



BUSINESS INSURANCE

Equity split dollar life insurance

Equity split-dollar is a flexible fringe benefit plan that benefits both employees and employers. Employees receive affordable life insurance coverage and policy cash value accumulation at a fraction of the cost of the premium, and employers have the potential to increase key employee retention and recover the cost of the plan.

What is it?

Split-dollar is the sharing of a life insurance policy between an employer and employee. In a typical equity plan, cash value life insurance is purchased on the life of a key employee of the employer's choosing. The employee owns the policy. The employer pays the annual premium and retains an interest in the policy cash value and death benefit up to its total premiums paid. The

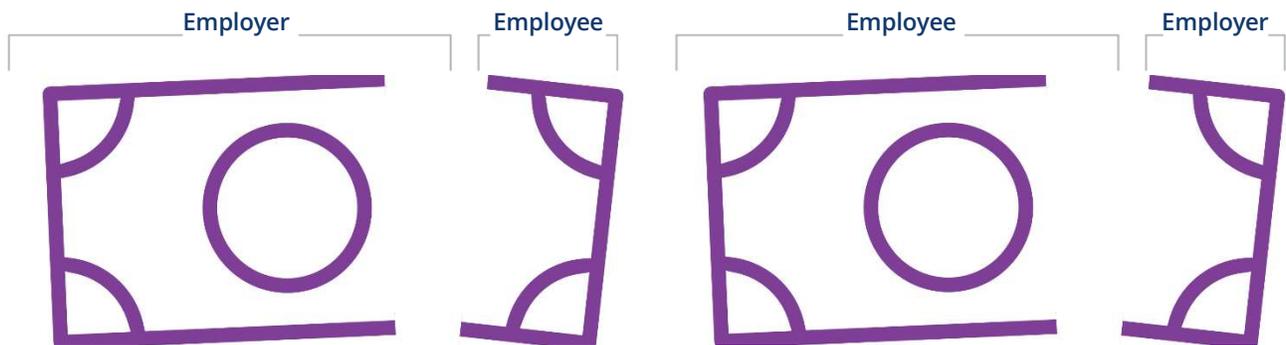
employee owns the rest of the cash value and death benefit and names a personal beneficiary.

To ensure an income tax-free death benefit, the employee includes an interest cost in his or her income. The cost is usually low relative to the premium paid by the employer. The premium paid by the employer is nondeductible.

The split-dollar agreement typically ends at the employee's retirement, and the employer can recover its premiums from the policy's cash value. Alternatively, the employer may bonus its share of the policy to the employee.

In the event of the employee's death prior to retirement, the income tax-free death benefit is split between the employer and the employee's beneficiary.

Equity split-dollar plan design



Premium split

Employer pays the policy premium; employee pays taxes on an annual interest cost.

Death benefit and cash value split

Policy values are split between employer and employee. As policy values grow, so too does the employee's share of the policy's cash value in most designs.

The benefits

- Equity split-dollar is selective. A plan can be established for only one employee or for a select group of employees (such as management-level employees).
- The employee receives life insurance protection and the potential for cash value accumulation at a fraction of the cost. The employee's cost is typically limited to paying taxes on a relatively small interest cost.
- Employers can design a split-dollar plan for cost recovery. This means the employer is reimbursed for its costs when the split-dollar plan ends (typically at the employee's retirement).
- When structured properly, the death benefit is income tax free to both the employer and the employee's beneficiary.
- After the split-dollar ends, the employee's share of the policy cash value can be used as a tax-advantaged retirement income supplement through properly structured policy loans.*
- To remove the death benefit from his or her estate, the employee may assign his or her share to a properly structured irrevocable trust.

Additional considerations

- A split-dollar agreement should be drafted by an attorney. Your financial professional may provide complimentary split-dollar sample documents to assist your attorney in the drafting process.
- To protect its ownership interest in both the policy cash value and death benefit, the employer typically will take a collateral assignment against the policy.
- Equity split-dollar may become more expensive in a rising interest rate environment, as the applicable interest rate is subject to change annually in many split-dollar plan designs.
- The premiums payments are nondeductible to the employer. Fortunately, the employer's cost recovery – either at retirement or death of the employee – is not taxable when the split-dollar is properly structured.
- Employers and/or employees should work with a qualified tax advisor to ensure proper reporting of the plan cost each year.

This material provides general information that is designed to be educational in nature and is not intended as specific tax or legal advice to any particular individual nor the law of any particular state. Please seek the advice of a qualified tax or legal professional for your specific situation.

* If tax-free loans are taken and the policy lapses, a taxable event may occur. Withdrawals (partial surrenders) and loans from life insurance policies classified as modified endowment contracts may be subject to tax at the time the withdrawal or loan is taken and, if taken prior to age 59½, an additional 10% federal tax may apply. Withdrawals and loans reduce the death benefit and cash surrender value.

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