Split Dollar Disability Insurance

When should the split dollar concept be offered to your clients? Before directly answering this question, first allow me to give some background on why this concept was created in the first place.

Split dollar was created to alleviate the financial strain placed on employers/corporations when employees are offered traditional 'non-can" coverage, or when other circumstances dictate. Split dollar allows such a policy to be paid for by BOTH the employer and the employee which then offers certain tax advantages to both parties.

Many employers offer or give group long term disability coverage to their employees. However, because this coverage has some limitations especially for highly compensated employees, who may then wish to "opt-out" and instead apply for "non-can" coverage.

In this case, the employer may not wish to foot the bill for coverage past the cost of the group plan. However, an option is available for funding additional premium for the non-can; splitting the premium between the two parties....and so "Split Dollar"!

For example, an employee whose age is 40, non smoker, top occupation class, eligible for $5,000/month non-can with all options, payable for lifetime. Annual premium for a TWO year benefit period with a 90 day elimination might be $1,050 per year.

There are several options in the design of a split dollar policy which will then allow the employee to UPGRADE most parts of the policy, past what the employer might want to pay. One other major caveat to the employee is that "upgrades" at claim time, will be paid TAX FREE! See some examples below.

1. The employer could pay the entire premium for just a two year benefit period, with the employee paying the premium for any benefit period beyond.

2. The employer could pay for all of the options with a benefit period to 65 but pay only one half of the total disability benefit amount.

3. The employer could pay for the total disability benefit amount and the employee could pay for all of the options.

What Are The Consequences or Advantages?

1. All benefits paid (which are attributable to employer paid premiums) will be taxed; however, these premiums will not be included in the employee's taxable income.
2. All benefits collected that are attributable to employee paid premiums will be collected tax free.

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