



*The Lincoln National Life Insurance Company
Customer Service, MIR1
P.O. Box 5048
Hartford, CT 06115-0418*

NAME
ADDR1
ADDR2
ADDR3

(DATE)

Policy Number:

Insured:

Issuing Company:

Financial Representative:

Dear Client,

This letter is intended to provide important information regarding the life insurance policy noted above. We understand the policy is subject to a split-dollar arrangement. Taxation of a split-dollar plan can vary by the date the arrangement was entered into, the terms of the agreement, the insurance issuer, whether the insurance coverage is single-life or joint-life and whether the arrangement was "materially modified" since inception.

For plans entered into before September 18, 2003, the IRS guidance found in Notice 2002-8 indicates that as long as the parties continue to treat and report the value of the life insurance protection as an economic benefit, the Service will not currently tax growth in policy cash value even if it exceeds the portion payable (for example) to the employer (so-called "equity" plans). So, for these plans, the economic benefit calculation depends, in part, simply on selecting the correct "rate". The chart on the next page details possible rates based on when the plan was established and if the plan was "materially modified".

For plans entered into on or after September 18, 2003, based on the IRS guidance found in final regulations, there are two mutually exclusive approaches to the tax treatment of such plans. One is called the "economic benefit regime" and the second is the "loan regime." **The information enclosed assumes you have determined that your arrangement meets the criteria of the "economic benefit regime."** A split-dollar arrangement falling under the "loan regime" is subject to different taxation and will not be discussed in this letter or accompanying material.

The Lincoln National Life Insurance Company (Lincoln) is not privy to all of the information necessary to determine a final economic benefit. However, we have included in this letter the information available to us that you may need in order to help calculate the economic benefit for your split-dollar arrangement, along with a worksheet. The information and calculations contained in this letter are provided for your convenience and are based on general split-dollar principles that may not apply to your specific case. We strive to provide accurate and authoritative information regarding the subject matter, however, Lincoln is not in a position to render legal, accounting, or other professional advice with respect to split-dollar arrangements. If legal or tax advice is required or questions arise, you should contact your legal counsel or professional tax advisor.

At Lincoln, we are committed to providing you with quality customer service. If you have any questions or comments, please contact Customer Service at [1-800-nnn-nnnn](tel:1-800-nnn-nnnn).

Sincerely yours,

www.lfg.com

Lincoln Financial Group is the marketing name for Lincoln National Corporation and its affiliates. Affiliates are separately responsible for their own financial and contractual obligations.

LLA0710-0349

IRS Circular 230 Disclosure: This material was prepared to support the promotion and marketing of a life insurance product. Neither The Lincoln National Life Insurance Company, its distributors nor their respective employees and representatives provide tax, accounting or legal advice. Any tax statements contained herein were not intended or written to be used, and cannot be used for the purpose of avoiding U.S. federal, state or local tax penalties. Clients should consult their own independent advisor as to any tax, accounting or legal statements made herein.

Selection Criteria for Reportable Economic Benefits

Scenario 1:	
ARRANGEMENT DATE <u>BEFORE</u> 1/28/02 AND <u>NOT</u> “MATERIALLY MODIFIED” *	
Single-Life plans:	<ul style="list-style-type: none"> • Issuing Company term rates, OR • Government Table 2001, OR • PS.58, if specified by the split-dollar arrangement. As this is extremely rare, rates are not included in the accompanying material Please go to LFG.com in the Financial Products/Life Insurance/Economic Benefit Information section for the applicable rate.
Joint-Life plans:	<ul style="list-style-type: none"> • Lincoln Joint Survivor Term Rates**, OR • Blended Rate per Notice 2001-10 (Revised Table 38)

Scenario 2:	
ARRANGEMENT DATE <u>ON OR AFTER</u> 1/28/02 OR “MATERIALLY MODIFIED” *	
Single-Life plans:	<ul style="list-style-type: none"> • Government Table 2001
Joint-Life plans:	<ul style="list-style-type: none"> • Blended Rate per Notice 2001-10 (Revised Table 38)

* The term “materially modified” has not been defined by the IRS. Examples of changes that do not materially modify the plan include: change of premium mode, change in the beneficiary, change in loan interest rate, changes required to maintain the contract as life insurance under section 7702, or change of address. Lincoln is unable to make such a determination for any policy subject to a split-dollar arrangement.

** Only policies issued by The Lincoln National Life Insurance Company will be able to use these rates. Policies from other issuing companies for which Lincoln has administrative authority (e.g. Connecticut General, Aetna, ING, etc.) and policies issued by the Lincoln Life & Annuity Company of New York must use Blended Rate per Notice 2001-10 (Revised Table 38).

**ECONOMIC BENEFIT WORKSHEET
FOR JOINT-LIFE SPLIT-DOLLAR PLANS**

This worksheet is provided for client use. The information that is available to *The Lincoln National Life Insurance Company* has been pre-filled. All other information needed on the form must be completed by the employer. All values provided are as of 12/31/XX:

Policy Issue Date _____
 Gross Cash Value _____
 Cumulative Premiums Paid _____

- LINE 1:** First Insured Attained Age at the end of the Calendar Year. _____
- LINE 2:** Second Insured Attained Age at the end of the Calendar Year _____
- LINE 3:** Total Death Benefit of the policy (including term insurance) as of 12/31 _____
- LINE 4:** Total Indebtedness, if any _____
- LINE 5:** Net Death Benefit (Line 3 minus Line 4) _____
- LINE 6:** Employer Interest *(This is the amount of the death benefit that the employer would get back in the event the insured died. This might be cumulative premiums paid or some other formula defined by the terms of the agreement.)* _____
- LINE 7:** Insurance coverage payable to beneficiary (Line 5 minus Line 6) _____
- LINE 8:** Determine number of per thousands (Line 7 divided by 1000) _____

Choose ONE of the applicable per \$1000 cost for the specific plan from Line 9

OR Line 10: *(The Lincoln National Life Insurance Company can give no assurances that any of these rates will be accepted by the IRS for any specific plan. Please consult your tax advisor.)*

- LINE 9:**
 - a. Revised Table 38 Cost per Thousand _____
 - b. Total Revised Table 38 Cost (Line 8 multiplied by Line 9a) _____
- LINE 10:**
 - a. Lincoln Joint Survivor Term Cost per Thousand _____ **
 - b. Total Lincoln Joint Survivor Term Cost (Line 8 multiplied by Line 10a) _____

Calculate Economic Benefit

- LINE 11:** Total "Economic Benefit" (From Line 9b. or 10b., as applicable to the specific plan) _____
- LINE 12:** Amount paid by Insured during the Calendar Year, if any (i.e. employee contribution) _____
- LINE 13:** Net Taxable "Economic Benefit" (Line 11 minus Line 12) _____
*This amount should be reported on form 1099**

*** Please review page 4 of this document for other information that may impact the reportable economic benefits not covered by this worksheet.**

**** If professional tax advisor deems company rates to be applicable, rates can be found on LFG.com. Please go to LFG.com in the Financial Products/Life Insurance/Economic Benefit Information section for the applicable rate.**

TAXATION OF CASH VALUES ON “EQUITY” SPLIT-DOLLAR PLANS

The final split-dollar regulations added rules that tax other features in certain split-dollar plans (e.g. an “equity” plan where an employer limits its recovery to premiums advanced). **These rules are ONLY applicable to plans with an arrangement date AFTER 9/18/03 OR that have been “materially modified”.**

If a plan meets the criteria, it may be subject to additional taxation as follows:

- **Traditional economic benefit taxation AND**
- **Taxation on the amount of cash value the non-owner has current access to (to the extent that amounts were not taken into account in previous years) AND**
- **Taxation based on the value of “other benefits” provided to the non-owner.**