Death Benefit Only Plan

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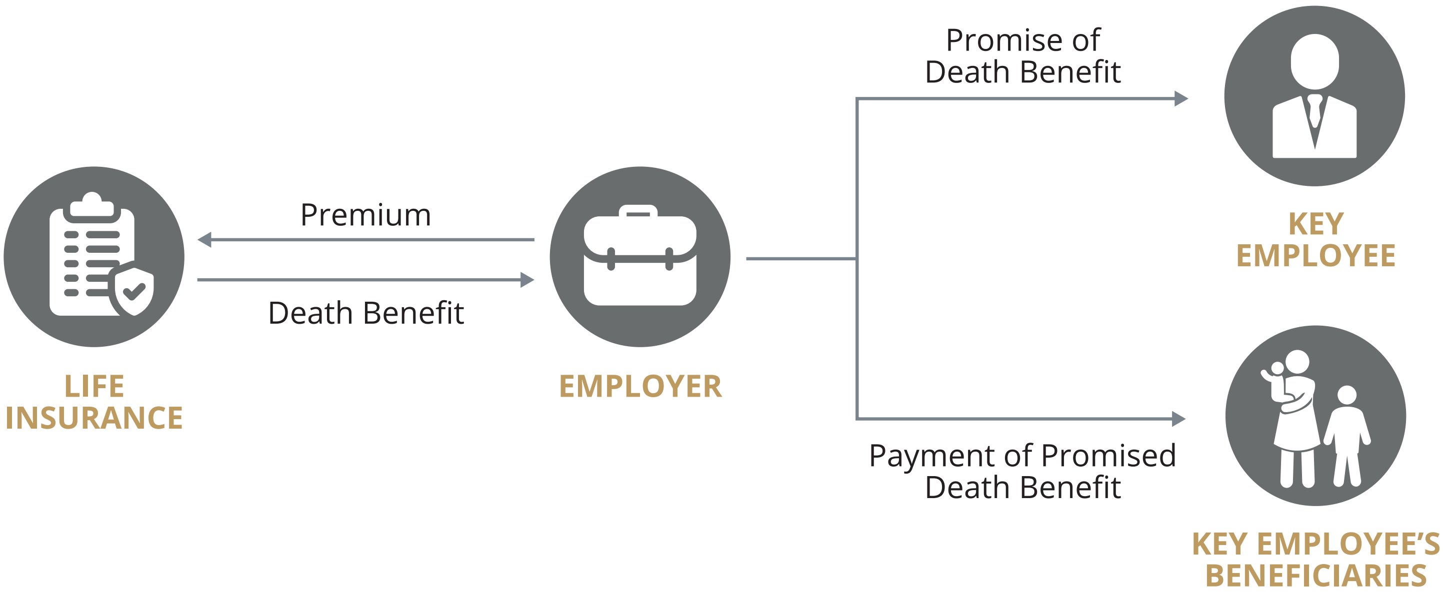
A Death Benefit Only (DBO) plan, commonly known as a salary continuation benefit, is an employer-funded plan providing specified benefits to a key employee's named beneficiary(ies) upon the death of the employee. Generally, in order for the benefit to be paid, the employee must be actively employed by the sponsoring company at the time of death. Payments to beneficiaries can be made as a lump sum or periodic payments over a multiple year period. It is most common that the specified benefit payment is determined as a fixed amount or percentage of total compensation. It can be a simple and effective benefit to help reward and retain key employees.

Plan Funding

Life insurance can be used to informally finance plan obligations. The employer can purchase and own a policy insuring the key employee with a death benefit equal to or greater than the promised survivor benefit. The beneficiary of the life insurance policy would also be the company.



Considerations for Employer

- When the benefit is paid to an employee's beneficiary, the company may be able to receive an income tax deduction for such payment.
- Premium payments are not tax deductible by the employer-policy owner.
- If the death benefit purchased is greater than the amount promised to the key employee(s), the employer can retain the difference as plan cost recovery or key person indemnification.
- The plan generally requires limited ongoing administration and can be easy to maintain compared to other non-qualified plans.[1]
- Employers have the flexibility to provide the benefits in a discretionary manner and can even vary the benefit among plan participants.
- The death benefit proceeds can generally be paid to the employer income tax free.[2]

Considerations for Employees

- Employees generally do not need to report taxable income during their lifetime.
- The payment to named beneficiaries is typically taxed as ordinary income to the beneficiary.
- DBO benefits can provide the employee's beneficiaries with additional financial protection in the event of his or her death beyond employer-sponsored group term or personal life insurance coverage.
- The employee-insured does not have any ownership interest in, or rights of access to, the policy on his or her life.
- The employee-insured must meet the insurer's financial and medical underwriting requirements. Guaranteed Issue underwriting may be available from certain insurers for groups of 10 or more plan participants.

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[3] A death benefit only plan is not treated as a "non-qualified deferred compensation plan" and, therefore, not governed by nor subject to the requirements of section 409A and the regulations thereunder.

[2] For the death benefit to be excluded from gross income of the employer, the notice and consent requirements under Internal Revenue Code section 101(j) must be met before the policy is issued, and the policy cannot have been transferred in a transaction that was treated as a reportable policy sale under section 101(a)(3) nor transferred for valuable consideration to an impermissible transferee under section 101(a)(2). Accelerated death benefit payments due to the insured's chronic or terminal illness are not eligible for gross income exclusion if received by an employer from a policy insuring an employee thereof under section 101(g)(5), thus such accelerated payments may give rise to taxable income. Taxpayers should seek guidance from an independent tax and legal professional for additional information.