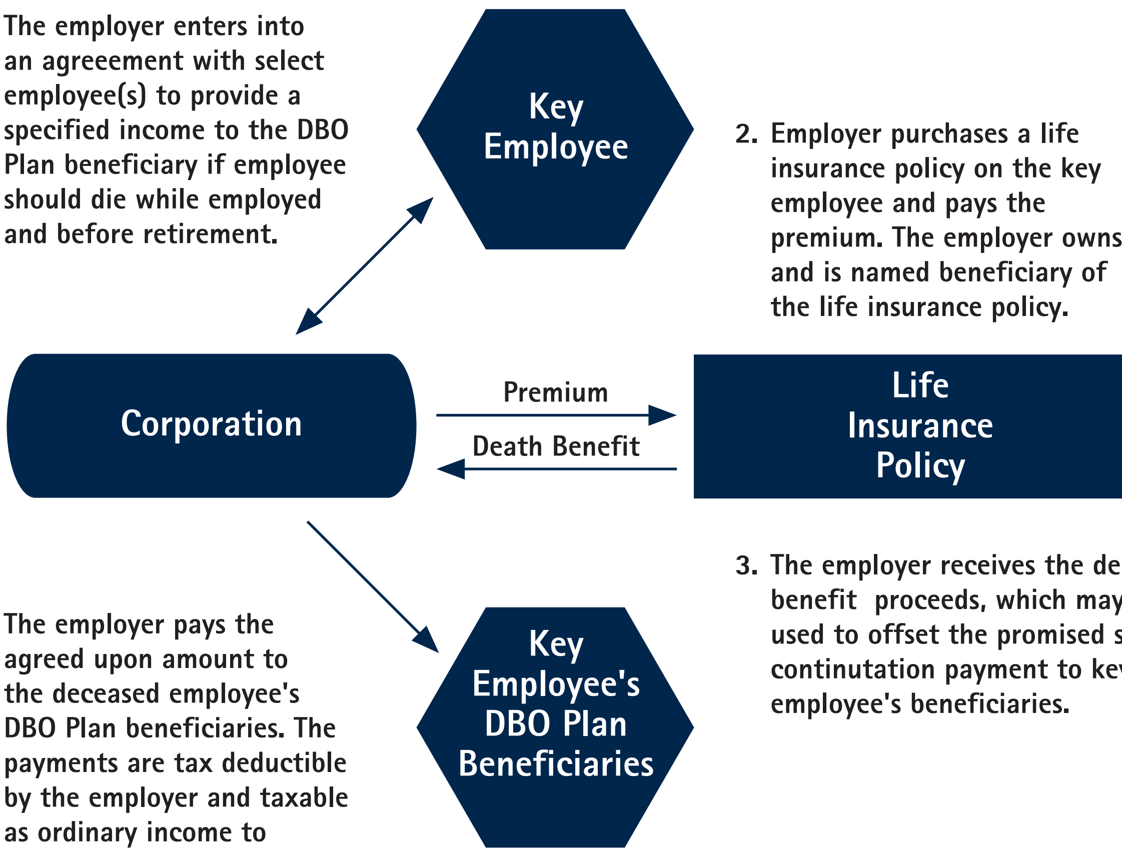
Insured Death-Benefit-Only (DBO) Plan

Summary:

A death-benefit-only (DBO) plan is a binding agreement between an employer and select employee(s). This employer-provided fringe benefit helps to attract, reward and retain key employees. The employer agrees that if the employee should die while employed and before retirement, it will pay a specified amount to the employee's beneficiary. As the name implies, no living benefit is paid.

How It Works:



1. The employer enters into an agreeement with select employee(s) to provide a specified income to the DBO Plan beneficiary if employee should die while employed and before retirement.

2. Employer purchases a life insurance policy on the key employee and pays the premium. The employer owns and is named beneficiary of the life insurance policy.

3. The employer receives the death benefit proceeds, which may be used to offset the promised salary continutation payment to key employee's beneficiaries.

4. The employer pays the agreed upon amount to the deceased employee's DBO Plan beneficiaries. The payments are tax deductible by the employer and taxable as ordinary income to the beneficiaries.

Note: Specific tax and legal questions should be referred to your tax adviser or legal counsel.

Considerations For Employer:

- Employer can select the key employee(s) that will be covered by the insured Death Benefit Only (DBO) Plan.
- Non-controlling shareholder-employees of closely-held corporations may install an insured DBO plan for themselves alone.
- The DBO Plan enhances employee loyalty.
- DBO plans require no IRS approval.

Considerations For Employee:

- The DBO plan is employer-provided at no current cost to the employee.
- DBO proceeds provide an immediate source of funds to key beneficiary.
- Premiums paid by the employer are not reportable as income.
- The plan is not portable.

Tax Considerations:

- Premium payments made by the corporation are not tax-deductible.
- Key employees have no tax liability in a properly structured DBO plan.
- At the death of the key employee, the corporation receives death benefit proceeds income tax-free (generally, but proceeds may be subject to the corporate alternative minimum tax).
- Survivor benefits paid to the DBO plan beneficiary are tax deductible by the corporation.
- Survivor benefits received by the key employee's beneficiary are taxed as ordinary income received in respect of a decedent.
- Where there already exists a non-qualified deferred compensation plan, avoid using a DBO plan. The IRS may link them together which may cause the present value of the DBO benefits to be includible in the deceased employee's estate.
- The American Jobs Creation Act of 2004 created the new Internal Revenue Section 409A, with provisions related to the design and administration of nonqualified deferred compensation arrangements. You should consult your tax and legal advisers regarding the application of this new law to your particular facts and circumstances.

How To Implement:

- A written plan is adopted under a corporate resolution by the board of directors.
- The corporation selects the key employees that will be offered the benefit. (Provided the plan is limited to select group of management and highly compensated employees and is funded informally, it should be exempt from ERISA reporting.)
- The employer and employee enter into an agreement, agreeing to benefit levels.
- The employer purchases life insurance on the key employee's life, owned by the employer and with the employer named as the beneficiary.
- Employer files a one-page ERISA notice with the Department of Labor.

Note: Specific tax and legal questions should be referred to your tax adviser or legal counsel.

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