Lincoln Financial Group®

The Lincoln National Life Insurance Company
Lincoln Life & Annuity Company of New York
100 North Greene Street
PO Box 21008
Greensboro, NC 27420

October 7, 2015

<Name>
<Address>
<Address>
<Address>
<Address>

Policy Number:
Insured:

Issuing Company:

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 and Lincoln Life & Annuity Company of New York (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. More information about economic benefit reporting can also be found at www.LincolnFinancial.com under "Contact & Support for Life insurance".

At Lincoln, we are committed to providing you with quality customer service. If you have any questions or comments, please contact Customer Service at 1-800-487-1485.

Sincerely,
Life Client Solutions

Selection Criteria for Reportable Economic Benefits

Scenario 1: **ARRANGEMENT DATE BEFORE 1/28/02 AND NOT "MATERIALLY MODIFIED" ***	
Single-Life plans:	• Issuing Company term rates, **OR** • Government Table 2001
Joint-Life plans:	• Blended Rate per Notice 2001-10 (Revised Table 38)

Scenario 2: **ARRANGEMENT DATE ON OR AFTER 1/28/02 OR "MATERIALLY MODIFIED" ***	
Single-Life plans:	• Issuing Company term rates, **OR** • Government Table 2001
Joint-Life plans:	• 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.

ECONOMIC BENEFIT WORKSHEET
FOR JOINT-LIFE SPLIT-DOLLAR PLANS

This worksheet is provided for client use. The information that is available to Lincoln 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)	________
LINE 9:	**a.**	Revised Table 38 Cost per Thousand	________
	b.	Total Revised Table 38 Cost (Line 8 multiplied by Line 9a)	________
		Calculate Economic Benefit	
LINE 10:		Total "Economic Benefit" (From Line 9b)	________
LINE 11:		Amount paid by Insured during the Calendar Year, if any (i.e. employee contribution)	________
LINE 12:		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.***

TAXATION OF CASH VALUES ON "EQUITY" SPLIT-DOLLAR PLANS

The final split-dollar regulations added rules that tax other features in <u>certain</u> 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".**

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

- **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.**

*** 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.**