Executive compensation

The Dynamic Duo

Endorsement split-dollar combined with a salary continuation plan

Most successful business owners recognize that the key people in the organization are their most valued assets. Consequently, most owners seek affordable ways to provide benefits and incentives to these select people.

One method of providing both life insurance and supplemental retirement income for key employees is known as the "Dynamic Duo Plan." This strategy begins with a pre-retirement death benefit, and later becomes a salary continuation benefit at retirement. It can be implemented for owner-employees of C Corporations and for non-owner employees of many types of businesses — including C Corporations, S Corporations, LLCs and Partnerships.

With the Dynamic Duo Plan, the business owns and pays for a permanent life insurance policy on the life of a key employee. The employer retains the right to recover the greater of premiums paid or policy cash values. The employee retains no interest in, or access to, policy cash values. During the pre-retirement years, the employee's beneficiaries would receive income tax-free death benefits using a well-known and IRS-approved method — endorsement split-dollar. The employer reports a taxable "economic benefit" to the employee yearly on their W2 form. The economic benefit is calculated using Protective's one-year term life insurance rates, or the IRS Table 2001 rates.

At retirement, the endorsement split-dollar arrangement terminates, and the salary continuation plan begins.

Advantages for employer

- Policy cash surrender values are reflected on the business balance sheet as an asset, offsetting the premium cash outlay.
- The employer's share of the death benefit provides full cost recovery for the business during the pre-retirement years.
- During the salary continuation period, the employer can efficiently fund the salary continuation benefits by taking tax-advantaged withdrawals of cash value (up to basis) and then by policy loans to avoid taxable distributions.[1]
- Salary continuation payments are deductible to the employer, helping to recoup the employer's original costs.

Disadvantages for employer

- Subject to modest ERISA reporting rules.
- In order to avoid adverse income tax consequences for the business, requires completion of a notice & consent form for employer-owned life Insurance (before issue of the policy) and filing of IRS Form 8925 on an annual basis under IRC §101(j).
- Some corporations may be subject to the corporate alternative minimum tax.

Advantages for employee

- Low-cost pre-retirement death benefit coverage for family protection, which is unlike traditional nonqualified deferred compensation where pre-retirement death benefits are taxable to the surviving spouse or children.
- Supplemental income received during retirement is usually at lower tax rates.
- Provides additional retirement benefits above and beyond any ERISA-qualified plans, either because the employee has "maxed" out on contributions to a qualified plan, or the employer has not set up one.

Disadvantages for employee

- The insurance policy is subject to the business's creditors (there is a risk of forfeiture of plan benefits if the employer is not financially stable).

Additional information on next page.

Protective refers to Protective Life Insurance Company.

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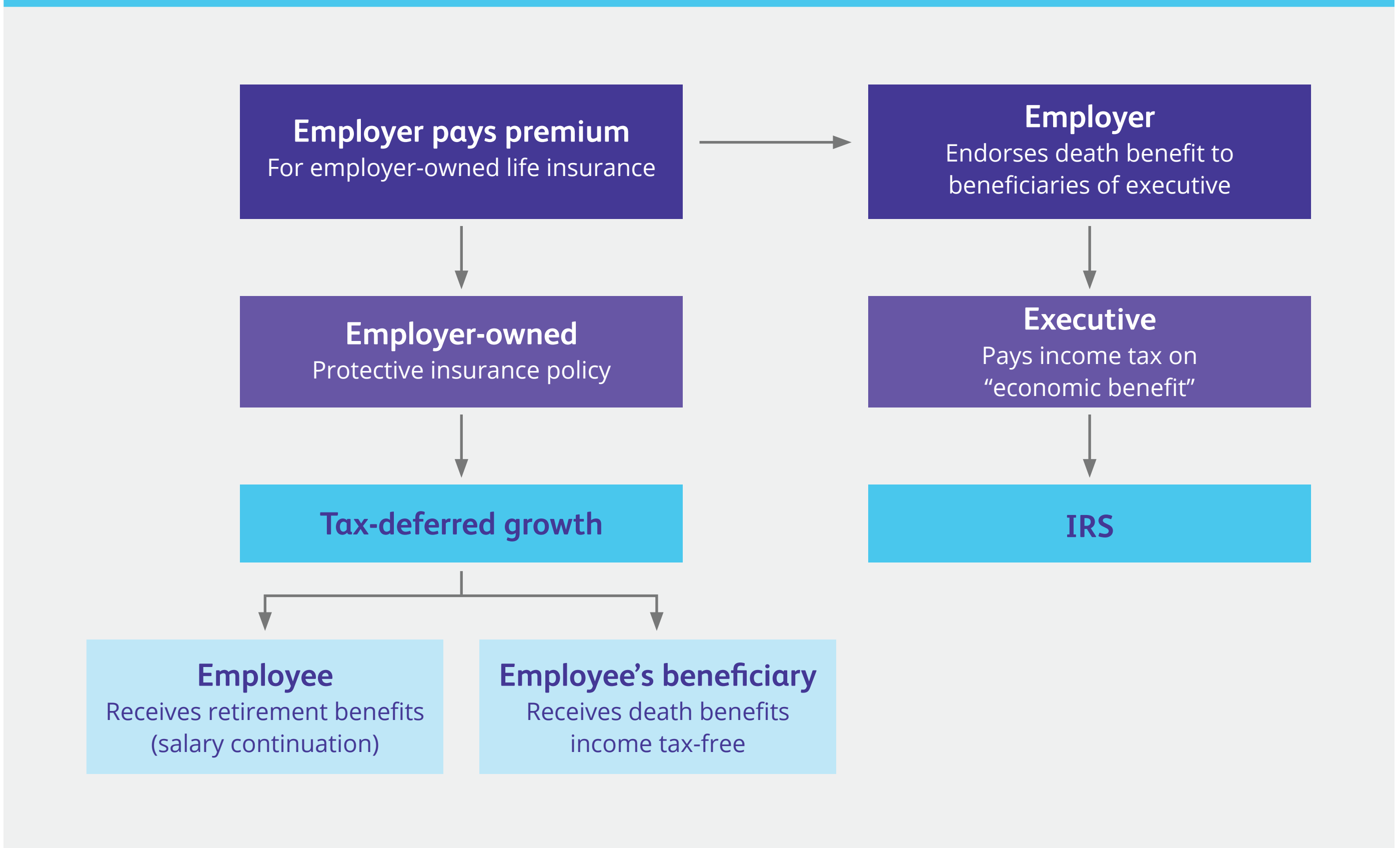
How it works



For more information, contact your financial representative.

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[1]Policy loans and withdrawals will reduce cash value and death benefit. Policy loans are subject to interest charges. This strategy will not work with a modified endowment contract (MEC). If the policy is determined to be a MEC, loans and withdrawals may be subject to taxes and penalties.

These materials contain statements regarding the tax treatment of certain financial assets and transactions. These statements represent only our current understanding of the law in general and are not to be considered legal or tax advice by purchasers. Business tax rules and the tax treatment of life insurance are subject to change at any time. Neither Protective nor its representatives offer legal or tax advice. Purchasers should consult with their legal or tax adviser regarding their individual situations before making any tax-related decisions.

Life insurance is issued by Protective Life Insurance Company, Nashville, TN.

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Not Insured By Any Federal Government Agency		May Lose Value