



EQUITABLE

# BATL Plan<sup>®</sup> Q&A

Advanced Markets

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## What is the BATL Plan<sup>®</sup>?

The BATL Plan<sup>®</sup> (bonus and tax loan) is a hybrid plan of a traditional executive bonus and a split-dollar loan arrangement to provide a death benefit and supplemental retirement income from a permanent cash value life insurance policy. The employer pays a bonus to the employee as they would with an executive bonus. However, unlike an executive bonus, the tax liability on the bonus would not be an out-of-pocket expense for the employee. The employer would make interest-bearing loans to the employee to cover any income tax owed on the bonus amount.

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## How is the BATL Plan<sup>®</sup> different from a traditional executive bonus?

Unlike a traditional executive bonus, the income tax owed on the bonus amount is not an out-of-pocket expense for the employee. Instead, the employer loans the employee the amount needed to cover the tax liability. The employee then owes interest to the employer on the loaned amount. The interest can be paid annually or accrued. The employee takes supplemental retirement income from the life insurance policy,<sup>1</sup> using a portion of the income stream to repay the loan to the employer.

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## Who is the ideal client for BATL Plan<sup>®</sup>?

The ideal client for the BATL Plan<sup>®</sup> is a non-public company with highly compensated executives or key employees with 10 or more years before retirement and a need for life insurance. These individuals, ideally, are already deferring the maximum allowed in their other retirement accounts, such as their 401(k) and Roth IRA, and also have a need to supplement their retirement income.

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## Why only non-public companies?

Loans by publicly traded companies to their executives are prohibited by the Sarbanes-Oxley Act. As a result, the BATL Plan<sup>®</sup> would be feasible only with non-public companies. An alternative that publicly traded companies could use would be for the employees to finance their tax liabilities with a third-party commercial finance lender. The employer could have no obligation regarding the loan under such an arrangement.

<sup>1</sup> Policy loans and withdrawals will reduce the face amount of the policy and increase the chance it may lapse.

## **5 How do I implement the BATL Plan®?**

The BATL Plan® is just like any other executive bonus plan. There are no special forms required by Equitable for the implementation of this plan. However, we do offer a specimen document that may be used between the employer and the employee for the purposes of spelling out the repayment of the loan.

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## **6 Is the BATL Plan® subject to §101(j) rules?**

No. The BATL Plan® is not subject to §101(j) rules. The BATL Plan® is not an employer-owned plan, but rather is wholly owned by the employee. The employee can exercise all rights of ownership with this plan, including the designation of a beneficiary. Because the employee is the designated policyowner, the notice and consent requirements of §101(j) would not be applicable.

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## **7 Is there a collateral assignment on the life insurance policy?**

No. There is no collateral assignment of either the death benefit or the policy cash values. The policy is owned by the employee and the employee may exercise all rights of ownership at any time.

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## **8 Is there cost recovery for the employer should the employee leave their job and the company?**

The employer recovers the cost of the loans made to the employee, but not the bonuses paid to the employee. However, the employer receives loan interest in addition to the loan principal, partially offsetting the after-tax cost of the bonuses.

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## **9 Is the loan interest paid by the employee deductible for the employee?**

No. The interest paid by the employee to the employer is personal loan interest and, as such, does not qualify for any income tax deductions.

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## **10 Is the loan interest received by the employer taxable?**

Yes. Loan interest received by the employer is taxed as ordinary income. When the employer pays taxes on the interest may depend on their accounting method. Generally, interest is taxed as it is paid. However, if the business performs its accounting on an accrual basis (as opposed to reporting on a cash basis), interest is taxable even if it is accrued instead of being paid in cash each year.

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## **11 Which type of life insurance product works best with this type of plan?**

As with any plan where supplemental retirement income may be of benefit in the later years, a cash value life insurance policy works the best. We offer indexed universal life and variable universal life insurance products that all work well with the BATL Plan®.

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## **12 Where can I get more information on the BATL Plan®?**

More information on the BATL Plan® is available in the Advanced Markets' Executive Benefits section of equitable.com or by calling the Life Insurance Sales Desk.

## For more information, call Advanced Markets at (860) 409-1290.

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