Allianz

Allianz Life Insurance Company of North America

LIFE ADVANCED MARKETS

Split-dollar life insurance agreement (collateral assignment 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.

In the collateral assignment approach, the employee owns the policy. The employer advances funds to the employee to pay the policy premiums (which is essentially a loan from the employer to the employee). The employer secures a legal interest in the policy's cash value or death benefit by obtaining a collateral assignment (a lien) on the policy for the amount of premiums it has paid.

Upon the death of the insured (or the surrender of the policy), the employer is repaid the premiums it has paid from the policy's death benefit or cash value. The remaining balance is paid to the employee's designated beneficiaries.

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.**

This sample document is for general information only and is not intended to be legal, tax, or financial advice. Allianz Life Insurance Company of North America, its affiliates, and their employees do not provide tax or legal advice. We assume no responsibility or liability for any errors or omissions in the content of this document, nor for any actions taken based on it.

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
(LOAN REGIME / COLLATERAL ASSIGNMENT APPROACH)

This Agreement is made and entered into as of the _____ day of _____, 20___, by and between _____ (the "Employer"), _____ (the "Insured Employee"), and _____, or any successor designed in accordance with the terms of this Agreement (the "Owner").

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 by paying such portions of the life insurance premiums on the terms and conditions as set forth in this Agreement.

D. The Owner desires to be the owner of the Policy and, as such, shall possess all incidents of ownership in and to the Policy. Except during any period when the Insured Employee and the Owner may be the same person, the Insured Employee shall have no incident of ownership in or to the Policy.

E. In order to secure the repayment of all amounts which will, in the future, be due and payable to the Employer under this Agreement, the Employer desires to have the Policy collaterally assigned by the Owner.

F. 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 Insured Employee 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").

SAMPLE

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 collateral assignment filed with the Insurer relating to the Policy.

2. **OWNERSHIP OF POLICY.** The Owner 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.

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

   A. **Loan from Employer to Insured Employee.** Employer shall loan to the Insured Employee the amount sufficient to fully pay the periodic Policy premium no later than the date each Policy premium is due. The Employer shall: (i) pay to the Insurer the full amount of the premium due and payable; and (ii) deliver to both the Insured Employee and to the Owner written evidence of Employer's timely payment of each such premium.

   B. **Repayment of Employer-Provided Loans.** The Insured Employee shall repay the principal amount of all loans from Employer, together with interest thereon at the applicable federal rate (AFR) as of the time such loans are made. The aggregate unpaid principal, as well as the accrued interest, shall be payable upon demand at any time by Employer. The Insured Employee shall execute and deliver to Employer a promissory note in substantially the form and contents of which shall be substantially the same as that attached hereto as Exhibit B.

4. **COLLATERAL ASSIGNMENT OF THE POLICY.** To secure the repayment of amounts owed to the Employer by the Insured Employee, the Owner hereby assigns the Policy to the Employer as collateral. This Agreement, and the collateral assignment effected hereby, specifically limits the rights of the Employer in the Policy to the recovery of all amounts owed to the Employer by the Insured Employee. The collateral assignment of the Policy to the Employer may not be terminated, removed, revoked, modified or amended by the Owner without the prior express written consent of the Employer, which consent may be withheld in the Employer's sole and absolute discretion. The Insurer is authorized to accept this Agreement as the Owner's collateral assignment of this Policy to the Employer. The Owner and the Employee agree, upon reasonable request by the Employer, to execute all other documents that may be necessary or desirable to perfect this collateral assignment of the Policy.

5. **POLICY BENEFICIARY DESIGNATION.** Owner shall have the right to designate one or more beneficiaries to receive the death benefit payable upon the death of the Insured Employee under the terms of the Policy, subject to the rights and interests the Employer may have in the death benefit as described in Section 6 of this Agreement.

6. **DEATH OF INSURED EMPLOYEE.** Upon the death of the Insured Employee while this Agreement is in effect, the Owner and 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 unpaid principal amount of all loans made by Employer to the Insured Employee, together with accrued unpaid interest on the unpaid principal, as more fully described in Section 3 of this Agreement.

SAMPLE

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 6.A of this Agreement shall be paid to the beneficiary or beneficiaries designated by the Owner, in the manner and amounts provided in the beneficiary designation provision of the Policy.

7. LIMITATION ON POLICY SURRENDER OR TRANSFER

A. **Transfers by Owner.**

i. Prohibited Transfers: Except as otherwise provided in this Agreement, the Owner shall not sell, assign, transfer, borrow against, surrender or cancel the Policy (or any portion thereof or interest therein) without the prior express written consent of the Employer, which consent may be withheld in the Employer's sole and absolute discretion.

ii. Permitted Transfers: The Owner may irrevocably and gratuitously assign its interest in the Policy (without the express consent of the Employer but with prompt notice to the Employer and subject to all rights of the Employer pursuant to this Agreement) to any trust of which the Owner is the grantor.

B. **Transfers by the Employer.** Except as otherwise provided in this Agreement, the Employer shall not sell, assign, transfer, or borrow against any portion of its interest in the Policy without the express written consent of the Owner, which consent may be withheld in the Owner's sole and absolute discretion.

8. POLICY CASH WITHDRAWALS AND LOANS. The Owner may not withdraw cash from the Policy or take a loan from the Policy without the prior express written consent of the Employer, which consent may be withheld in the Employer's sole and absolute discretion.

9. 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 Owner and the Employer.

B. **Termination by Owner.** The Owner 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 Owner. 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 Owner.

SAMPLE

10. **AMENDMENT AND WAIVER.** This Agreement may not be amended except by a written instrument signed by the Employer and the Owner, 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.

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

12. **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.

13. **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.

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

15. **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.

16. **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.

17. **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 the 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.

18. **THIRD PARTY BENEFICIARY.** The Insured Employee shall be considered a third-party beneficiary of the rights granted to the Owner under this Agreement and shall be entitled to enforce those rights directly against the Employer without joinder of the Owner.

19. **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.

SAMPLE

20. **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.

21. **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 _____.

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

23. **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.

OWNER:

_____

Signature

_____

(Owner printed name)

SAMPLE

INSURED EMPLOYEE: :

_____

Signature

_____

(Insured employee printed name)

EMPLOYER:

By: _____

Signature of authorized officer

_____

(Authorized officer printed name)

Its: _____

Officer title

EXHIBIT A

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

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: _____

EXHIBIT B

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

SAMPLE

PROMISORY NOTE

$ _____ (Numerical amount of note)

FOR VALUE RECEIVED, _____ (Insured Employee) as "Maker" promises to pay to the order of _____ (Employer) its successors and assigns as "Holder" the principal sum of _____ and ___/100 Dollars ($_____) together with interest on the unpaid principal balance at the rate of _____ percent (___%) per annum from the date of this Note until this Note is paid in full. Principal and interest shall be payable on written demand by Holder. Payments shall be made to Holder at _____, or such other address as Holder hereafter designates by written notice to Maker.

This Note may be prepaid in whole or in part at any time without penalty or premium. All payments shall first be applied to interest and the balance to principal.

Any payment due under this Note shall be made by Maker without setoff or offsets against any amount due or claimed to be due Maker from Holder under any agreement or otherwise. Maker and all endorsers, sureties, and guarantors hereof, hereby jointly and severally waive presentment, demand for payment, notice of dishonor, notice of protest and protest and all other notices or demands and in the event of default agree to pay the holder of this Note the expenses involved in the cost of collection, including reasonable attorneys' fees.

No delay or omission on the part of the holder hereof in exercising any right, power or privilege hereunder shall operate as a waiver hereof, nor shall any single or partial exercise of any right, power or privilege hereunder preclude the further exercise thereof or the exercise of any other right, power or privilege.

The rights and powers granted or evidenced hereby shall extend to any holder of the Note and shall be binding upon Maker, its successors and assigns.

Any notice given under this Note shall be given by delivering it personally or by mailing it by certified mail, return receipt requested, to the Maker at the address set forth below; and to Holder at the address provided for making payments hereunder.

Date: _____

Signature of insured employee/maker: _____

Insured employee's address: _____

SAMPLE