The role of COIL Institutional Series℠ in executive benefit planning

COIL Institutional Series℠ is a product specially designed to help companies provide for nonqualified deferred compensation plans, SERPs and a variety of other nonqualified benefits plans.

Nonqualified plans are attractive to employers because, as long as they follow a few simple rules, they are not subject to the non-discrimination, reporting, vesting or funding requirements of ERISA.

COIL Institutional Series℠ features

In addition to competitive underwriting and a dedicated service unit, COIL Institutional Series℠ offers:

- More than 80 variable investment options and Equitable Financial's Market Stabilizer Option® (MSO). The diverse fund lineup includes a variety of variable investment options from both proprietary and non-proprietary trusts managed by some of the industry's most recognized money management firms. Investment services include:
  - Automatic Transfer Service (Dollar-cost averaging)[1]
  - Asset Rebalancing Service[1]

Highly compensated executives who depend on qualified plans alone will not retire with the same level of benefits (as a percentage of final pay) as the lower-paid executives.

Nonqualified plans are the tools a business needs to supplement its qualified plans for key executives.

COIL Institutional Series℠ is designed to be a highly effective way for most employers to informally fund benefit obligations to their key executives.

COIL Institutional Series℠ features (continued)

The MSO is an innovative investment option available for an additional cost that provides a rate of return tied to the performance of the S&P 500® Price Return Index (which does not include dividends). The MSO allows you to participate in the upside performance potential of the S&P 500® Price Return Index up to a growth cap rate that is set each month by Equitable. It also offers downside protection of -25%, which is designed to reduce or eliminate your losses in the event of a decline in the performance of the S&P 500® Price Return Index.

Please note, however, there is a risk of substantial loss of principal because you agree to absorb all the losses from the portion of any negative index performance that exceeds -25%. Please see the MSO prospectus and brochure for more complete information.

- No surrender fee.
- Enhanced cash values in years 1–14, available upon full surrender of the policy. See your prospectus for more details.
- Policy administrative support.

Nonqualified plans complete the compensation package

The following are examples of how nonqualified plans fill the gaps in your current compensation package in order to reward and retain your key executives.

Scenario	Strategy
An executive is deferring the maximum amount into their 401(k), which amounts to less than 5% of their annual compensation. They want to defer at least 10%.	Nonqualified deferred compensation (NQDC) allows deferrals of up to 100% of an executive's salary.
Your highly compensated executives' 401(k) deferrals are being limited to even less than the current maximum due to 401(k) and 401(m) testing.	An NQDC, sometimes called a Supplemental Executive Retirement Plan (SERP) or 401(k) "look-alike" plan, allows an executive to defer an amount in excess of all qualified plan limitations. An executive elects to defer, for example, 10% of salary. First, the maximum allowed is put into the 401(k) plan and next, the "excess" is put into the nonqualified plan.
An executive is starting to think about retirement and is worried they haven't set aside enough money.	An NQDC allows the executive to defer up to 100% of salary. The executive can get a quick boost in their retirement savings.
You want to reward your key executives in a way that won't add to their already considerable current income tax burden.	A SERP allows you to promise your key executives future benefits without them having to pay income taxes today.
You want to tailor rewards to the class of executives.	An NQDC plan allows you to match, for example, 100% of the deferrals of one level of executives and match 50% of the next level. Because it's a nonqualified plan, you make that decision.
You are trying to recruit a key executive. By leaving one employer and coming to work for you, that executive may be giving up substantial benefits.	A SERP can make up the difference in forfeited benefits.
The success of your company is dependent on your key executives. You need a way to retain those executives.	A SERP that promises substantial benefits at retirement may be the golden handcuffs needed to keep your key executives where they are.

You may offer a nonqualified plan to an individual or to a class of executives. You may offer one level of benefit to one group of executives and another benefit to a different level of executives. The plan participants must be either a select group of management or highly compensated executives in order to avoid many of the regulation and reporting aspects of Title 1 of ERISA. Plans must be designed to carefully comply with the provisions of Section 409A of the Internal Revenue Code.

To understand the value of a high early cash value product, you must understand the accounting impact of a nonqualified benefit plan.

COIL Institutional Series℠ as the funding vehicle of choice

Nonqualified benefit plans must be “informally funded” (also called unfunded) in order to avoid ERISA regulations and reporting requirements. A plan is considered funded, for ERISA purposes, if the assets are set aside in a trust, or other vehicle, in such a way as to be irrevocably available to meet the future obligations to the plan participants. Assets may be set aside (or invested) in order to pay future benefits, and the plan will not be considered funded as long as the assets are subject to the claims of corporate creditors.

Nonqualified plans do not have to be funded at all. An employer may simply pay benefits as they become due. However, most companies choose to set aside current assets in order to meet future benefit obligations. In fact, 83% of Fortune 1000 firms offer their executives a nonqualified deferral plan and 51% offer a SERP. Seventy-five percent of those companies with plans informally fund their NQDC plans, and 61% of those use corporate-owned life insurance.[2]

When people think of life insurance, they think of the death benefit it provides. While the death benefit will always be an attractive and valuable benefit, the emphasis in the COIL Institutional Series℠ product is on policy cash values. Specifically, COIL Institutional Series℠ is designed to offer more significant cash values in the early policy years.

Accounting for the deferred compensation plan

Once an employer enters into a deferred compensation agreement with an executive, the future obligation must be reflected in its financial statements. The annual accrual amount depends on whether the plan is a defined contribution plan (i.e., the dollar amount of the benefit is defined by the deferred compensation agreement) or a defined benefit plan (i.e., the future benefit is based on the value of some account at retirement). In either case, the annual accrual is an expense and is not deductible for income tax purposes. (The retirement benefit is deductible by the employer for income tax purposes and taxable to the executive when it is actually paid.) The net effect is that the establishment of the plan will reduce the employer's reported pretax earnings.

A cash value life insurance policy purchased to informally fund the benefit plan will offset the negative impact of the benefit accounting. COIL Institutional Series℠ is specially designed to provide substantial cash value in the early years to minimize charge to earnings.

Cost recovery

The death proceeds of COIL Institutional Series℠ may be sufficient for the employer to recover some or all of the costs of paying the executive's deferred compensation benefits.

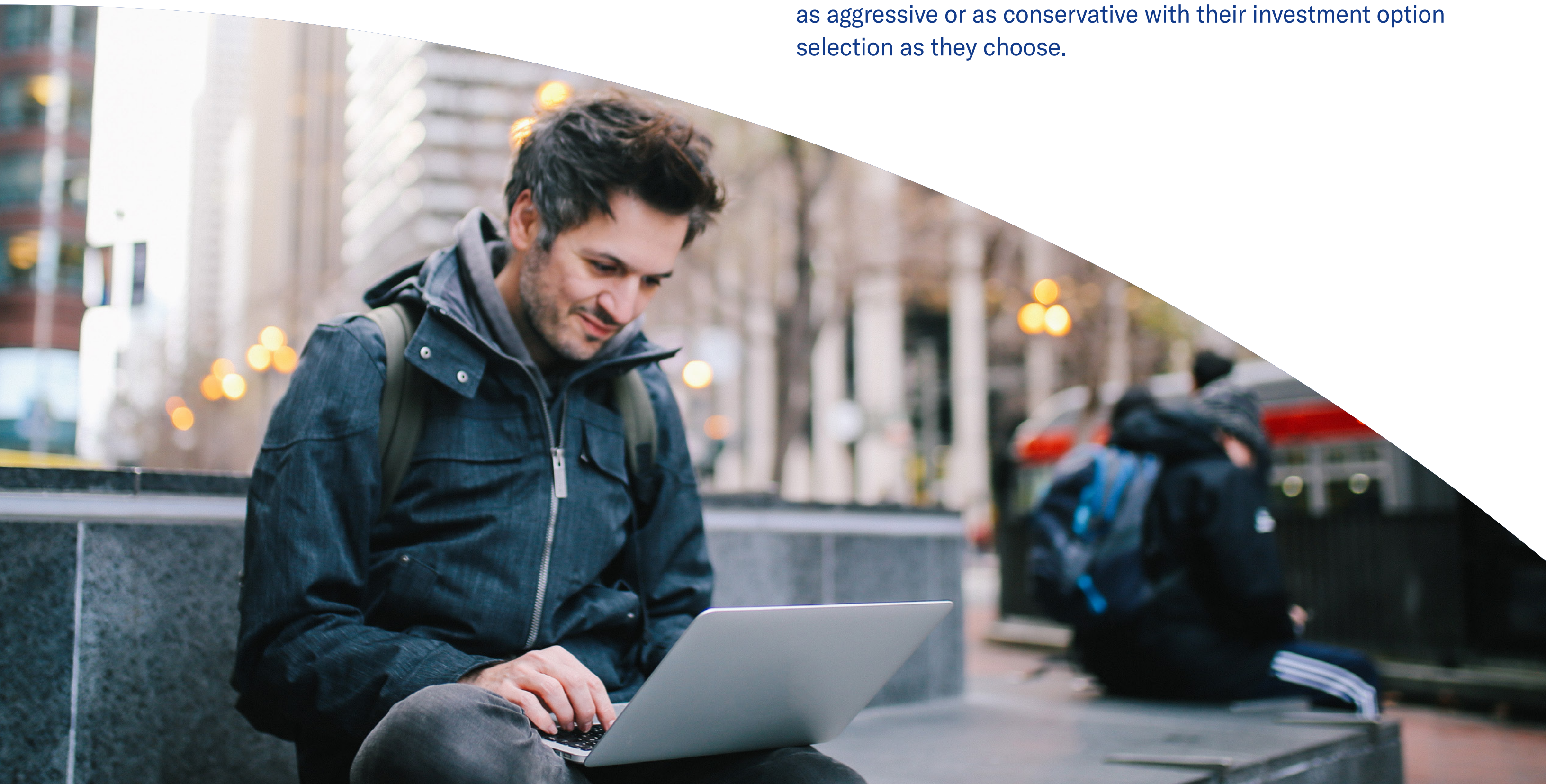
Those costs include:

1. The after-tax cost of paying benefits.
2. The after-tax cost of paying premiums.
3. The cost of the use of money spent on premiums. Other funding vehicles do not provide cost recovery.

How COIL Institutional Series℠ works to informally fund a nonqualified plan

The employer purchases life insurance policies on the lives of the policy participants. The employer pays the policy premiums and is the policyowner and beneficiary. Because the employer is owner and beneficiary of the policy, these premium payments are not deductible for income tax purposes. The growth of policy cash values is generally income tax-deferred.[3] An employer will pay income tax on any gain in the policy only if the policy is surrendered or if the policy lapses.

If the plan is a defined benefit plan, the employer may buy a policy with projected cash values sufficient to pay some or all of the future benefits. If the plan is a defined contribution plan, the COIL Institutional Series℠ policy merely acts as a measuring rod for the future benefit due the executive. The deferred compensation agreement will not say that this particular policy "belongs" to this particular executive. However, it will tie the future benefit to the value of the policy at the time of retirement. If the employer chooses to allow it, the executive may direct the investments over the life of the plan. In that case, the individual executive may be as aggressive or as conservative with their investment option selection as they choose.



Alternatives to COIL Institutional Series℠

Employers often use mutual funds, bonds or bond funds, employer stock or managed portfolios for their nonqualified benefit plans.

Considerations

Mutual funds	The disadvantage of investing in mutual funds is that dividends and realized capital gains are subject to tax on an annual basis. An employer may then be in the position of having to pay taxes on a fund that has lost value over the year.
Zero tax bracket	Mutual funds, stocks and/or bonds may be the investments of choice for an employer with no taxable income (and therefore in a zero tax bracket). The employer may plan on shifting plan assets to COIL as it begins to pay taxes.
NQDC or SERP plans	Employers who choose to use mutual funds or stock to informally fund their NQDC or SERP plans and want to be able to provide substantial preretirement benefits may decide to buy term insurance on the life of each plan participant.
Annuities	An annuity held by a corporation loses the favorable tax treatment available to individual annuity owners. The income on the annuity contract is treated as ordinary income as it is received or accrued. Therefore, an annuity is not recommended as a funding vehicle for nonqualified benefit plans. Annuities may be appropriate for nonprofit organizations.

Employers have a need for plans that allow them to reward, retain and recruit key executives.

Nonqualified plans give employers the flexibility and control they need to create the plan. COIL Institutional Series℠ is a product specifically designed to fund those plans.

Plan administration

A deferred compensation plan or SERP requires ongoing plan administration, which includes:

1. Providing executives with benefit statements, perhaps quarterly or annually.
2. Reporting the benefit plan on the employer's financial statements.
3. Tracking and managing periodic changes in deferrals.
4. If the policy is a variable life insurance contract, tracking of an executive's investment choices in order to define the value of the executive's account.
5. Handling adjustments to the plan due to events such as termination, early retirement, disability and death.

Most employers hire a third-party administrator (TPA). Equitable has the administrative systems in place to provide detailed reporting to the TPA and employer's accountants.

For more information, contact your financial professional or visit equitable.com.

1 The Automatic Transfer Service (dollar-cost averaging) and Asset Rebalancing Service do not ensure a profit or prevent a loss in a declining market. Dollar-cost averaging involves continuous investment in securities regardless of fluctuating price levels of such securities. Investors should consider their financial ability to continue purchases through periods of low price levels. The Asset Rebalancing Service is not available with the Market Stabilizer Option®.

2 The Newport Group's 2011/2012 Executive Benefits: A Survey of Current Trends.

3 Corporate alternative minimum taxes, where applicable, are based on book earnings factor, deferred cash values and death benefits.

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This material is not a complete description of all material provisions of COIL Institutional Series℠ or of the Market Stabilizer Option®. The COIL Institutional Series℠ fact card and the MSO brochure must accompany this material. In addition, this material must be preceded or accompanied by the COIL Institutional Series℠ prospectus, prospectus supplement and the Market Stabilizer Option® prospectus. The prospectuses contain more complete information about the policy, including investment objectives, risks, charges, limitations and restrictions. Please read the prospectuses and consider the information carefully before purchasing a policy.

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All employer- or business-owned policies need to satisfy federal tax notice and consent requirements before issuance for certain federal tax benefits. See the tax section of the prospectus for additional information, including specific rules that may apply to corporate- or employer-owned policies.

COIL Institutional Series℠, a flexible premium variable life insurance policy, is issued by Equitable Financial Life Insurance Company (Equitable Financial) and co-distributed by Equitable Advisors, LLC and Equitable Distributors, LLC, all located in NY, NY. Equitable Financial, Equitable Advisors and Equitable Distributors are affiliated companies and do not provide tax or legal advice.

Certain types of policies, features and benefits may not be available in all jurisdictions or may be different. Life insurance policies have exclusions, limitations and terms for keeping them inforce. Fees and charges associated with variable universal life insurance include mortality and expense risk charges, costs of insurance charges, surrender charges, administrative fees, investment management fees and charges for optional benefits, including those associated with the Market Stabilizer Option®. Contact a financial professional for costs and more complete information.

All contractual guarantees are based on the claims-paying ability of Equitable Financial and do not apply to the variable investment options. COIL Institutional Series℠ is a registered service mark, and Market Stabilizer Option® is registered mark of Equitable Financial.

Policy form # 08-300 or state variation rider form # ICC-09-R09-30; R09-30.

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