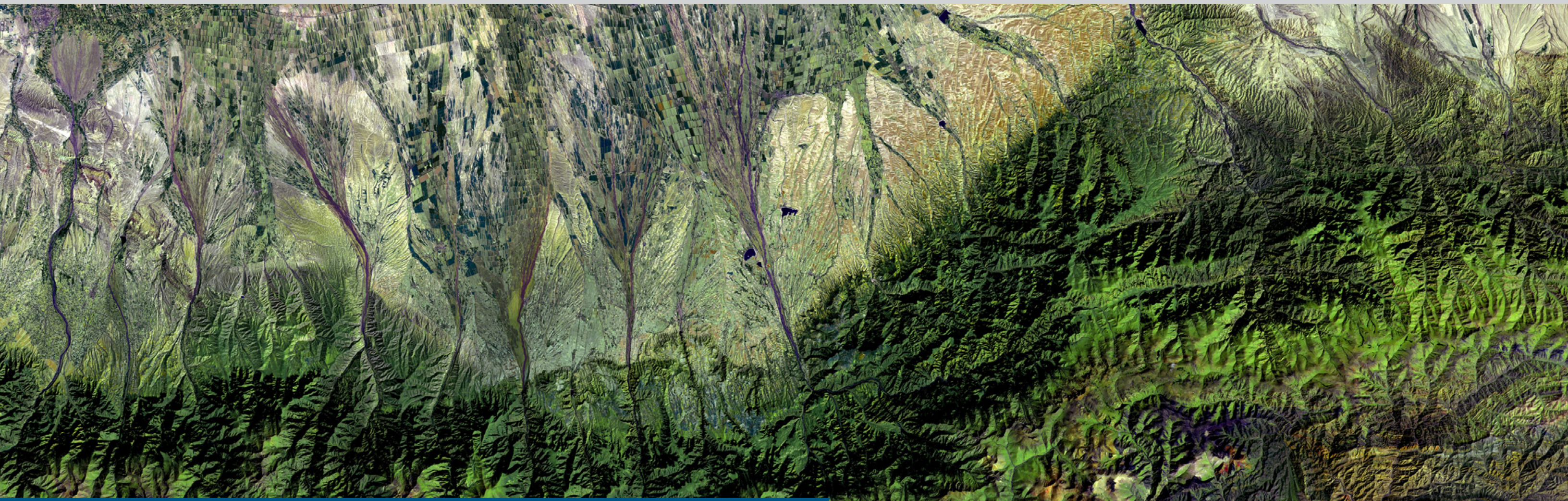


SUPPLEMENTAL LIFE INSURANCE & DEATH BENEFIT PROGRAMS

Basic group term life insurance often fails to provide adequate coverage for highly compensated employees.

Alternative programs solve for benefit inequality at the executive level and can play a significant role in gaining a competitive advantage when top talent is in high demand.

INTRODUCTION

Group term life insurance is a standard part of an employer-sponsored welfare package that is woefully deficient in providing a proportionate amount of coverage for high-earning employees and their beneficiaries. Along with limited death benefit protection, these plans also have inherent shortcomings that make them ill-suited for elite benefit status.

While group term life insurance is tax-free for coverage up to $50,000, any premiums for excess insurance under a group plan create ordinary income for the employee — a potentially sizable amount that would trigger adverse tax consequences. Additionally, the benefit is not a permanent life insurance policy, and it typically ends with an employee's termination or retirement.

Companies needing to augment or bypass a traditional group life insurance offering in order to provide a meaningful level of coverage for their top executives will typically consider three primary alternatives:

- Bonus 162 life insurance
- Endorsement split-dollar life insurance
- Death benefit only (DBO) plans

Each is uniquely designed to help achieve benefit parity while offering significant advantages to the employer and employee, and each is well regarded for being relatively simple to implement, explain, and administer.

BENEFITS OF SUPPLEMENTAL INSURANCE ARRANGEMENTS

To overcome the disadvantages of group term life insurance and effectively bridge the gap in coverage, utility, and value to the executive, supplemental life insurance and death benefit plans help level up a company's executive benefits strategy in specific ways that provide for:

- Much higher limits of protection for the employee
- The potential to leverage benefits for retirement or estate planning needs
- Better, more cost-effective tools for the employer to attract, retain, and reward executive talent

BONUS 162 LIFE INSURANCE

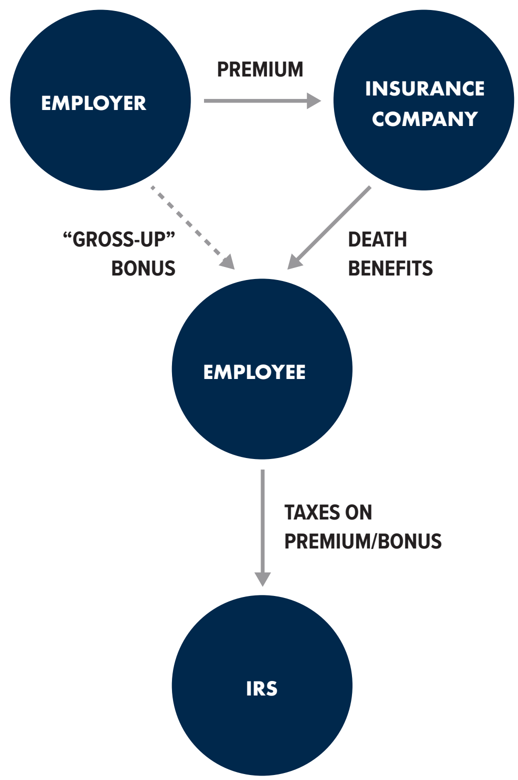
A bonus 162 plan is an arrangement where the employer's premium payments for a life insurance policy on the life of the employee are considered bonus compensation to the employee in recognition of their service and worth to the organization.

While deductible to the company in the year paid, the bonus is treated as taxable income to the employee. To help enhance the value of the benefit, the employer may offer an additional cash bonus to cover the taxes on the premium as well as the tax gross-up bonus itself.

Bonus 162 plans are unique in that the employee is the policy owner, and therefore designates the beneficiaries to whom the policy is fully payable as a tax-free death benefit. The life insurance policy's cash values grow on a tax-deferred basis and may be accessed by the employee on a tax-free basis through withdrawals and loans as a source of additional retirement income.

With contributions to the policy not subject to qualified plan limitations, the employee can accumulate a sizeable benefit balance to address their retirement savings needs or make a considerably positive impact on estate planning goals, further enhancing the attractiveness to highly paid executives.

BONUS 162 PLAN: HOW IT WORKS



Companies appreciate that bonus 162 plans:

- Are a powerful combination of employee incentive and tax benefit
- Provide a permanent death benefit when other programs do not
- May be leveraged for retirement planning purposes, further enhancing the appeal of the benefit to retain and reward highly paid employees

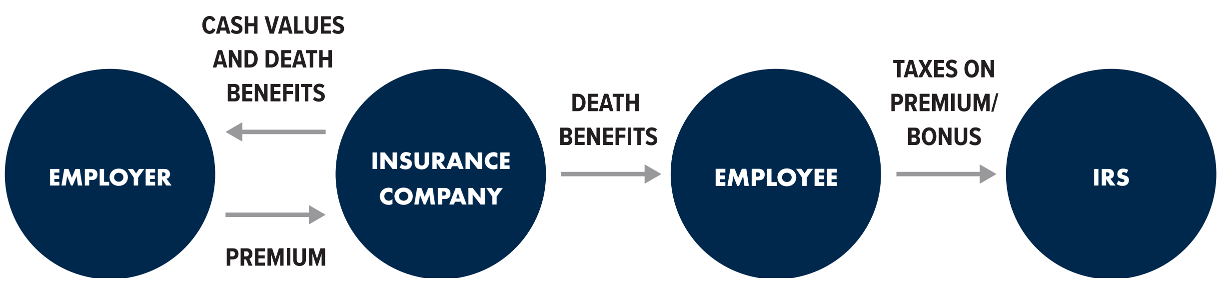
ENDORSEMENT SPLIT-DOLLAR LIFE INSURANCE

An endorsement split-dollar life insurance strategy is an agreement by which the company purchases a life insurance policy on the life of a key employee. The company pays all premiums and has access to the cash value; however, the death benefit is split to provide cost recovery for the business and ample death benefit protection for that employee's beneficiaries. Death benefit coverage is generally a flat amount or based on a multiple of annual compensation.

Although the employee is responsible for paying taxes on the imputed income, it is only for their share of the death benefit, and is relatively affordable. Even so, the sponsoring company may choose to pay a gross-up bonus to offset the employee's tax burden. And with policy proceeds received tax-free to beneficiaries, the employee and their loved ones can potentially realize a net zero-cost benefit.

Employers favor split-dollar insurance arrangements for their flexibility and the policy control that enables them to terminate the plan if the executive decides to leave the company. In this way, the protection benefit is not permanent or portable and can be used to motivate key employees' performance and retain their talent over the long term.

ENDORSEMENT SPLIT-DOLLAR LIFE INSURANCE: HOW IT WORKS



A winning combination of tax efficiency and cost-effectiveness makes an endorsement split-dollar plan an inexpensive and mutually beneficial life insurance solution for both employers and employees.

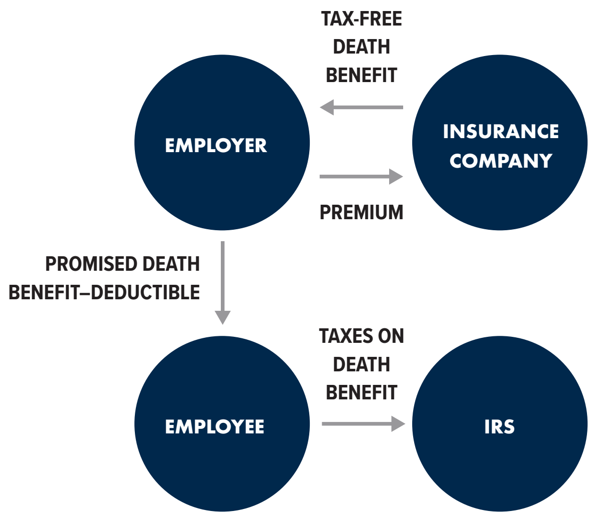
DEATH BENEFIT ONLY (DBO) PLANS

A DBO plan is simple in its design, whereby an employer owns and receives the proceeds from a life insurance policy they purchase on the lives of key employees and promises to pay a specific amount of the death benefit to an employee's beneficiaries.

Although premiums are not tax-deductible for the employer, the company receives death benefits tax-free. The plan is typically structured to fund both the survivor benefit and the cost of the insurance itself, making the DBO plan a cost-effective way to provide a valuable executive benefit.

There is no cost to the executive for being the insured participant in a DBO plan; however, the death benefit received by the named beneficiaries is taxable as ordinary income. To relieve the recipient of the tax liability, a company may gross up the benefit amount to help cover the additional cost for whoever is carrying on the employee's legacy.

DBO PLAN: HOW IT WORKS



Benefits of DBO policy ownership and control:

- Employer may fully recover all DBO benefit expenses
- Income tax deduction taken for benefits paid
- Plan is not portable and can serve as golden handcuffs to encourage retention among valued leaders

SUMMARY

Supplemental life insurance and death benefit only plans are more generous and advantageous to the executive than those provided under a group term life insurance arrangement. Whether a bonus 162, endorsement split-dollar, or DBO program, each is designed to provide death benefit protection more commensurate with executive compensation so they can better execute on their estate planning strategies and know that they are leaving a meaningful legacy for their beneficiaries.

Companies welcome supplemental life insurance benefits as part of an executive compensation and benefit strategy, as they are easy to implement and administer and can provide notable cost savings compared to standard group term life insurance and other nonqualified plans. The employer selects who can participate in any given program and to what extent the benefit is provided, and may include provisions that reward employee productivity and loyalty. The plans are ultimately a handy tool for retaining and rewarding executives who deliver peak performance.

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