Acumen *Insights*
IDEAS FOR LEADERS BUILDING WHAT'S NEXT

Who's Really in Control?

Split-dollar life insurance can create powerful executive benefits. But the details of the design can determine who controls the benefit—and what happens when circumstances change.

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THE QUESTION

Does the executive understand what happens after the agreement is signed?

Split-dollar can be a valuable executive compensation strategy, allowing an organization and executive to allocate the benefits and economic interests associated with a life insurance policy.

But the value of an arrangement isn't determined only by how it looks when it's established.

Who controls distributions? What happens if the policy performs differently than projected? How—and when—is the organization's interest repaid? And what options exist if circumstances change?

A well-designed strategy should answer those questions before anyone needs the answers.

THE POLICY IS ONLY HALF THE STORY.

Knowing a strategy can work isn't the same as knowing it's designed to work well.

Control
Who controls access to policy distributions?

Performance
Who benefits if the policy outperforms projections?

Exit
How and when is the interest repaid?

WHAT STRONG SPLIT-DOLLAR DESIGN SHOULD ADDRESS

01 EXIT STRATEGY

A split-dollar arrangement shouldn't begin without understanding how it can ultimately end. Repayment mechanics and potential exit options should be considered at the outset—not years later.

02 EXECUTIVE CONTROL

Executives should understand what control they'll have over policy distributions and whether future decisions may require involvement from a former employer.

03 POLICY PERFORMANCE

Actual policy performance may differ from original projections. The arrangement should make clear how better- or worse-than-expected results affect both the executive and the institution.

04 DESIGN FLEXIBILITY

The structure should reflect the needs of both the institution and the executive, with enough forethought to accommodate changing circumstances over what may be a very long relationship.

THE BOTTOM LINE

A split-dollar strategy shouldn't just work on the day it's designed. It should still make sense years later.

Knowing a strategy can work isn't the same as knowing it's designed to work well. Control, repayment, policy performance and exit provisions can shape the value of an arrangement long after it's established.

Good design anticipates the expected. Great design plans for what isn't.

Sources: IRS Reg. §§1.61-22 and 1.7872-15; NCUA §701.19 and applicable NCUA legal guidance.

ONE QUESTION FOR YOUR NEXT LEADERSHIP MEETING

If circumstances changed tomorrow, would everyone understand what happens next?

Split-dollar arrangements can span years—or decades. The time to understand control, performance, repayment and exit isn't when something changes. **It's when the strategy is being designed.**