

SPLIT DOLLAR PLAN

Are you looking to selectively reward key executives with an attractive benefit plan with minimal cost?

As a business owner, you have worked hard to make the business successful and enabled your family to enjoy a comfortable lifestyle. The success of your business may also have brought with it a dependence on the income to maintain a higher standard of living and, quite possibly, created a substantial estate tax liability. A Split Dollar Plan (endorsement method) may help you or a key employee with similar success, address these problems.

What is a Split Dollar Plan?

A Split Dollar Plan is a partnership in a life insurance policy. It is a method of purchasing life insurance in which the premium payments and policy benefits are divided between the company and an employee depending on the needs and objectives of each. In a business setting, Split Dollar Plans are used to provide valuable fringe benefits to selected key employees for a minimal cost to them and almost no long-term cost to the employer.

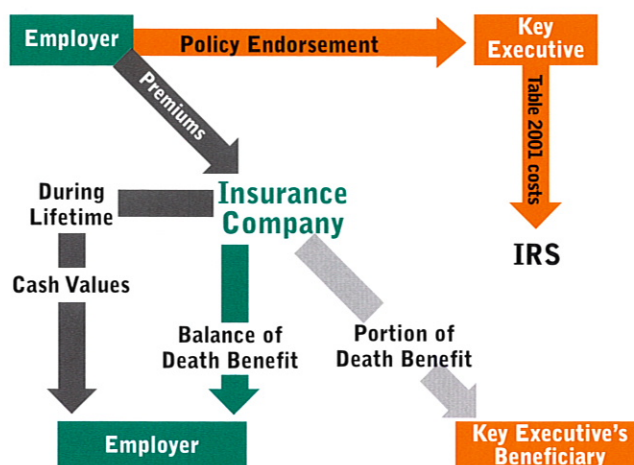
How does it work?

Split Dollar Plans can be designed in a number of ways depending on the needs and objectives of the company, as well as those of selected key employees. Under the endorsement method:

- The employer owns the policy and, through the use of a policy endorsement, the key executive is given rights to name beneficiaries for a portion of the death benefit.
- The employer often pays the entire non-deductible premium.
- The key employee receives a taxable "economic benefit" (*measured using the government Table 2001 rates*)
- Any remaining death benefits (*typically equal to the sum of the premiums paid*) are paid to the employer to offset the company's cost.¹
- The cash values are the property of the employer and are carried as an asset on its books. They can be accessed through income-tax-free loans and withdrawals² and are often used to provide retirement compensation to the key executive.

Benefits to the employer

- The plan can be simple to implement with no IRS restrictions or approvals required.
- It's cost effective, since the cost of the plan can be recovered from the policy's cash values or the business' portion of the death benefit.
- The plan is flexible and can be custom-tailored to each participant's needs and objectives.



- There are no mandatory eligibility or participation rules. Employers can select which key employees they want to benefit.
- It's an ideal way for business owners to provide extra benefits to recruit, retain or reward key employees – and themselves.

Benefits to the key executive

- The employee's cost is minimal and makes valuable insurance protection very affordable. However, the cost increases each year and may become too costly at older ages. For this reason, consideration of an "exit" strategy is desirable.
- The policy's death benefit is paid to the named beneficiary income-tax-free.
- The employer can use the policy cash values as informal funding to provide additional income at retirement above and beyond other retirement plans that may already be in force.

TAX FACTS SUMMARY Endorsement Split Dollar Plan

Policyowner	Business
Beneficiary	Split between business/executive
Payor	Business (Corporation)
Premium payments	Not deductible
Death benefit	Split between business/executive, received income-tax-free ¹
Employee economic for share of death benefit	Based on Table 2001 rates
Policy's cash values	Owned by business; tax deferred and available through tax-free loans and withdrawals ²

Additional uses for a Split Dollar Plan

Split Dollar is a method of buying life insurance. It can help you and your key executives reach various financial objectives in a number of ways. Split Dollar Plans can be used in combination with:

- Deferred Compensation Plans
- Salary Continuation Plans
- Cross Purchase Buy-Sell Agreements

What about taxes?

There are several tax considerations to consider when using a Split Dollar Plan:

- The premiums paid by the business are not deductible.
- The employee covered by the Split Dollar Plan is in receipt of a taxable economic benefit for his or her share of the death benefit (*measured by the Table 2001 rates*).
- The death benefits are generally received income-tax-free.

¹Death benefits and tax deferred cash accumulation may be subject to the corporate Alternative Minimum Tax (AMT). The Pension Protection Act of 2006 limits the death proceeds an employer can exclude from income when the insured does not meet the definition of a highly-compensated employee or of a highly-compensated individual. The Act also imposes specific requirements that the employer notify the individual about the insurance, secure his/her written consent and submit annual reports to the IRS.

²Surrenders from life policies are generally taxed as ordinary income to the extent the surrender proceeds exceed the policyowner's investment in the contract, which is also called the "basis." Loans are generally not taxable if taken from a life insurance policy that is not a modified endowment contract. Unpaid interest on loans is added to the loan principal, thereby increasing the total debt on the policy. The combination of an increasing loan balance, and deductions for contract charges and fees, may cause the policy to lapse, triggering ordinary income tax on the outstanding loan balance to the extent it exceeds the cost basis in the policy. If a policy is a modified endowment contract, loans, withdrawals and surrenders are treated as taxable distributions to the extent of the policy gain and may also be subject to an additional 10% penalty tax if made prior to the policyowner's age 59 1/2. Note that there is no exception from the penalty tax when the policyowner is not an individual person. Loans, if not repaid, reduce the policy's death benefit and cash surrender value.

Not FDIC, NCUA/ NCUSIF insured	Not insured by any federal government agency	Not a deposit	No bank or credit union guarantee	May lose value
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