



If you own your own business, or you own a significant share in a business, you may be looking for ways to protect your investment and ensure that the business continues to operate effectively, should something happen to you or your partner(s). You may also want to offer key employees an incentive to stay.

Split Dollar life insurance arrangements provide cost-effective solutions that have advantages for all parties involved.

#### WHAT IS A SPLIT DOLLAR LIFE INSURANCE SOLUTION?

Split Dollar life insurance solutions mean that two or more parties can share in the costs and the benefits and returns of a single universal life policy.

One of the important benefits of a universal life insurance policy is that the insurance component and the tax-free investment fund are separate and can be used to serve the purposes of more than one party.

#### HOW DOES IT WORK?

To achieve Split Dollar advantages, ownership of a universal life insurance policy is divided so that one party holds the insurance element of the policy, while the other party holds entitlement to the cash value.

Each party pays a portion of the premium, in proportion to the value of the benefit they receive. While the insurance contract is typically owned jointly, beneficiary designations are flexible. This means that on the death of one party, all benefits can be shared according to the participation levels of the owners.

The Split Dollar arrangement is a binding legal agreement between two or more parties, and the parties involved must ensure that proper documentation is developed to support this arrangement.


The parties involved must also structure the agreement carefully in order to eliminate any adverse tax consequences that could arise from an improperly planned agreement. CCRA (Canada Customs and Revenue Agency) suggests that the insurance element should reflect term insurance costs similar to those one would find in the marketplace for a level death benefit term insurance policy.

**To avoid triggering unnecessary taxes, interested parties should consult with their tax or legal advisor before defining the terms of the policy.**

#### WHEN SHOULD YOU CONSIDER A SPLIT DOLLAR LIFE INSURANCE SOLUTION?

There are several situations where such a solution can be valuable. For example:

**Key employees** – With this arrangement, the insurance is on the life of the key employee. The employer pays the insurance charges for the policy face amount and the employee is responsible for the difference between the insurance charges and the total premium (which includes the portion applied to the investment account).



The employee owns the cash value portion. Essentially, this provides a tax-free investment to the employee while the insurance costs are paid by the employer. The employer or the business can be named beneficiary on the face amount component, thereby providing the company with an asset, which can then be used to offset the loss of a key employee.

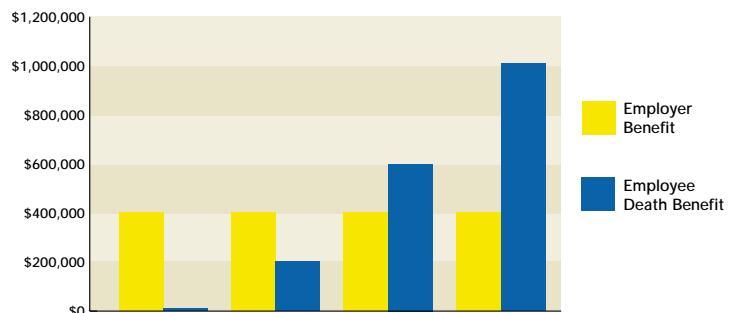
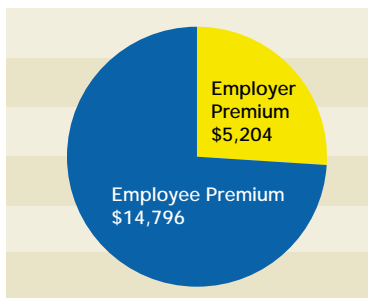
**Buy-sell agreements** – With this arrangement, the Split Dollar approach provides term insurance protection on the death of a key partner to protect and preserve the continuity of the business. In addition, business partners also have an opportunity to invest an amount over and above the face amount of the policy. This investment fund can then be used to enhance retirement savings.

**AN EXAMPLE OF A SPLIT DOLLAR SOLUTION:**

Mr. Green owns a furniture manufacturing company. His employee, a skilled carpenter by the name of Mr. Lawrence (age 45, non-smoker), has proven to be a valuable asset to the business. Mr. Green would like to protect his company's interests, and reward Mr. Lawrence for his commitment.

They consult with an insurance advisor, who helps develop a Split Dollar arrangement that fits both their needs using a universal life policy on Mr. Lawrence's life. The arrangement is then reviewed and approved by a legal advisor, who prepares a detailed contract outlining each party's respective obligations and interests.

The total policy premium is: \$20,000. Mr. Green pays \$5,204 - the equivalent of a premium for a 20 pay Term-100 policy, while Mr. Lawrence pays the difference. The benefits are divided between them in a similar fashion. Mr. Green owns the level face amount protecting his company from expenses associated with the death of a key employee, while the cash value belongs to Mr. Lawrence, providing him with access to a tax-free investment.



Split Dollar solutions offer an innovative way to share the costs and the benefits of a universal life insurance policy. The flexibility and cost advantages these jointly owned policies provide allow them to be tailored to the unique needs of each party involved. Speak to your RBC Insurance® Representative to find out more about how a Split Dollar solution can fit your business' needs.

**RBC INSURANCE**

RBC Insurance is the insurance specialist of RBC Financial Group™.

At RBC Insurance, you benefit from the strength, stability and tradition associated with one of the oldest and largest group of companies in North America. This reputation for strength, trust and dependability is reflected in every insurance policy we offer.

Like many financial products, a universal life insurance policy can be complex. RBC Life Insurance Company recommends that you consult your legal and tax advisors to determine if this product is right for you.

Underwritten by RBC Life Insurance Company.