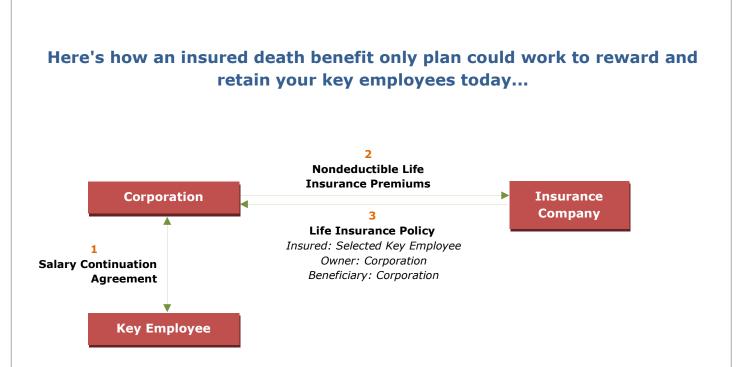
## Insured Death Benefit Only Plan in Action

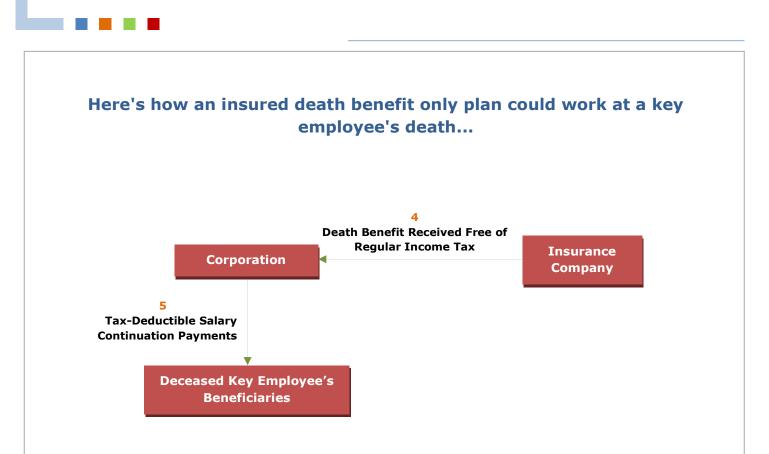


- 1. The corporation enters into a salary continuation agreement with each selected key employee. The agreement specifies the conditions that must be met for salary continuation payments to begin, as well as the amount, frequency and duration of those payments.
- 2. After satisfying the notice and consent requirements for employer-owned life insurance contracts, the corporation purchases sufficient insurance on the key employee's life to fund the after-tax cost of promised benefits and, if desired, to recover premium costs.
- **3.** The life insurance policy is owned by the corporation, which pays the premiums and is named beneficiary.

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## Insured Death Benefit Only Plan in Action



- 4. While the premium payments for life insurance to fund a death benefit only plan are not tax deductible, the death benefit is received by the corporation free of regular income tax (assuming the requirements for employer-owned life insurance are met), but may have corporate alternative minimum tax implications.
- **5.** The corporation uses the death benefit to make the promised salary continuation payments to the key employee's beneficiaries. The payments are tax deductible by the corporation and are taxable as ordinary income to the beneficiaries.

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