

SPLIT DOLLAR LIFE INSURANCE

SUMMARY OF KEY FEATURES

OVERVIEW

Split dollar life insurance is a form of executive compensation arrangement that enables an employer to provide life insurance coverage for an employee based on its payment of premiums for the policy.

There are two types of split dollar life insurance arrangements: 1) the endorsement type, under which the employer owns the policy and pays the premiums and, through an endorsement of the policy, the employee is given the right to name the recipient of the death benefit; and 2) the collateral assignment type, under which the employee owns the policy, with premiums paid by the employer, and assigns the policy as collateral security for the premium advances made by the employer.

Although these types of arrangements can be made for all employees, they are primarily used as supplemental executive compensation for a key employee or a select group of management or highly compensated employees.

The following information summarizes the details of Split Dollar Life Insurance arrangements. Your Managing Consultant will work with you to ensure you have more complete information, and discuss important considerations related to this and other executive compensation arrangements.

FUNDING

ENDORSEMENT TYPE: Employer owns the policy and pays the premiums. Through an endorsement of the policy, the employee is given the right to name the recipient of the death benefit.

COLLATERAL TYPE: Employee owns the policy with premiums paid by the employer. Employee required to assign the policy as collateral security for the premium advances made by the employer.

ELIGIBILITY

EMPLOYER: Any employer.

EMPLOYEE: Any employee but generally used for a key executive, or a select group of management or highly compensated employees.



<p>ELECTIONS, CONTRIBUTIONS AND LIMITS</p>	<p>Most arrangements are designed as elective plans funded exclusively with employer contributions.</p> <p>ENDORSEMENT TYPE: No limit.</p> <p>COLLATERAL TYPE: No limit.</p>
<p>VESTING</p>	<p>ENDORSEMENT TYPE: Vested immediately.</p> <p>COLLATERAL TYPE: Premiums contributed by the employer are treated as a loan to the employee. Employer retains the right to recover premiums in the future.</p>
<p>ROLLOVERS IN/OUT</p>	<p>Not permitted.</p>
<p>DISTRIBUTIONS</p>	<p>ENDORSEMENT TYPE: Payable to the beneficiary at death. Employee is given the right to receive the cash value of the policy in excess of premiums paid by the employer.</p> <p>COLLATERAL TYPE: Payable to the beneficiary at death. Employee is given the right to receive the cash value of the policy in excess of premiums paid by the employer.</p>
<p>LOANS</p>	<p>Loans may be available under the terms of the insurance policy with the approval of the employer.</p>

<p>TAXATION</p>	<p>ENDORSEMENT TYPE: Employee is taxed on the economic benefit that he or she receives from the employer. The excess cash value will be taxable as it accrues rather than not being taxed until the employee withdraws the funds. The taxable amount consists of the term insurance cost of the death benefit that the employee's beneficiary will receive. In addition, the employee is also taxed on any cash value that he or she has access to as well as any other benefits received under the policy. For nonprofit and governmental employers subject to Internal Revenue Code Section 457, subsection 457(f) may require inclusion of income before the employee has access to the excess cash value to the extent that the employee's rights to the value are not subject to a substantial risk of forfeiture.</p> <p>COLLATERAL TYPE: Premiums under this arrangement are considered loans. Traditionally the employer did not charge any interest on these loans, but currently that will result in the employee having taxable imputed income at the applicable federal rate.</p> <p>Generally, FICA taxes for the foregone interest will apply to both types of split dollar arrangements between employers and employees.</p> <p>Current tax treatment, based on final regulations issued in 2003, virtually eliminates the tax advantages that formerly were available for split dollar arrangements.</p>
<p>IMPACT OF LEGISLATION</p>	<p>Under Section 409A, in order to obtain tax deferral, plans must comply with restrictions on timing of elective deferrals and distributions, and limits on forms of distributions. Consult your legal advisor for details.</p>
<p>IRS FORM 5500 FILING (PRIVATE INSTITUTIONS ONLY)</p>	<p>Annual filing for arrangement required.</p>

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