Securian Financial

Estate planning

Split dollar arrangements

Insurance products issued by:
Minnesota Life Insurance Company
Securian Life Insurance Company

Flexible strategies to share the cost and benefits of life insurance

Your sales opportunity

- High-net-worth individuals who want to cost-effectively fund life insurance coverage in their estate plans.
- Trusts and grantors that need to manage large life insurance premiums more efficiently, while maintaining control and potential tax advantages.

Solution: Split dollar arrangement

A split dollar arrangement is a strategy where the premium, cash value and/or death benefit of a life insurance policy are shared between two parties, an **owner** and a **non-owner** of the contract. The arrangement defines how each party contributes to premiums and how benefits are divided.

Split dollar is not a type of life insurance, but rather a method of financing life insurance premiums. In many cases, one party has the funds to pay the premiums, while the other party (typically a trust) needs life insurance protection.

Split dollar strategies are commonly used in **business planning** but can be structured for **estate planning** purposes to reduce the cash needed to fund large life insurance premiums or to minimize income and gift taxes associated with funding.

Target clients

Split dollar arrangements may be appropriate for the following types of clients:

- Individuals or couples with estates that exceed the federal estate tax exemption
- Parents or grandparents who wish to fund life insurance for the benefit of future generations
- Married couples who want to manage gift taxes in their financial strategy

Features

- Allows two parties to share the premium payments and policy benefits
- Provides flexibility in ownership structure depending on goals and tax considerations
- Can be structured between a grantor and a trust, or a business and an employee
- Helps reduce the after-tax cost of life insurance for the trust
- Can retain the policy's death benefit outside of the taxable estate when used with an irrevocable trust

How it works

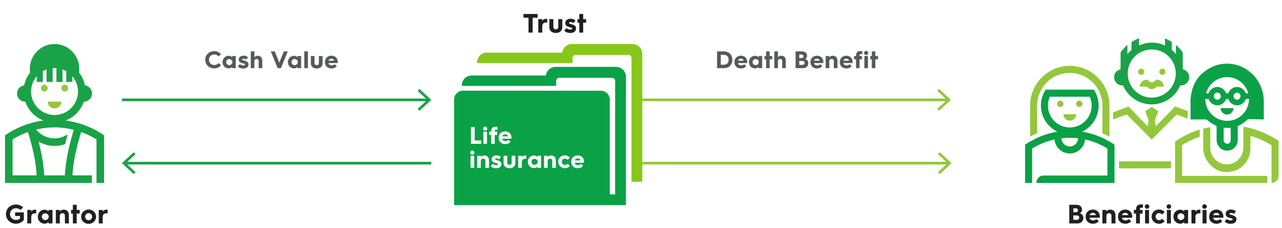
A split dollar arrangement must include:

- A written split dollar agreement signed by the parties involved
- Supporting estate planning documents

Depending on the structure, ownership of the policy can take one of two common forms:

1 Endorsement arrangement

- An irrevocable life insurance trust is established to own the life insurance policy
- The insured individual in the estate provides funds to the trust to pay the premiums
- The written split dollar agreement outlines how premium, cash value and death benefit are split
- The person who receives the death benefit in excess of the cash value will pay reportable economic benefit (REB) on those amounts



2 Collateral assignment arrangement

- The grantor pays premiums
- At the insured's death, the premium provider/payer owns the greater of premiums paid or the policy's cash value

Benefits

If properly structured and administered, a split dollar arrangement:

- Reduces the value of the gift for estate tax purposes
- Uses REB as the measure of the gift
- Excludes death benefit proceeds from the taxable estate when used with a trust
- Provides cash to heirs or the estate to cover taxes
- Allows the grantor some control compared to an outright gift
- Funds a large life insurance policy for heirs with minimal gift tax impact

Considerations

- Written agreement and estate planning documents are required
- The release or transfer of policy rights can create taxable events
- Loan interest and timing of repayment under loan regime arrangements may have tax implications
- Policy performance, fees and restrictions should be carefully reviewed

Loan regime split dollar

Another type of split dollar arrangement is a loan regime split dollar. This type of arrangement involves the premium payer (company, individual) lending money to the policy owner at interest. The policy is either owned by an individual or an irrevocable trust.

This type of arrangement is measured by the greater of the interest rate stated in the promissory note or the government's applicable federal rate (AFR). Notes are either payable on demand, short term (1-3 years), midterm (3-9 years) or long term (9+ years). Each month the IRS publishes interest rates that correspond to these terms. The note will state the loan's terms and the duration of the loan.

Typically, there is no penalty associated for early repayment of the note. The measure of the gift each year is the interest rate of the note. If interest is not paid or forgiven, it is subject to income tax. Interest may be accrued into the note. If the loan is not repaid or forgiven, it is also subject to income taxation.

The total cash value of the policy is available to the owner of the policy, subject to the loan which is owed to the premium payer. Unlike endorsement or REB split dollar, amounts greater than the loan amount are available to the policy owner, not the premium payer.

Learn more

To learn how a split dollar arrangement can help build a secure financial future for your clients and their families, contact your Life Sales Support Team today:

1-877-696-6654
(broker-dealer)

1-888-413-7860, option 1
(independent brokerage)

Please keep in mind that the primary reason to purchase a life insurance product is the death benefit.

Life insurance products contain charges, such as Cost of Insurance Charge, Cash Extra Charge, and Additional Agreements Charge (mortality charges), as well as Premium Charge, Monthly Policy Charge, Policy Issue Charge, Transaction Charge, Index Segment Charge, and Surrender Charge (expense charges). These charges may increase over time, and policies may contain restrictions, such as surrender periods. Policyholders could lose money in these products.

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F74093-56 Rev 12-2025 DOFU 12-2025
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