



Accounting for Executive Compensation and BOLI The ABC's

FMS East Coast Regional Conference

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MMB Milne Leone, LLC

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**John H. Milne,
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John H. Milne received his B.A. degree from Virginia Tech in 1970 and his law degree from the University of Richmond in 1973. He received his Master of Laws in Taxation in 1979 from Georgetown University.

MMB Milne Leone, LLC designs, services, administers and funds executive benefit and BOLI/COLI plans for clients located throughout the United States ranging in size from \$50 million to over \$300 billion in assets. MMB services over \$1.7 billion of cash value. Previously, John was a practicing tax attorney and served as the head of the tax section at a major Richmond based national law firm.

John is a member of the Virginia and Tennessee Bar Associations. He is a former member of the Closely-Held Business (Vice-Chairman) and the Employee Benefits Committees of the Tax Section of the American Bar Association and the Corporate Counsel Section of the Business Law Section of the American Bar Association. He has served as Chairman of both the Tax Section of the Virginia State Bar and the Virginia Bar Association.

**Amanda K. Robinson,
CPA**

Amanda is a Senior Analyst at MMB Milne Leone, LLC. She is responsible for providing client services, plan design and accounting/financing support for nonqualified plans for banks and other financial institutions.

Prior to working for MMB, Amanda began work for Ajilon, a temporary staffing service where she worked for Strategic Employee Benefit Services. Soon after, in August of 2006, she joined the team at MMB Milne Leone and works in client service and administration.

Amanda received a Bachelor of Science in Mathematics from Randolph-Macon College in 2006 where she was a member of the Beta Beta Beta National Biological Honor Society. She also received a Post-Baccalaureate Certificate in Accounting from Virginia Commonwealth University in 2009. In January 2012, she became a Certified Public Accountant.

Amanda is a member of the Virginia Society of Certified Public Accountants, the American Institute of Certified Public Accountants and the Financial Managers Society.

Selected Speaking Engagements

Federal Regulators

- **FFIEC, Capital Markets Conference**, Arlington, VA
- **The OCC**, Washington, DC
- **Insurance Institute for the Federal Reserve**, Boston, MA
- **Regional Office FDIC**, Roanoke, VA

State Regulators

- **Arkansas State Bank Department Examiners Conference**, Little Rock, AR
- **California Department of Financial Institutions**, Sacramento, CA
- **Conference of State Bank Supervisors Bank Directors Seminar**, Coeur d'Alene, ID
- **Conference of State Bank Supervisors Annual Meeting and Conference**, San Antonio, TX
- **Illinois Department of Financial and Professional Regulation**, Springfield, IL
- **Indiana Department of Financial Institutions Staff Conference**, Bloomington, IN
- **Maryland Chapter-Society of Financial Examiners (SOFE)**, Towson, MD
- **Massachusetts Division of Banking**, Boston, MA
- **Mid West Bank Regulators Conference**, Springfield, IL
- **Missouri Division of Finance**, Jefferson City, MO
- **Montana Division of Banking and Financial Institutions**, Helena, MT
- **Nebraska Department of Banking and Finance Examiners Conference**, Lincoln, NE
- **North Carolina Office of the Commissioner of Banks**, Raleigh, NC
- **North Dakota/South Dakota Joint Examiners Conference**, Fargo, ND
- **Office of State Bank Commissioner of Kansas**, Topeka, KS
- **Virginia Bureau of Financial Institutions**, Richmond, VA

Professional Associations

- **Tax Section, American Bar Association** in Washington, DC
- **Tax Section, American Bar Association** in Boston, MA
- **Tax Section, American Bar Association** in Orlando, FL
- **The Finance & Accounting Forum-Financial Managers Society**, Phoenix, AZ
- **Financial Managers Society, National Webinar**
- **BDOSeidman, LLP - Financial Institutions Industry Webex**
- **Bank Financial Managers Forum** in Bonita Springs, FL

State Banking Associations

- **Massachusetts Bankers Association**, The New England Conference, Rockport, ME
- **North Carolina Bankers Association**, Pinehurst, NC
- **VA Bankers Association**, Glen Allen, VA
- **West Virginia Bankers Association**, Charleston, WV

Disclaimers

- All Examples are Hypothetical and Not Indicative of a Specific Investment or Asset Purchase.
- The Policies Referenced Contain Both Guaranteed and Non-guaranteed Life Insurance Values. Non-guaranteed Life Insurance Values Can Change. Actual Results May Be More or Less Favorable.
- The Information Presented is Not a Legal, Tax or Accounting Opinion. It is for Discussion Purposes Only. Individuals Should Seek Advice Based Upon their Own Individual Circumstances.
- The Content is Based Upon Current Tax Laws and Accounting Principles.

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I. WHY DO FINANCIAL INSTITUTIONS PURCHASE BOLI?



- Increases Earnings Through Funding of Existing Benefit Costs
- Offsets New Benefit Costs
- Tax-free Death Proceeds Which Are Greater Than Booked Cash Value.*

*The Alternative Minimum Tax (AMT) could apply for certain C-corporations.

Sample Bank, Your Town, USA

2014 Pro Forma Impact of Hypothetical BOLI Purchase on January 1, 2014

		<i>Without BOLI Purchase</i>	<i>With BOLI Purchase</i>
1	Hypothetical purchase of BOLI on January 1, 2014		\$4,000,000
2	Assumed tax-free BOLI rate		2.93%
3	Assumed pre-tax opportunity cost		1.00%
4	Assumed marginal income tax rate		35.0%
5	Assumed after-tax opportunity cost		0.65%
6	Assumed tax-free BOLI rate, net of after-tax opportunity cost <i>(Line 2 less Line 5)</i>		2.28%
7	Net earnings for year from hypothetical purchase of BOLI <i>(Line 1 X Line 6)</i>		\$91,312
8	Less first year after-tax cost of benefits		\$18,108
9	Net earnings for year from hypothetical purchase of BOLI after cost of benefits		\$73,204
10	Net income for the year	\$1,400,000	\$1,473,204
11	Return on average assets for the year	0.58%	0.61%
12	Return on average common equity for the year	3.73%	3.93%
13	Total risk-based capital ratio at end of the year	14.80%	14.64%
14	Tax free Internal Rate of Return at death (assume death at age 85)		3.63%
15	Internal Rate of Return at death, pre-tax adjusted (assume death at age 85)		5.59%

II. THE REGULATORY ENVIRONMENT



- OCC Bulletin 2004-56, FDIC FIL-127-2004, Federal Reserve SR 04-19, December 7, 2004
- Requires Comprehensive Risk Management Process
- Document The Pre Purchase Review
- Investment And Concentration Limits
- Product And Vendor Due Diligence
- Any Supplemental Compensation must be Reasonable
- Basel III and Dodd Frank
- Ongoing Compliance And Administration Requirements

III. APPLICATION OF BASEL III & DODD-FRANK TO BOLI

- The application of Basel III & Dodd-Frank to BOLI is not entirely clear in all respects.

- General Account BOLI:

- Under Basel III it is considered a “Corporate Exposure” and will continue to be 100% Risk Weighted.
- Because general account BOLI is not a “security” as defined by the Act:
 - In our opinion, banks should be able to rely solely on external credit ratings under Dodd-Frank for due diligence purposes;
 - But additional carrier financial analysis may be warranted as bank regulators and clients may not appreciate this finer distinction.

- Separate Account BOLI:

- Considered an “Equity Exposure” to an investment fund.
- Must look-through to specific investments in separate account for risk-weighting using one of three methodologies.
- May not exclusively rely on external credit ratings for determination of whether investment is “investment grade.”
- For the typical community bank, purchasing or continuing to hold separate account BOLI will be a real problem.

III. APPLICATION OF BASEL III & DODD-FRANK TO BOLI

- **Hybrid Account:** Hybrid account BOLI will be treated same as separate account if the investment subaccount is legally recognized under state law and is insulated from the general liabilities of the insurance company. In addition, under Basel III, to qualify as separate account, and, therefore, be entitled to the look-through treatment, the investment performance, net of fees and assessments, must be passed directly through to the policy owner. If so, then:
 - Treated same as separate account for risk weighting and investment grade purposes.
 - Regulators are concerned about administrative burden on average community bank to manage hybrid account BOLI.
 - Regulators may permit community banks to use 100% risk-weighting without regard to Basel III and Dodd-Frank.
 - Theory is hybrid account should be considered same as general account because the carrier assumes the market value risk.
 - For this reason we recommend banks consider using a 100% risk weight regardless of whether a subaccount would have otherwise had a lower risk weighting prior to Basel III.
 - All of the above was to be implemented on March 31, 2015 Call Report.

IV: ACCOUNTING FOR BOLI

- **Accounting for BOLI Governed by FASB Technical Bulletin 85-4 and EITF Issue No. 06-5**
- **Premiums Paid are a Non-Tax-Deductible Expense (Dr. Other Assets, Cr. Cash)**
- **Cash Surrender Value Should be Reported as an Asset**
 - **Change in Cash Surrender Value is an Adjustment of Premiums Paid in Determining the Income to be Recognized for the Period (Dr. Other Assets, Cr. Other Non-Interest Income)**
- **Death Benefits not Reported Until Death has Occurred**
 - **Dr. Cash for Total Amount of Proceeds, Cr. Cash Surrender Value at Date of Death, Cr. Interest Income Earned After Death Reported, Cr. Non-Interest Income (Plug)**

V: ISSUES IMPACTING ACCOUNTING

- **Accounting Assumptions**
 - **Discount Rate**
 - **Retirement Age**
 - **Death Age (Newest Mortality Assumptions from Society of Actuaries RPH-2014 Rates Released October 2014)**
 - **Vesting**
- **Changes in Accounting Pronouncements**
- **FAS 87 vs. APB 12**
- **Plan Alternatives – Possible Expense Reduction Through Conversion**
- **Possible Impact of IRC Section 409A**

VI: THE TYPES OF BENEFIT PLANS

A. Supplemental Executive Retirement Plan (SERP)

- **A SERP is a Non-Qualified Retirement Income Plan Where the Company Promises to Pay Additional Retirement Benefits to Key Executives**
 - **Designed to Address Reverse Discrimination under Qualified Plans and Social Security Limits**
 - **Under Current Tax Laws:**
 - **Participant Does Not Owe Income Taxes Until Benefit is Paid**
 - **Bank Does Not Receive Tax Deduction Until Benefit is Paid**
 - **Employment Taxes Apply to Vested Amounts**
 - **Rabbi Trust Provides Security from Change of Heart but not Bankruptcy**

VI: THE TYPES OF BENEFIT PLANS

SERP Retirement Analysis and Accounting Assumptions

Hypothetical Retirement Benefit Analysis For Sample Bank								
Normal Retirement Age 65			Projected Employer Provided Offsets ¹					
Officer	Salary	Final Salary @ age 65 ²	Total Target Percentage	Retirement Income Needed	50% Social Security	401 (k) Plan	Total Offsets	SERP Benefit
Executive	125,000	273,890	75.00%	205,418	42,772	61,127	103,900	101,518

¹ Offsets provided by Bank. Annual estimated payments based upon current balances plus future contributions annuitized at age 65 over 20 years using a 7% rate. Social Security is employer share only, calculated on www.ssa.gov benefits calculator and assumes growth at 3%. 401 (k) Employer Match Only; balances based upon employer contributions only.

² Salary projected at 4% to assumed retirement at age 65.

- **Accounting Under ASC 715 & 740 (APB 12, FAS 87 & 109)**
 - **Example Assumptions:**
 - **Current Age of 45**
 - **\$125,000 Salary Grown at 4%**
 - **Retirement at 65 with a Benefit Equal to 75% of Final Salary after Employer Provided Offsets (\$101,518) for 15 Years**
 - **Discount Rate at 4%, Tax Bracket at 35%, Vesting over Service Period**

SERP ACCOUNTING EXAMPLE

INPUT AREA		Benefits Accounting For Executive										
		(6)	(7)	(8)	(6)+(7)+(8) (9)	(9)x4.00% (10)	(7) + (10) (11)	(9) + (10) (12)	(8)x35.0% (13)	-(8+11)x35.0% (14)	(11)+(13)+(14) (15)	(16)
Name:	Executive	Balance Sheet Liability	Annual Service Cost	Benefit Payment	Total	Interest Cost @ 4.00%	Pre-Tax P&L	Balance Sheet Liability End of Yr.	Current Tax (Expense)	Deferred Tax (Expense)	After-Tax P&L	After-Tax Bal. Sheet Liability End of Yr.
Age:	45											
Retirement Benefits:	101,518											
Years of Benefits:	15											
Retirement Age:	65											
Fully Vested Age:	65											
Discount Rate:	4.00%											
Corp. Tax Bracket:	35.00%											
Retirement Age PV:	1,173,865											
Vested Age PV:	1,173,865											
	Age											
	45	0	26,787	0	26,787	1,071	27,858	27,858	0	(9,750)	18,108	18,108
	46	27,858	27,858	0	55,717	2,229	30,087	57,945	0	(10,530)	19,557	37,664
	47	57,945	28,973	0	86,918	3,477	32,449	90,395	0	(11,357)	21,092	58,757
	48	90,395	30,132	0	120,526	4,821	34,953	125,347	0	(12,233)	22,719	81,476
	49	125,347	31,337	0	156,684	6,267	37,604	162,951	0	(13,161)	24,443	105,918
	50	162,951	32,590	0	195,542	7,822	40,412	203,363	0	(14,144)	26,268	132,186
	51	203,363	33,894	0	237,257	9,490	43,384	246,748	0	(15,184)	28,200	160,386
	52	246,748	35,250	0	281,997	11,280	46,530	293,277	0	(16,285)	30,244	190,630
	53	293,277	36,660	0	329,937	13,197	49,857	343,134	0	(17,450)	32,407	223,037
	54	343,134	38,126	0	381,260	15,250	53,376	396,511	0	(18,682)	34,695	257,732
	55	396,511	39,651	0	436,162	17,446	57,098	453,608	0	(19,984)	37,113	294,845
	56	453,608	41,237	0	494,845	19,794	61,031	514,639	0	(21,361)	39,670	334,515
	57	514,639	42,887	0	557,526	22,301	65,188	579,827	0	(22,816)	42,372	376,887
	58	579,827	44,602	0	624,429	24,977	69,579	649,406	0	(24,353)	45,226	422,114
	59	649,406	46,386	0	695,792	27,832	74,218	723,624	0	(25,976)	48,242	470,355
	60	723,624	48,242	0	771,865	30,875	79,116	802,740	0	(27,691)	51,426	521,781
	61	802,740	50,171	0	852,911	34,116	84,288	887,028	0	(29,501)	54,787	576,568
	62	887,028	52,178	0	939,206	37,568	89,746	976,774	0	(31,411)	58,335	634,903
	63	976,774	54,265	0	1,031,039	41,242	95,507	1,072,281	0	(33,427)	62,079	696,982
	64	1,072,281	56,436	0	1,128,716	45,149	101,584	1,173,865	0	(35,555)	66,030	763,012
	65	1,173,865	0	(101,518)	1,072,347	42,894	42,894	1,115,241	(35,531)	20,518	27,881	724,907
	66	1,115,241	0	(101,518)	1,013,723	40,549	40,549	1,054,272	(35,531)	21,339	26,357	685,277
	67	1,054,272	0	(101,518)	952,754	38,110	38,110	990,864	(35,531)	22,193	24,772	644,062
	68	990,864	0	(101,518)	889,346	35,574	35,574	924,920	(35,531)	23,080	23,123	601,198
	69	924,920	0	(101,518)	823,402	32,936	32,936	856,338	(35,531)	24,004	21,408	556,620
	70	856,338	0	(101,518)	754,820	30,193	30,193	785,013	(35,531)	24,964	19,625	510,258
	71	785,013	0	(101,518)	683,495	27,340	27,340	710,835	(35,531)	25,962	17,771	462,042
	72	710,835	0	(101,518)	609,317	24,373	24,373	633,689	(35,531)	27,001	15,842	411,898
	73	633,689	0	(101,518)	532,171	21,287	21,287	553,458	(35,531)	28,081	13,836	359,748
	74	553,458	0	(101,518)	451,940	18,078	18,078	470,018	(35,531)	29,204	11,750	305,512
	75	470,018	0	(101,518)	368,500	14,740	14,740	383,240	(35,531)	30,372	9,581	249,106
	76	383,240	0	(101,518)	281,722	11,269	11,269	292,991	(35,531)	31,587	7,325	190,444
	77	292,991	0	(101,518)	191,473	7,659	7,659	199,131	(35,531)	32,851	4,978	129,435
	78	199,131	0	(101,518)	97,613	3,905	3,905	101,518	(35,531)	34,165	2,538	65,987
	79	101,518	0	(101,518)	0	0	0	0	(35,531)	35,531	0	0
	80	0	0	0	0	0	0	0	0	(0)	0	0
		797,660	(1,522,770)		725,110	1,522,770		(532,970)	(0)	989,801		

DR. SERP Benefit Expense
 CR. SERP Benefit Liability
 DR. Deferred Tax Asset
 CR. Income Tax Expense

\$27,858
 \$27,858
 \$9,750
 \$9,750

To record annual SERP service cost

Summary Accounting: Insurance and Benefits

Sample Bank

SERP ACCOUNTING EXAMPLE WITH INSURANCE OFFSET

Year	Life Insurance Accounting		Benefits Accounting		Combined Effect W/ Opportunity Cost		
	P&L (Expense)/ Income	Cumulative Capital (Decrease)/ Increase	P&L (Expense)/ Income	After-Tax Bal. Sheet Liability End of Yr.	Opportunity Cost @ Net 0.65%	Net Annual P&L (Expense)/ Income	Net Cumulative Capital (Decrease)/ Increase
1	117,312	117,312	(18,108)	(18,108)	(26,000)	73,204	73,204
2	120,013	237,325	(19,557)	(37,664)	(26,169)	74,287	147,491
3	124,019	361,344	(21,092)	(58,757)	(26,339)	76,588	224,079
4	128,660	490,004	(22,719)	(81,476)	(26,510)	79,431	303,510
5	133,169	623,173	(24,443)	(105,918)	(26,683)	82,044	385,554
6	136,643	759,816	(26,268)	(132,186)	(26,856)	83,520	469,073
7	145,155	904,972	(28,200)	(160,386)	(27,031)	89,925	558,998
8	153,936	1,058,908	(30,244)	(190,630)	(27,206)	96,486	655,484
9	163,574	1,222,482	(32,407)	(223,037)	(27,383)	103,783	759,267
10	173,622	1,396,103	(34,695)	(257,732)	(27,561)	111,366	870,633
11	184,169	1,580,272	(37,113)	(294,845)	(27,740)	119,315	989,948
12	190,267	1,770,539	(39,670)	(334,515)	(27,921)	122,676	1,112,624
13	196,593	1,967,132	(42,372)	(376,887)	(28,102)	126,119	1,238,743
14	203,540	2,170,672	(45,226)	(422,114)	(28,285)	130,029	1,368,772
15	210,754	2,381,426	(48,242)	(470,355)	(28,469)	134,043	1,502,816
16	216,898	2,598,323	(51,426)	(521,781)	(28,654)	136,818	1,639,634
17	222,825	2,821,149	(54,787)	(576,568)	(28,840)	139,199	1,778,832
18	228,338	3,049,487	(58,335)	(634,903)	(29,027)	140,976	1,919,808
19	234,000	3,283,487	(62,079)	(696,982)	(29,216)	142,705	2,062,513
20	239,703	3,523,190	(66,030)	(763,012)	(29,406)	144,267	2,206,780
21	245,450	3,768,640	(27,881)	(724,907)	(29,597)	187,972	2,394,752
22	251,209	4,019,849	(26,357)	(685,277)	(30,218)	194,634	2,589,386
23	257,342	4,277,191	(24,772)	(644,062)	(30,844)	201,726	2,791,112
24	263,210	4,540,401	(23,123)	(601,198)	(31,473)	208,614	2,999,726
25	269,396	4,809,797	(21,408)	(556,620)	(32,107)	215,881	3,215,608
26	275,381	5,085,178	(19,625)	(510,258)	(32,744)	223,011	3,438,619
27	281,987	5,367,166	(17,771)	(462,042)	(33,386)	230,831	3,669,450
28	286,937	5,654,103	(15,842)	(411,898)	(34,032)	237,063	3,906,513
29	292,785	5,946,888	(13,836)	(359,748)	(34,682)	244,266	4,150,779
30	297,927	6,244,815	(11,750)	(305,512)	(35,336)	250,840	4,401,619
31	302,977	6,547,792	(9,581)	(249,106)	(35,995)	257,401	4,659,021
32	308,278	6,856,070	(7,325)	(190,444)	(36,658)	264,295	4,923,316
33	313,384	7,169,454	(4,978)	(129,435)	(37,325)	271,080	5,194,396
34	317,915	7,487,369	(2,538)	(65,987)	(37,997)	277,381	5,471,777
35	320,150	7,807,519	0	(0)	(38,672)	281,478	5,753,255
36	324,440	8,131,959	(0)	(0)	(39,353)	285,087	6,038,342
37	326,013	8,457,972	(0)	(0)	(39,609)	286,404	6,324,746
38	327,984	8,785,956	(0)	(0)	(39,866)	288,118	6,612,865
39	331,247	9,117,203	(0)	(0)	(40,125)	291,122	6,903,986
40	336,227	9,453,429	(0)	(0)	(40,386)	295,841	7,199,827
41	3,210,704	12,664,133	(0)	(0)	0	3,210,704	10,410,531
Totals	12,664,133		(989,801)		(1,263,802)	10,410,531	

Gain

BOLI results based upon a sample age 45 at current August 2015 rates, which are not guarantees.

Benefit Accounting for SERP on Top Executive

VI: THE TYPES OF BENEFIT PLANS

B. Split Dollar Plan

- **Bank Shares Portion Of Death Proceeds Under Split Dollar Plan With Executives. Example shown assumes a \$125,000 (1x salary) benefit to the Executive.**
 - **Under Current Tax Laws:**
 - **Death Proceeds to Bank & Executive Not Taxed***
 - **Executive Pays Tax on Imputed Economic Benefit (Term Cost)**
 - **No FAS Benefit Accounting For Pre-Retirement Plan Benefit**
 - **Rabbi Trust Provides Security from Change of Heart but not Bankruptcy**
- **Accounting Under ASC 715 (FAS 106, EITF 06-4) – For Post Retirement Plan Only**
 - **Example Assumptions:**
 - **Current Age of 45**
 - **Retirement at 65**
 - **Death at 85**
 - **Death Benefit Equals 1x Salary (Projected Growth at 4%)**
 - **Discount Rate at 4%**
- **Please Refer to the Basic Illustration for Guarantees**

*Alternative Minimum Tax (AMT) could apply for certain C-corporations.

BOLI With Endorsement Split Dollar For Executive

Assumed Tax Bracket: 28.00%

Year	Age	Total EOY Insurance Values			Bank's Share Of Death Proceeds		Executive's Share			
		Premium	Account	Death	Death	Death	Imputed	Tax On	Death	
			Value	Proceeds						Benefit
1	45	400,000	408,228	1,400,680		1,275,680	45	94	26	125,000
2	46	-	417,404	1,384,929		1,254,929	46	107	30	130,000
3	47	-	427,611	1,372,352		1,237,152	47	116	33	135,200
4	48	-	438,914	1,362,622		1,222,014	48	128	36	140,608
5	49	-	451,351	1,355,570		1,209,338	49	140	39	146,232
6	50	-	464,802	1,350,658		1,198,576	50	154	43	152,082
7	51	-	479,568	1,348,654		1,190,489	51	171	48	158,165
8	52	-	495,739	1,349,611		1,185,120	52	192	54	164,491
9	53	-	513,440	1,353,615		1,182,544	53	219	61	171,071
10	54	-	532,796	1,360,806		1,182,892	54	249	70	177,914
11	55	-	553,929	1,371,316		1,186,285	55	283	79	185,031
12	56	-	575,891	1,382,526		1,190,094	56	319	89	192,432
13	57	-	598,708	1,394,419		1,194,290	57	364	102	200,129
14	58	-	622,388	1,406,749		1,198,615	58	414	116	208,134
15	59	-	646,952	1,419,534		1,203,074	59	470	132	216,460
16	60	-	672,416	1,432,837		1,207,719	60	534	149	225,118
17	61	-	698,795	1,446,811		1,212,689	61	611	171	234,123
18	62	-	726,092	1,461,508		1,218,020	62	709	198	243,488
19	63	-	754,327	1,477,045		1,223,818	63	836	234	253,227
20	64	-	783,517	1,493,352		1,229,996	64	993	278	263,356
21	65	-	813,648	1,510,307		1,236,417	65	1,189	333	273,890
22	66	-	844,709	1,527,779		1,253,888	66	1,367	383	273,890
23	67	-	876,671	1,545,585		1,271,695	67	1,558	436	273,890
24	68	-	909,522	1,563,640		1,289,749	68	1,769	495	273,890
25	69	-	943,265	1,581,890		1,307,999	69	1,988	557	273,890
26	70	-	977,912	1,600,484		1,326,594	70	2,213	620	273,890
27	71	-	1,013,583	1,619,634		1,345,744	71	2,449	686	273,890
28	72	-	1,050,228	1,639,675		1,365,785	72	2,681	751	273,890
29	73	-	1,087,834	1,660,511		1,386,620	73	2,906	814	273,890
30	74	-	1,126,343	1,681,937		1,408,047	74	3,133	877	273,890
31	75	-	1,165,749	1,703,938		1,430,048	75	3,358	940	273,890
32	76	-	1,206,075	1,726,516		1,452,626	76	3,659	1,025	273,890
33	77	-	1,247,297	1,749,807		1,475,916	77	3,969	1,111	273,890
34	78	-	1,289,333	1,773,888		1,499,998	78	4,292	1,202	273,890
35	79	-	1,332,134	1,798,844		1,524,954	79	4,629	1,296	273,890
36	80	-	1,375,620	1,824,598		1,550,708	80	4,943	1,384	273,890
37	81	-	1,419,722	1,851,344		1,577,454	81	5,273	1,474	273,890
38	82	-	1,464,380	1,878,952		1,605,061	82	5,604	1,568	273,890
39	83	-	1,509,761	1,907,516		1,633,626	83	5,943	1,664	273,890
40	84	-	1,556,126	1,937,432		1,663,541	84	6,290	1,764	273,890

Results based upon current August 2015 Northwestern Mutual Guaranteed Issue rates.

Values represent illustrations at current rates and are not guarantees. Current rates and policy charges are subject to change.

Accounting required for Post Retirement Benefit.

SPLIT DOLLAR ACCOUNTING EXAMPLE

Endorsement Split Dollar Post Retirement Benefits Accounting For Executive														
INPUT AREA		(1)	(6)	(7)	(8)	(6)+(7)+(8)	(9)x4.00%	(7) + (10)	(9) + (10)	(8)x0.0%	-(8+11)x0.0%	(11)+(13)+(14)	(16)	
Name:	Executive	Age	Yr.	NPV	Balance Sheet Liability	Annual Service Cost	Cost of Insurance	Interest Cost @ 4.00%	Pre-Tax P&L	Balance Sheet Liability End of Yr.	Tax Effect	Insurance Income	Annual Expense/ (Net Income)	Cumulative Expense/ (Net Income)
Age:	45	45	2015	(34,942)	0	1,747	0	1,747	70	1,817	1,817	0	1,817	1,817
Mortality Age:	84	46	2016	(36,340)	1,817	1,817	0	3,634	145	1,962	3,779	0	1,962	3,779
Retirement Age:	65	47	2017	(37,793)	3,779	1,890	0	5,669	227	2,116	5,896	0	2,116	5,896
Discount Rate:	4.00%	48	2018	(39,305)	5,896	1,965	0	7,861	314	2,280	8,175	0	2,280	8,175
Corp. Tax Bracket:	0.00%	49	2019	(40,877)	8,175	2,044	0	10,219	409	2,453	10,628	0	2,453	10,628
Fully Vested Age:	65	50	2020	(42,512)	10,628	2,126	0	12,754	510	2,636	13,264	0	2,636	13,264
Years of Payments:	19	51	2021	(44,213)	13,264	2,211	0	15,475	619	2,830	16,094	0	2,830	16,094
Years to Retirement:	20	52	2022	(45,981)	16,094	2,299	0	18,393	736	3,035	19,128	0	3,035	19,128
Retirement Age PV:	\$(76,563)	53	2023	(47,821)	19,128	2,391	0	21,519	861	3,252	22,380	0	3,252	22,380
Vested Age PV	\$76,563	54	2024	(49,734)	22,380	2,487	0	24,867	995	3,481	25,861	0	3,481	25,861
		55	2025	(51,723)	25,861	2,586	0	28,448	1,138	3,724	29,585	0	3,724	29,585
		56	2026	(53,792)	29,585	2,690	0	32,275	1,291	3,981	33,566	0	3,981	33,566
		57	2027	(55,943)	33,566	2,797	0	36,363	1,455	4,252	37,818	0	4,252	37,818
		58	2028	(58,181)	37,818	2,909	0	40,727	1,629	4,538	42,356	0	4,538	42,356
		59	2029	(60,508)	42,356	3,025	0	45,381	1,815	4,841	47,197	0	4,841	47,197
		60	2030	(62,929)	47,197	3,146	0	50,343	2,014	5,160	52,357	0	5,160	52,357
		61	2031	(65,446)	52,357	3,272	0	55,629	2,225	5,497	57,854	0	5,497	57,854
		62	2032	(68,064)	57,854	3,403	0	61,257	2,450	5,853	63,708	0	5,853	63,708
		63	2033	(70,786)	63,708	3,539	0	67,247	2,690	6,229	69,937	0	6,229	69,937
		64	2034	(73,618)	69,937	3,681	0	73,618	2,945	6,626	76,563	0	6,626	76,563
		65	2035	(76,563)	76,563	0	(1,189)	75,374	3,015	3,015	78,389	0	1,189	1,826
		66	2036	(78,389)	78,389	0	(1,367)	77,022	3,081	3,081	80,103	0	1,367	1,714
		67	2037	(80,103)	80,103	0	(1,558)	78,545	3,142	3,142	81,686	0	1,558	81,686
		68	2038	(81,686)	81,686	0	(1,769)	79,917	3,197	3,197	83,114	0	1,769	1,427
		69	2039	(83,114)	83,114	0	(1,988)	81,125	3,245	3,245	84,370	0	1,988	1,257
		70	2040	(84,370)	84,370	0	(2,213)	82,157	3,286	3,286	85,443	0	2,213	1,073
		71	2041	(85,443)	85,443	0	(2,449)	82,995	3,320	3,320	86,315	0	2,449	871
		72	2042	(86,315)	86,315	0	(2,681)	83,633	3,345	3,345	86,979	0	2,681	664
		73	2043	(86,979)	86,979	0	(2,906)	84,073	3,363	3,363	87,436	0	2,906	457
		74	2044	(87,436)	87,436	0	(3,133)	84,302	3,372	3,372	87,674	0	3,133	239
		75	2045	(87,674)	87,674	0	(3,358)	84,316	3,373	3,373	87,689	0	3,358	15
		76	2046	(87,689)	87,689	0	(3,659)	84,030	3,361	3,361	87,391	0	3,659	(298)
		77	2047	(87,391)	87,391	0	(3,969)	83,422	3,337	3,337	86,759	0	3,969	(632)
		78	2048	(86,759)	86,759	0	(4,292)	82,467	3,299	3,299	85,766	0	4,292	(993)
		79	2049	(85,766)	85,766	0	(4,629)	81,137	3,245	3,245	84,383	0	4,629	(1,383)
		80	2050	(84,383)	84,383	0	(4,943)	69,439	2,778	2,778	72,217	0	4,943	(12,166)
		81	2051	(72,217)	72,217	0	(16,573)	55,644	2,226	2,226	57,870	0	16,573	(14,347)
		82	2052	(57,870)	57,870	0	(18,279)	39,590	1,584	1,584	41,174	0	18,279	(16,696)
		83	2053	(41,174)	41,174	0	(20,013)	21,161	846	846	22,007	0	20,013	(19,167)
		84	2054	(22,007)	22,007	0	(22,007)	0	0	0	0	0	22,007	(22,007)
		85	2055	-	(0)	0	0	0	0	0	0	0	0	(0)
						52,025	(132,977)	80,951	132,977		0	132,977		(0)

DR. Post Retirement Benefit Expense
CR. Accrued Benefit Liability

\$1,817

\$1,817

To record annual Split Dollar service cost

Summary Accounting: Insurance and Benefits

Sample Bank

SPLIT DOLLAR ACCOUNTING EXAMPLE WITH INSURANCE OFFSET

Year	Life Insurance Accounting		Benefits Accounting		Combined Effect W/ Opportunity Cost		
	P&L (Expense)/ Income	Cumulative Capital (Decrease)/ Increase	P&L (Expense)/ Income	After-Tax Bal. Sheet Liability End of Yr.	Opportunity Cost @ Net 0.65%	Net Annual P&L (Expense)/ Income	Net Cumulative Capital (Decrease)/ Increase
1	117,312	117,312	(1,817)	(1,817)	(26,000)	89,495	89,495
2	120,013	237,325	(1,962)	(3,779)	(26,169)	91,881	181,376
3	124,019	361,344	(2,116)	(5,896)	(26,339)	95,563	276,940
4	128,660	490,004	(2,280)	(8,175)	(26,510)	99,870	376,810
5	133,169	623,173	(2,453)	(10,628)	(26,683)	104,034	480,844
6	136,643	759,816	(2,636)	(13,264)	(26,856)	107,152	587,995
7	145,155	904,972	(2,830)	(16,094)	(27,031)	115,295	703,290
8	153,936	1,058,908	(3,035)	(19,128)	(27,206)	123,695	826,986
9	163,574	1,222,482	(3,252)	(22,380)	(27,383)	132,939	959,924
10	173,622	1,396,103	(3,481)	(25,861)	(27,561)	142,579	1,102,504
11	184,169	1,580,272	(3,724)	(29,585)	(27,740)	152,705	1,255,208
12	190,267	1,770,539	(3,981)	(33,566)	(27,921)	158,365	1,413,574
13	196,593	1,967,132	(4,252)	(37,818)	(28,102)	164,239	1,577,812
14	203,540	2,170,672	(4,538)	(42,356)	(28,285)	170,718	1,748,530
15	210,754	2,381,426	(4,841)	(47,197)	(28,469)	177,444	1,925,974
16	216,898	2,598,323	(5,160)	(52,357)	(28,654)	183,084	2,109,058
17	222,825	2,821,149	(5,497)	(57,854)	(28,840)	188,488	2,297,546
18	228,338	3,049,487	(5,853)	(63,708)	(29,027)	193,458	2,491,004
19	234,000	3,283,487	(6,229)	(69,937)	(29,216)	198,555	2,689,558
20	239,703	3,523,190	(6,626)	(76,563)	(29,406)	203,671	2,893,230
21	245,450	3,768,640	(1,826)	(78,389)	(29,597)	214,027	3,107,257
22	251,209	4,019,849	(1,714)	(80,103)	(29,789)	219,705	3,326,962
23	257,342	4,277,191	(1,583)	(81,686)	(29,983)	225,775	3,552,737
24	263,210	4,540,401	(1,427)	(83,114)	(30,178)	231,605	3,784,342
25	269,396	4,809,797	(1,257)	(84,370)	(30,374)	237,766	4,022,108
26	275,381	5,085,178	(1,073)	(85,443)	(30,572)	243,736	4,265,844
27	281,987	5,367,166	(871)	(86,315)	(30,770)	250,346	4,516,190
28	286,937	5,654,103	(664)	(86,979)	(30,970)	255,303	4,771,493
29	292,785	5,946,888	(457)	(87,436)	(31,172)	261,156	5,032,649
30	297,927	6,244,815	(239)	(87,674)	(31,374)	266,314	5,298,963
31	302,977	6,547,792	(15)	(87,689)	(31,578)	271,384	5,570,348
32	308,278	6,856,070	298	(87,391)	(31,783)	276,792	5,847,140
33	313,384	7,169,454	632	(86,759)	(31,990)	282,026	6,129,165
34	317,915	7,487,369	993	(85,766)	(32,198)	286,710	6,415,876
35	320,150	7,807,519	1,383	(84,383)	(32,407)	289,126	6,705,002
36	324,440	8,131,959	12,166	(72,217)	(32,618)	303,988	7,008,990
37	326,013	8,457,972	14,347	(57,870)	(32,830)	307,530	7,316,520
38	327,984	8,785,956	16,696	(41,174)	(33,043)	311,637	7,628,157
39	331,247	9,117,203	19,167	(22,007)	(33,258)	317,155	7,945,312
40	336,227	9,453,429	22,007	0	(33,474)	324,759	8,270,072
41	3,210,704	12,664,133	(0)	(0)	0	3,210,704	11,480,776
Totals	12,664,133		0		(1,183,357)	11,480,776	

Gain

BOLI results based upon a sample age 45 at current August 2015 rates, which are not guarantees.

Benefit Accounting for Split Dollar on Top Executive

VI: THE TYPES OF BENEFIT PLANS

C. Death Benefit Only (DBO) Plan

- **Bank Provides a Lump Sum Benefit in the Event of an Employee Death. Usually, a Benefit is Paid if Actively Employed or Retired at the Time of Death.**
 - **May be used when Employee is Uninsurable**
 - **Under Current Tax Laws:**
 - **Employer Receives No Tax Deduction Until Death Benefits are Paid**
 - **Death Benefits are Fully Taxable to the Employee's Beneficiaries**
 - **Death Benefits may be Grossed up for Taxes**
 - **Rabbi Trust Provides Security from Change of Heart but not Bankruptcy**
- **Accounting Under ASC 715 & 740 (APB 12, FAS 87 & 109)**
 - **Example Assumptions:**
 - **Current Age of 45**
 - **Retirement at 65**
 - **Death at 85**
 - **Death Benefit Equal to 1x Salary (Growth at 4%)**
 - **Discount Rate at 4%, Tax Bracket at 35%, Vesting over Service Period**

DBO ACCOUNTING EXAMPLE

INPUT AREA		Benefits Accounting For Executive										
		{6}	{7}	{8}	{6}+{7}+{8}	{9}x4.00%	{7} + {10}	{9} + {10}	{8}x35.0%	-(8+11)x35.0%	{11}+{13}+{14}	{16}
Name:	Executive	Balance Sheet	Annual Service Cost	Benefit Payment	Total	Interest Cost @ 4.00%	Pre-Tax P&L	Balance Sheet Liability End of Yr.	Current Tax (Expense)	Deferred Tax (Expense)	After-Tax P&L	After-Tax Bal. Sheet Liability End of Yr.
Age:	45											
Retirement Benefits:	273,890											
Years of Benefits:	1											
Retirement Age:	84											
Fully Vested Age:	65											
Discount Rate:	4.00%											
Corp. Tax Bracket:	35.00%											
Retirement Age PV:	273,890											
Vested Age PV:	130,000											
	45	0	2,967	0	2,967	119	3,085	3,085	0	(1,080)	2,005	2,005
	46	3,085	3,085	0	6,170	247	3,332	6,417	0	(1,166)	2,166	4,171
	47	6,417	3,209	0	9,626	385	3,594	10,011	0	(1,258)	2,336	6,507
	48	10,011	3,337	0	13,348	534	3,871	13,882	0	(1,355)	2,516	9,023
	49	13,882	3,470	0	17,352	694	4,164	18,046	0	(1,458)	2,707	11,730
	50	18,046	3,609	0	21,655	866	4,475	22,521	0	(1,566)	2,909	14,639
	51	22,521	3,754	0	26,275	1,051	4,805	27,326	0	(1,682)	3,123	17,762
	52	27,326	3,904	0	31,230	1,249	5,153	32,479	0	(1,804)	3,349	21,111
	53	32,479	4,060	0	36,539	1,462	5,521	38,000	0	(1,933)	3,589	24,700
	54	38,000	4,222	0	42,223	1,689	5,911	43,912	0	(2,069)	3,842	28,543
	55	43,912	4,391	0	48,303	1,932	6,323	50,235	0	(2,213)	4,110	32,653
	56	50,235	4,567	0	54,802	2,192	6,759	56,994	0	(2,366)	4,393	37,046
	57	56,994	4,749	0	61,743	2,470	7,219	64,213	0	(2,527)	4,692	41,738
	58	64,213	4,939	0	69,152	2,766	7,706	71,919	0	(2,697)	5,009	46,747
	59	71,919	5,137	0	77,056	3,082	8,219	80,138	0	(2,877)	5,343	52,090
	60	80,138	5,343	0	85,480	3,419	8,762	88,900	0	(3,067)	5,695	57,785
	61	88,900	5,556	0	94,456	3,778	9,334	98,234	0	(3,267)	6,067	63,852
	62	98,234	5,778	0	104,012	4,160	9,939	108,173	0	(3,479)	6,460	70,312
	63	108,173	6,010	0	114,183	4,567	10,577	118,750	0	(3,702)	6,875	77,187
	64	118,750	6,250	0	125,000	5,000	11,250	130,000	0	(3,937)	7,312	84,500
	65	130,000	0	0	130,000	5,200	5,200	135,200	0	(1,820)	3,380	87,880
	66	135,200	0	0	135,200	5,408	5,408	140,608	0	(1,893)	3,515	91,395
	67	140,608	0	0	140,608	5,624	5,624	146,232	0	(1,969)	3,656	95,051
	68	146,232	0	0	146,232	5,849	5,849	152,081	0	(2,047)	3,802	98,853
	69	152,081	0	0	152,081	6,083	6,083	158,165	0	(2,129)	3,954	102,807
	70	158,165	0	0	158,165	6,327	6,327	164,491	0	(2,214)	4,112	106,919
	71	164,491	0	0	164,491	6,580	6,580	171,071	0	(2,303)	4,277	111,196
	72	171,071	0	0	171,071	6,843	6,843	177,914	0	(2,395)	4,448	115,644
	73	177,914	0	0	177,914	7,117	7,117	185,030	0	(2,491)	4,626	120,270
	74	185,030	0	0	185,030	7,401	7,401	192,431	0	(2,590)	4,811	125,080
	75	192,431	0	0	192,431	7,697	7,697	200,129	0	(2,694)	5,003	130,084
	76	200,129	0	0	200,129	8,005	8,005	208,134	0	(2,802)	5,203	135,287
	77	208,134	0	0	208,134	8,325	8,325	216,459	0	(2,914)	5,411	140,699
	78	216,459	0	0	216,459	8,658	8,658	225,118	0	(3,030)	5,628	146,326
	79	225,118	0	0	225,118	9,005	9,005	234,122	0	(3,152)	5,853	152,180
	80	234,122	0	0	234,122	9,365	9,365	243,487	0	(3,278)	6,087	158,267
	81	243,487	0	0	243,487	9,739	9,739	253,227	0	(3,409)	6,331	164,597
	82	253,227	0	0	253,227	10,129	10,129	263,356	0	(3,545)	6,584	171,181
	83	263,356	0	0	263,356	10,534	10,534	273,890	0	(3,687)	6,847	178,029
	84	273,890	0	(273,890)	0	0	0	0	(95,862)	95,862	0	0
	85	0	0	0	0	0	0	0	0	0	0	0
			88,337	(273,890)		185,553	273,890		(95,862)	0	178,029	

DR. DBO Benefit Expense
 CR. SERP Benefit Liability
 DR. Deferred Tax Asset
 CR. Income Tax Expense

\$3,085
 \$3,085
 \$1,080
 \$1,080

To record annual DBO service cost

Summary Accounting: Insurance and Benefits

Sample Bank

DBO ACCOUNTING EXAMPLE WITH INSURANCE OFFSET

Year	Life Insurance Accounting		Benefits Accounting		Combined Effect W/ Opportunity Cost		
	P&L (Expense)/ Income	Cumulative Capital (Decrease)/ Increase	P&L (Expense)/ Income	After-Tax Bal. Sheet Liability End of Yr.	Opportunity Cost @ Net 0.65%	Net Annual P&L (Expense)/ Income	Net Cumulative Capital (Decrease)/ Increase
1	117,312	117,312	(2,005)	(2,005)	(26,000)	89,307	89,307
2	120,013	237,325	(2,166)	(4,171)	(26,169)	91,678	180,985
3	124,019	361,344	(2,336)	(6,507)	(26,339)	95,344	276,329
4	128,660	490,004	(2,516)	(9,023)	(26,510)	99,634	375,963
5	133,169	623,173	(2,707)	(11,730)	(26,683)	103,779	479,742
6	136,643	759,816	(2,909)	(14,639)	(26,856)	106,878	586,620
7	145,155	904,972	(3,123)	(17,762)	(27,031)	115,002	701,622
8	153,936	1,058,908	(3,349)	(21,111)	(27,206)	123,381	825,003
9	163,574	1,222,482	(3,589)	(24,700)	(27,383)	132,602	957,604
10	173,622	1,396,103	(3,842)	(28,543)	(27,561)	142,218	1,099,823
11	184,169	1,580,272	(4,110)	(32,653)	(27,740)	152,319	1,252,141
12	190,267	1,770,539	(4,393)	(37,046)	(27,921)	157,953	1,410,094
13	196,593	1,967,132	(4,692)	(41,738)	(28,102)	163,798	1,573,892
14	203,540	2,170,672	(5,009)	(46,747)	(28,285)	170,247	1,744,139
15	210,754	2,381,426	(5,343)	(52,090)	(28,469)	176,942	1,921,081
16	216,898	2,598,323	(5,695)	(57,785)	(28,654)	182,549	2,103,630
17	222,825	2,821,149	(6,067)	(63,852)	(28,840)	187,918	2,291,548
18	228,338	3,049,487	(6,460)	(70,312)	(29,027)	192,851	2,484,399
19	234,000	3,283,487	(6,875)	(77,187)	(29,216)	197,909	2,682,308
20	239,703	3,523,190	(7,312)	(84,500)	(29,406)	202,984	2,885,292
21	245,450	3,768,640	(3,380)	(87,880)	(29,597)	212,473	3,097,765
22	251,209	4,019,849	(3,515)	(91,395)	(29,789)	217,904	3,315,670
23	257,342	4,277,191	(3,656)	(95,051)	(29,983)	223,703	3,539,372
24	263,210	4,540,401	(3,802)	(98,853)	(30,178)	229,230	3,768,603
25	269,396	4,809,797	(3,954)	(102,807)	(30,374)	235,068	4,003,671
26	275,381	5,085,178	(4,112)	(106,919)	(30,572)	240,697	4,244,368
27	281,987	5,367,166	(4,277)	(111,196)	(30,770)	246,940	4,491,308
28	286,937	5,654,103	(4,448)	(115,644)	(30,970)	251,519	4,742,828
29	292,785	5,946,888	(4,626)	(120,270)	(31,172)	256,987	4,999,815
30	297,927	6,244,815	(4,811)	(125,080)	(31,374)	261,742	5,261,557
31	302,977	6,547,792	(5,003)	(130,084)	(31,578)	266,396	5,527,953
32	308,278	6,856,070	(5,203)	(135,287)	(31,783)	271,291	5,799,244
33	313,384	7,169,454	(5,411)	(140,699)	(31,990)	275,982	6,075,226
34	317,915	7,487,369	(5,628)	(146,326)	(32,198)	280,089	6,355,315
35	320,150	7,807,519	(5,853)	(152,180)	(32,407)	281,890	6,637,205
36	324,440	8,131,959	(6,087)	(158,267)	(32,618)	285,735	6,922,940
37	326,013	8,457,972	(6,331)	(164,597)	(32,830)	286,852	7,209,792
38	327,984	8,785,956	(6,584)	(171,181)	(33,043)	288,357	7,498,150
39	331,247	9,117,203	(6,847)	(178,029)	(33,258)	291,141	7,789,291
40	336,227	9,453,429	0	0	(33,474)	302,752	8,092,043
41	3,210,704	12,664,133	(0)	(0)	0	3,210,704	11,302,747
Totals	12,664,133		(178,028)		(1,183,357)	11,302,747	

Gain

BOLI results based upon a sample age 45 at current August 2015 rates, which are not guarantees.

Benefit Accounting for DBO on Top Executive

VI: THE TYPES OF BENEFIT PLANS

D. Deferral Plans

- **Bank Elects to Give Bonus to Executive, Which Is Deferred at Either a Stated Rate of Return or the Benchmark of a Hypothetical Equity Investment. The Bank May Also Allow the Employee to Make Pre-Tax Contributions into the Program.**
 - **Under Current Tax Laws:**
 - **Employer Generally Deducts Benefit at Time of Payment**
 - **Employee not Taxed on Deferred Amounts Until Payment**
 - **Employment Taxes Apply to Vested Amounts**
 - **Rabbi Trust Provides Security from Change of Heart but not Bankruptcy**
 - **Example Assumptions:**
 - **Current Age of 45**
 - **Deferral of \$5,000 Per Year for 20 Years**
 - **Growth at 4%**
 - **Retirement at Age 65**
 - **Payout over 10 Year Period**

DEFERRAL ACCOUNTING EXAMPLE

Deferral Benefit Accounting for Executive

Year	BOY Deferral Balance	Deferral	Benefit Payment	Interest 4%	Annual P&L	Cumul. P&L	Current Tax Expense (Benefit)	Deferred Tax Expense/ (Benefit)	After-Tax P&L	After-Tax Bal. Sheet Liability End of Yr.
2015	0	5,000	0	200	5,200	5,200	0	(1,976)	3,224	3,224
2016	5,200	5,000	0	408	5,408	10,608	0	(2,055)	3,353	6,577
2017	10,608	5,000	0	624	5,624	16,232	0	(2,137)	3,487	10,064
2018	16,232	5,000	0	849	5,849	22,082	0	(2,223)	3,627	13,691
2019	22,082	5,000	0	1,083	6,083	28,165	0	(2,312)	3,772	17,462
2020	28,165	5,000	0	1,327	6,327	34,491	0	(2,404)	3,922	21,385
2021	34,491	5,000	0	1,580	6,580	41,071	0	(2,500)	4,079	25,464
2022	41,071	5,000	0	1,843	6,843	47,914	0	(2,600)	4,243	29,707
2023	47,914	5,000	0	2,117	7,117	55,031	0	(2,704)	4,412	34,119
2024	55,031	5,000	0	2,401	7,401	62,432	0	(2,812)	4,589	38,708
2025	62,432	5,000	0	2,697	7,697	70,129	0	(2,925)	4,772	43,480
2026	70,129	5,000	0	3,005	8,005	78,134	0	(3,042)	4,963	48,443
2027	78,134	5,000	0	3,325	8,325	86,460	0	(3,164)	5,162	53,605
2028	86,460	5,000	0	3,658	8,658	95,118	0	(3,290)	5,368	58,973
2029	95,118	5,000	0	4,005	9,005	104,123	0	(3,422)	5,583	64,556
2030	104,123	5,000	0	4,365	9,365	113,488	0	(3,559)	5,806	70,362
2031	113,488	5,000	0	4,740	9,740	123,227	0	(3,701)	6,038	76,401
2032	123,227	5,000	0	5,129	10,129	133,356	0	(3,849)	6,280	82,681
2033	133,356	5,000	0	5,534	10,534	143,890	0	(4,003)	6,531	89,212
2034	143,890	5,000	0	5,956	10,956	154,846	0	(4,163)	6,792	96,005
2035	154,846	0	(18,357)	5,460	5,460	141,949	(6,976)	4,901	3,385	88,008
2036	141,949	0	(18,357)	4,944	4,944	128,536	(6,976)	5,097	3,065	79,692
2037	128,536	0	(18,357)	4,407	4,407	114,586	(6,976)	5,301	2,732	71,043
2038	114,586	0	(18,357)	3,849	3,849	100,078	(6,976)	5,513	2,386	62,048
2039	100,078	0	(18,357)	3,269	3,269	84,990	(6,976)	5,733	2,027	52,694
2040	84,990	0	(18,357)	2,665	2,665	69,299	(6,976)	5,963	1,653	42,965
2041	69,299	0	(18,357)	2,038	2,038	52,980	(6,976)	6,201	1,263	32,847
2042	52,980	0	(18,357)	1,385	1,385	36,008	(6,976)	6,449	859	22,325
2043	36,008	0	(18,357)	706	706	18,357	(6,976)	6,707	438	11,381
2044	18,357	0	(18,357)	(0)	(0)	(0)	(6,976)	6,976	(0)	(0)
Totals		100,000	(183,568)	83,568	183,568		(69,756)	0	113,812	

DR. Deferred Comp Benefit Expense

\$5,200

CR. Deferred Comp Benefit Liability

\$5,200

DR. Deferred Tax Asset

\$1,976

CR. Income Tax Expense

\$1,976

To record annual Deferred Comp service cost

Summary Accounting: Insurance and Benefits

Sample Bank

DEFERRAL ACCOUNTING EXAMPLE WITH INSURANCE OFFSET

Year	Life Insurance Accounting		Benefits Accounting		Combined Effect W/ Opportunity Cost		
	P&L (Expense)/ Income	Cumulative Capital (Decrease)/ Increase	P&L (Expense)/ Income	After-Tax Bal. Sheet Liability End of Yr.	Opportunity Cost @ Net 0.65%	Net Annual P&L (Expense)/ Income	Net Cumulative Capital (Decrease)/ Increase
1	117,312	117,312	(3,224)	(3,224)	(26,000)	88,088	88,088
2	120,013	237,325	(3,353)	(6,577)	(26,169)	90,491	178,579
3	124,019	361,344	(3,487)	(10,064)	(26,339)	94,193	272,771
4	128,660	490,004	(3,627)	(13,691)	(26,510)	98,524	371,295
5	133,169	623,173	(3,772)	(17,462)	(26,683)	102,715	474,010
6	136,643	759,816	(3,922)	(21,385)	(26,856)	105,865	579,875
7	145,155	904,972	(4,079)	(25,464)	(27,031)	114,045	693,920
8	153,936	1,058,908	(4,243)	(29,707)	(27,206)	122,488	816,407
9	163,574	1,222,482	(4,412)	(34,119)	(27,383)	131,778	948,185
10	173,622	1,396,103	(4,589)	(38,708)	(27,561)	141,472	1,089,657
11	184,169	1,580,272	(4,772)	(43,480)	(27,740)	151,656	1,241,314
12	190,267	1,770,539	(4,963)	(48,443)	(27,921)	157,383	1,398,697
13	196,593	1,967,132	(5,162)	(53,605)	(28,102)	163,329	1,562,025
14	203,540	2,170,672	(5,368)	(58,973)	(28,285)	169,887	1,731,913
15	210,754	2,381,426	(5,583)	(64,556)	(28,469)	176,702	1,908,615
16	216,898	2,598,323	(5,806)	(70,362)	(28,654)	182,438	2,091,053
17	222,825	2,821,149	(6,038)	(76,401)	(28,840)	187,947	2,279,000
18	228,338	3,049,487	(6,280)	(82,681)	(29,027)	193,031	2,472,031
19	234,000	3,283,487	(6,531)	(89,212)	(29,216)	198,253	2,670,283
20	239,703	3,523,190	(6,792)	(96,005)	(29,406)	203,504	2,873,788
21	245,450	3,768,640	(3,385)	(88,008)	(29,597)	212,468	3,086,256
22	251,209	4,019,849	(3,065)	(79,692)	(29,866)	218,278	3,304,533
23	257,342	4,277,191	(2,732)	(71,043)	(30,137)	224,472	3,529,005
24	263,210	4,540,401	(2,386)	(62,048)	(30,410)	230,414	3,759,419
25	269,396	4,809,797	(2,027)	(52,694)	(30,685)	236,685	3,996,104
26	275,381	5,085,178	(1,653)	(42,965)	(30,961)	242,768	4,238,872
27	281,987	5,367,166	(1,263)	(32,847)	(31,239)	249,485	4,488,357
28	286,937	5,654,103	(859)	(22,325)	(31,519)	254,560	4,742,916
29	292,785	5,946,888	(438)	(11,381)	(31,801)	260,546	5,003,462
30	297,927	6,244,815	0	0	(32,084)	265,843	5,269,305
31	302,977	6,547,792	0	0	(32,370)	270,608	5,539,913
32	308,278	6,856,070	0	0	(32,580)	275,697	5,815,610
33	313,384	7,169,454	0	0	(32,792)	280,592	6,096,202
34	317,915	7,487,369	0	0	(33,005)	284,910	6,381,112
35	320,150	7,807,519	0	0	(33,220)	286,931	6,668,043
36	324,440	8,131,959	0	0	(33,436)	291,004	6,959,047
37	326,013	8,457,972	0	0	(33,653)	292,360	7,251,407
38	327,984	8,785,956	0	0	(33,872)	294,113	7,545,519
39	331,247	9,117,203	0	0	(34,092)	297,155	7,842,674
40	336,227	9,453,429	0	0	(34,313)	301,913	8,144,587
41	3,210,704	12,664,133	0	0	0	3,210,704	11,355,291
Totals	12,664,133		(227,625)		(1,195,029)	11,241,479	

Gain

BOLI results based upon a sample age 45 at current August 2015 rates, which are not guarantees.

Benefit Accounting for Deferral on Top Executive