United of Omaha Life Insurance Company
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Business Planning

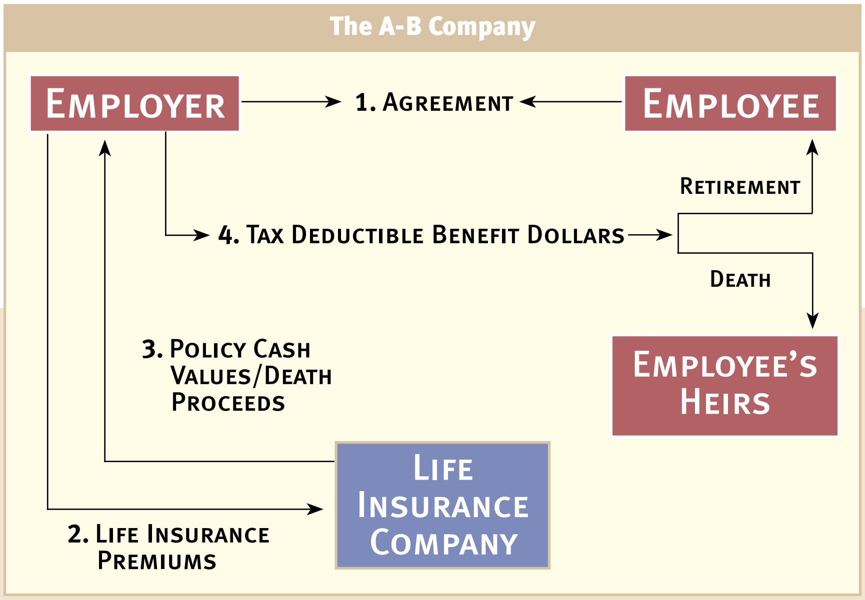
Deferred Compensation Life Insurance

Deferred compensation is a nonqualified plan typically used to recruit, retain and reward a select group of highly compensated employees. The plan can be set up as a salary deferral or salary continuation arrangement. Salary continuation is the most common method, using either a specific amount or a percentage of compensation as the promised benefit at retirement. The plan can also include a pre-retirement benefit if the employee dies before retirement.

How it Works

1. The employer and employee enter into a written agreement. The employer agrees to pay a supplemental retirement benefit if the employee stays with the employer until retirement.
2. The employer applies for and owns a life insurance policy on the employee, paying premiums out of after-tax income. In order to have the funds to pay the promised benefits, the employer is also the beneficiary of the policy.
3. The employer uses the policy's cash values to help provide the promised benefits to the employee. At the employee's death, the employer receives the life insurance proceeds income tax free.*
4. Payments the employer makes are deductible as a business expense because of the written agreement. They are taxable as income to the employee or the employee's beneficiary when received.

**Under current federal income tax law*



Deferred Compensation Life Insurance Advantages and Tax Considerations

Advantages *to the Business*

- The plan is selective and is usually reserved for key employees or owner/employees of regular corporations.
- No IRS approval is needed.
- The plan helps recruit, retain and reward key employees.
- The plan could be combined with either a key employee need or an entity redemption arrangement.
- The life insurance helps to accumulate funds that can improve the employer's balance sheet and provide a source of credit at guaranteed interest rates.

Advantages *to the Employee*

- The employer's dollars are being used to help meet personal needs.
- The plan's benefits can be coordinated with the key employee's other fringe benefits.

Tax Considerations *for the Business**

- Life insurance proceeds are received income tax free.
- Policy cash values accumulate tax deferred.
- Funding dollars are not deductible when contributions are made.
- Benefit payments are tax deductible when made by the employer and included in the employee's taxable income.
- When paid to a regular, C, corporation, life insurance benefits are included in the calculation of the corporate alternative minimum tax (AMT).**

Tax Considerations *for the Employee**

- There is no current income taxation of life insurance premiums.
- Benefit payments are taxable when received.
- The plan's benefits are included in the value of the employee's estate as income in respect of a decedent.

**Under current federal income tax law*

***AMT was repealed for small corporations after 1977.*

Section 409A of the Internal Revenue Code became effective January 1, 2009. It significantly reformed the rules applicable to Non-Qualified Deferred Compensation. It established new rules for determining when "constructive receipt" has occurred as well as certain limitations on the informal funding of such plans. Consult your legal or tax advisor for how the specifics of 409A may apply to your situation.

As a part of the Pension Protection Act of 2006, Section 101(j) of the Internal Revenue Code (IRC) became effective on August 18, 2006. This section provides that when an applicable policyholder (employer or related party) is the owner and beneficiary of a life insurance policy insuring the life of an employee, the death benefit may be taxable. This tax consequence can be avoided if the insured is a member of a class exempted from this treatment by IRC Section 101(j) and notice and consent requirements have been satisfied.

It is the employer's responsibility to obtain appropriate tax and legal advice regarding the tax and legal consequences of death benefits paid for employer owned life insurance.

The purpose of this material is to illustrate a concept. Specific tax or legal questions should be directed to your tax or legal counsel.

Life insurance underwritten by:

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