, a 10% federal additional tax may be imposed. Tax laws are subject to change, and you should consult a tax professional.

Product and feature availability may vary by state and broker/dealer.

Guarantees are backed solely by the financial strength and claims-paying ability of Allianz Life Insurance Company of North America.

Products are issued by Allianz Life Insurance Company of North America, 5701 Golden Hills Drive, Minneapolis, MN 55416-1297. 800.950.1962 www.allianzlife.com

This content does not apply in the state of New York.

For financial professional use only – not for use with the public.

SPLIT-DOLLAR INSURANCE AGREEMENT
(ECONOMIC BENEFIT / ENDORSEMENT APPROACH)

This Agreement is made and entered into as of the _____ day of _____, 20___, by and between _____, (the "Employer"), _____ , (the "Insured Employee").

RECITALS

A. Insured Employee has performed valuable services to the business of the Employer and Employer desires that Employee continue to do so.

B. The Insured Employee desires to provide life insurance protection for the benefit and protection of the Insured Employee's family.

C. The Employer is willing to assist the Insured Employee in providing life insurance for the benefit and protection of the Insured Employee's family as set forth in this Agreement.

D. The Employer desires to own such life insurance, subject to an endorsement of a portion of the life insurance death benefit to the beneficiary designated by the Insured Employee, as set forth in this Agreement.

E. This Agreement is intended to be a loan-regime split-dollar arrangement, pursuant to Treasury Regulation Section 1.7872-15 and the Final Regulations on Split-Dollar Life Insurance Arrangements, as described in Treasury Decision 9092 (issued by the Department of the Treasury - Internal Revenue Service).

AGREEMENT

NOW THEREFORE, in consideration of the mutual promises contained below, the parties agree to the foregoing and as follows:

1. **PURCHASE OF LIFE INSURANCE.** The Employer has purchased, or shall apply to Allianz Life Insurance Company of North America, Golden Valley, Minnesota, hereafter referred to as the "Insurer," for a policy of life insurance on the life of the Insured Employee, in the face amount of _____ Dollars ($_____), as more specifically described in the attached Exhibit A, together with any replacement or modification thereof (all of which are collectively referred to herein as the "Policy").

   The Insured Employee has taken, or will take, all necessary action to cause the Insurer to issue the Policy and will take any further action which may be necessary to cause the Policy to conform to the provisions of this Agreement. The parties agree that the Policy shall be subject to (i) the terms of this Agreement and (ii) any endorsement filed with the Insurer relating to the Policy.

2. **OWNERSHIP OF POLICY.** The Company shall be designated as the sole owner of the Policy subject to the terms and conditions as set forth in this Agreement and may exercise all rights of ownership with respect to the Policy except as otherwise provided in this Agreement.

SAMPLE

3. **PAYMENT OF PREMIUMS.** The payment of Policy premiums shall be subject to the following:

   A. **Employer to Pay Premiums.** Employer agrees to pay to the Insurer each periodic Policy premium no later than the date each premium is due.

   B. **Insured Employee's Right to Pay Premiums.** In the event that the Employer fails to pay the Policy premium when due, then the Insured Employee may pay the premium. If the Insured Employee makes such payments, then the allocation of Policy death benefits shall be adjusted as provided in Section 6.B of this Agreement.

   C. **Economic Benefit Attributable to Insured Employee.** The Employer shall determine the economic benefit attributable to the Insured Employee based on the life insurance premium factor for the Insured Employee's age multiplied by the aggregate death benefit payable under the Policy to the beneficiary designated by the Insured Employee. The "life insurance premium factor" is the minimum factor applicable under guidance published pursuant to Treasury Reg. § 1.61-22(d)(3)(ii) or any subsequent authority.

   D. **Imputed Income to Insured Employee.** The Employer shall impute the economic benefit to the Insured Employee on an annual basis, by adding the economic benefit to the IRS Form W-2 issued by the Employer to the Insured Employee each year.

4. **POLICY BENEFICIARY DESIGNATION.** The Policy shall designate initially the individual, or individuals, as more specifically described in the attached Exhibit A as the beneficiary, or beneficiaries, to receive any proceeds payable under the Policy which are in excess of the proceeds payable to the Employer under Section 5 of this Agreement. With regard to the payment of amounts which may be payable to the designated beneficiary, or beneficiaries, the Employer will elect any settlement option expressly requested by the beneficiary, or beneficiaries, in writing and offered by the Insurer. The beneficiary, or beneficiaries, designated at the request of the Insured Employee will not be changed by the Employer unless the Employer receives a written request from the Insured Employee to change the beneficiary, or beneficiaries. The Employer shall use reasonable efforts to complete the requested change.

. The Employer and the Insured Employee shall cooperate in completing, signing, and submitting any forms as may be required by the Insurer relating to an endorsement split-dollar arrangement. In the event of the Insured Employee's death while the Policy is in force, the Policy's death benefit proceeds shall be paid in accordance with the terms of the Policy and the most up-to-date beneficiary instructions on file with the Insurer.

5. **DEATH OF INSURED EMPLOYEE.** Upon the death of the Insured Employee while this Agreement is in effect, the Employer shall promptly take all action (including, without limitation, the filing of an appropriate proof of claim) which may be necessary or desirable in order to obtain the net death benefit provided under the Policy. The death benefit proceeds which are payable upon the death of the Insured Employee shall be allocated among the Employer and the designated beneficiary or beneficiaries, as the case may be, as follows:

   A. **Death Benefit Allocated to Employer:** The Employer shall receive so much of the death benefit payable under the Policy as is equal to the aggregate gross premium it has paid to date under Section 3.A of this Agreement, less any indebtedness to Insurer on the Policy and any premiums paid by the Insured Employee under Section 3.B of this Agreement.

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B. **Death Benefit Allocated to Designated Beneficiaries:** The balance (if any) of the net death benefit provided under the Policy which is not distributable to the Employer under Section 5.A of this Agreement shall be paid to the beneficiary or beneficiaries designated by the Insured Employee, in the manner and amounts provided in the beneficiary designation provision of the Policy. This amount shall be paid in such manner as the designated beneficiary, or beneficiaries, have requested in writing as described in Section 4 of this Agreement, or in the absence of such request, as the Employer may elect in its sole discretion.

6. **POLICY SURRENDER OR TRANSFER.** The Employer may sell, assign, or transfer any portion of its interest in the Policy without the consent of the Insured Employee.

7. **POLICY CASH WITHDRAWALS AND LOANS.** The Employer shall have the right to withdraw cash from the Policy or obtain loans secured by the Policy without the consent of the Insured Employee. Such loans may be obtained either from the Insurer or from others. Employer shall have the right to assign the Policy as security for the repayment of such loans. The amount of such loans together with the interest thereon shall at no time exceed the total premiums paid by the Employer. All interest charges with respect to any such loan shall be paid by the Employer.

8. **TERMINATION OF AGREEMENT.** This Agreement shall terminate as follows:

   A. **Termination Without Notice.** This Agreement shall terminate without notice upon the occurrence of any of the following events:
      i. Employer ceases to continue doing business, except in the event of the acquisition of all or substantially all of the assets or equity interest (e.g., stock, membership interest, etc.) by another business entity; or a merger or consolidation with another business if immediately subsequent to such event the Employee is employed by such acquiring business entity or by the surviving business entity in the event of merger or consolidation
      ii. Employer filing bankruptcy or going into receivership
      iii. Dissolution of the Employer
      iv. Failure of Employer to loan amounts for the payment of premiums as agreed
      v. Mutual written agreement of the Employer and the Insured Employee.

   B. **Termination by Insured Employee:** The Insured Employee may terminate this Agreement by giving at least ten (10) days prior written notice to the Employer, provided, however, such notice may not be given while the Insured Employee is employed by the Employer. Such termination shall be effective as of the date specified in the notice; but, in no event sooner than ten (10) days after such notice is actually received by the Employer.

   C. **Termination by the Employer.** In the event that the Insured Employee's employment by the Employer is terminated for any reason other than retirement, death, or permanent disability of the Insured Employee, the Employer may terminate this Agreement by giving at least ten (10) days written notice to the Insured Employee. Such termination shall be effective as of the date specified in the notice but not sooner than ten (10) days after such notice is actually received by the Insured Employee.

9. **AMENDMENT AND WAIVER.** This Agreement may not be amended except by a written instrument signed by the Employer and the Insured Employee, or their respective successors or assigns, and may not be terminated except as provided herein. The failure of any party to strictly enforce any provision of this Agreement shall not affect the right of such party to thereafter enforce the same, or any other, provision of this Agreement in accordance with its terms.

SAMPLE

10. **SUCCESSORS AND ASSIGNS.** This Agreement shall be binding upon and inure to the benefit of (i) the Employer, its successors and assigns; and (ii) the Insured Employee, his/her heirs, successors and assigns.

11. **NOTICES.** Any notice, consent, or demand required or permitted to be given under this Agreement shall be (i) in writing and (ii) signed by the party giving or making the same. If such notice, consent, or demand is mailed to a party, it shall be sent by United States certified mail, postage prepaid, addressed to such party's last known address as shown on the records of the Employer. The date of such mailing shall be deemed the date of notice, consent, or demand.

12. **SURVIVAL.** The rights and obligations of the parties shall survive the termination of this Agreement and Insured Employee's death to the extent that any performance is required.

13. **NO GUARANTY OF EMPLOYMENT.** The Insured Employee shall have no guarantee or right to employment by reason of this Agreement.

14. **COOPERATION.** The parties agree to take such actions as are desirable to allow the rights and duties specified in this Agreement to be brought into effect. The parties each agree to execute and deliver all documents which may be desirable to bring into effect the intent of this Agreement or to carry out its provisions.

15. **CONSTRUCTION.** The language used in this Agreement shall be deemed to be the language chosen by the parties to express their mutual intent, and no rule of strict construction shall be applied against any party.

16. **SEVERABILITY.** Whenever possible, each provision of the Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision shall be held to be prohibited by, or invalid under, applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Agreement.

17. **LIABILITY OF INSURER.** The Insurer issuing the Policy shall have no liability except as set forth in the Policy and shall be fully discharged from its obligations under the Policy by payment of all Policy death benefits to the beneficiary or beneficiaries named in the Policy subject to the terms and conditions of the Policy. The Insurer shall have no obligation to inquire into or take notice of any of the covenants herein contained as to the Policy or as to the application of the proceeds of the Policy. In no event shall the Insurer be considered a party to this Agreement or any amendment hereof. No provision of this Agreement, nor of any amendment hereof, shall in any way be construed as enlarging, changing, varying, or in any other way affecting the obligations of the Insurer as expressly provided in the Policy except insofar as the provisions hereof are made a part of the Policy by the collateral assignment filed with the insurer in connection with this Agreement.

18. **ERISA COMPLIANCE.** The Employer is hereby designated as the named fiduciary under this Agreement. The named fiduciary shall have authority to control and manage the operation and administration of this Agreement, and it shall be responsible for establishing and carrying out a funding policy and method consistent with the objectives of this Agreement. The Employer shall make all determinations concerning rights to benefits under this Agreement. Any decision by the Employer denying a claim for benefits under the Agreement shall be stated in writing and delivered or mailed to the claimant. Such decision shall set forth the specific reasons for the denial, written to the best of the Employer's ability in a manner that may be understood without legal or actuarial counsel. In addition, the Employer shall afford a reasonable opportunity to the claimant for a full and fair review of the decision denying such claim.

19. **GOVERNING LAW.** This Agreement, and the rights of the parties, shall be governed by, and construed in accordance with, the laws of the state of _____.

SAMPLE

20. **HEADINGS.** The headings in this Agreement are for convenience only and shall be ignored in the construction of this Agreement.

21. **COUNTERPARTS; FACSIMILE; ELECTRONIC TRANSMISSION.** This Agreement may be executed in counterparts (each of which shall be deemed an original, but all of which taken together shall constitute one and the same agreement) and shall become effective when one or more counterparts have been signed by each of the parties and delivered to the other parties. The exchange of copies of this Agreement and of signature pages by facsimile or electronic transmissions shall constitute effective execution and delivery of this Agreement as to the parties and may be used in lieu of the original Agreement for all purposes. Signatures of the parties transmitted by facsimile or electronic transmission shall be deemed to be their original signatures for all purposes.

IN WITNESS WHEREOF, the parties hereto have set their hands and seals, the Employer by its duly authorized officer, on the day and year above written.

INSURED EMPLOYEE:

_____

Signature

_____

(Insured Employee Printed Name)

EMPLOYER:

By: _____

Signature of authorized officer

_____

(Authorized Officer Printed Name)

Its: _____

Officer Title

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EXHIBIT A

This Exhibit A is part of the Agreement relating to life insurance between _____ ("Employer") and _____, ("Insured Employee"), dated _____, 20___.

I. LIFE INSURANCE POLICY:

Insurer: **Allianz Life Insurance Company of North America**

Policy number: _____

Name of policy owner: _____

Name of insured: _____

Policy date: _____

Policy Face Amount: _____

II. BENEFICIARY DESIGNATED BY INSURED EMPLOYEE:

Primary beneficiary

Name of beneficiary: _____

Beneficiary's Address: _____

Beneficiary's date of birth: _____

Relationship to insured employee: _____

% to be paid to beneficiary: _____%

Secondary (contingent) beneficiary

Name of beneficiary: _____

Beneficiary's address: _____

Beneficiary's date of birth: _____

Relationship to insured employee: _____

% to be paid to secondary beneficiary: _____%

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