

A Strategy for Improving Incentives for Key Personnel

Tri-Zen[®]





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Situation Overview

Company Situation

Recruiting and retaining key employees are of extreme importance to most businesses. Studies have shown that it costs as much as 400% of a key person's base salary to recruit, train, and replace them (LinkedIn.com). While most companies understand the need for a competitive benefits package in order to retain key employees, increasing costs mean that companies are not able to provide everything at once without making significant financial sacrifices.

Concerns for Highly Compensated Professionals

Research indicates that 90% of highly compensated professionals have financial concerns such as having sufficient savings for retirement, having an illness or disability, and potential long term care needs (New York Life). Many of their concerns relate to their ability to earn during their peak earning years. It is a serious challenge for individuals to cover all of these issues, and companies that fail to provide solutions have more key employee turnover.



Tri-Zen Overview

Tri-Zen is a **pre-tax benefit strategy** that allows C-Corporations and not-for-profit organizations to offer substantially more benefits to their employees. What sets this strategy apart is not only its unique structure but the essential use of leverage. By using leverage, employers are able to offer significantly more benefits at the same cost. The financing is secured entirely by the plan, and neither employee nor employer must sign any loan documents.

Instead of paying employees a cash bonus or another form of compensation, the employer loans the money pre-tax to the employee's Tri-Zen account. The employer contribution is combined with bank financing, and a cash accumulation life insurance policy is purchased and accumulates tax-deferred for future supplemental retirement income. As a result, this strategy typically provides employees with 100% more retirement income. The life insurance policy is the only collateral for the loans, and the cash value and/or death benefit completely repays both the company and bank. In addition to tax-free supplemental income, this life insurance policy comes with many other benefits such as protection in the event of critical injury, chronic illness, or critical/terminal illness*. Tri-Zen provides employers with the ideal solution to address their key employees' most pertinent financial fears.

*These terms vary by carrier

Key Benefits to the Employee

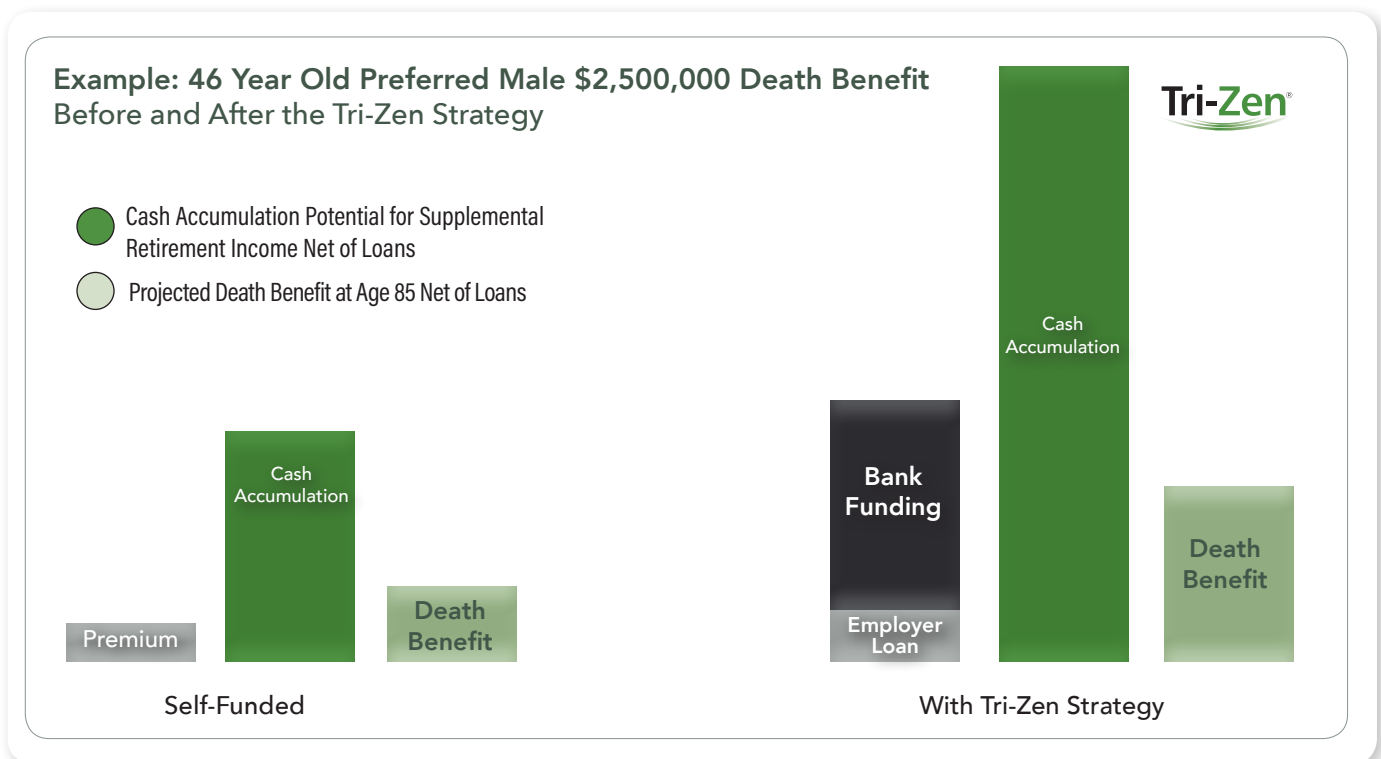
Employee Benefits

- Cash benefits in the event of critical injury, chronic illness, critical/terminal illness, or death
- Pre-tax contributions to the strategy, which is not governed under ERISA
- Tax-favored supplemental income without contribution limits, enhanced by leverage
- 3x the leverage with the plan as the sole security for the loan
- Safe, tax-deferred growth with no loss of principal
- Growth tied to upside changes in market index *without* downside risk
- Asset/bankruptcy protection from creditors (state specific)
- Employees are not required to sign loan documents

Employee Coverage

\$1.5m+ Permanent Life Insurance
Up to \$1.5m Chronic Illness coverage
Up to \$1m Critical Illness and Injury
Up to \$1.5m of Terminal Illness

Pre-tax contributions combined with financing allows employees to afford coverage that is beyond what they could comfortably purchase for themselves. Tri-Zen's funding vehicle enhances the benefits available to the employee, addressing retirement and savings needs.



Hypothetical example, not indicative of a particular product. Actual results may be more or less favorable. Policy fees and expenses will reduce the cash value. The initial premium going into the policy does NOT include the \$1500.00 trust fees and expenses that will be added each year to the client trust. Those additional payments are being escrowed into the trust account to cover the 15 years of service until loan repayment. Riders are supplemental benefits that can be added to a life insurance policy and are not suitable unless you also have a need for life insurance. This is not a solicitation of any specific insurance policy.

Key Benefits to the Employer

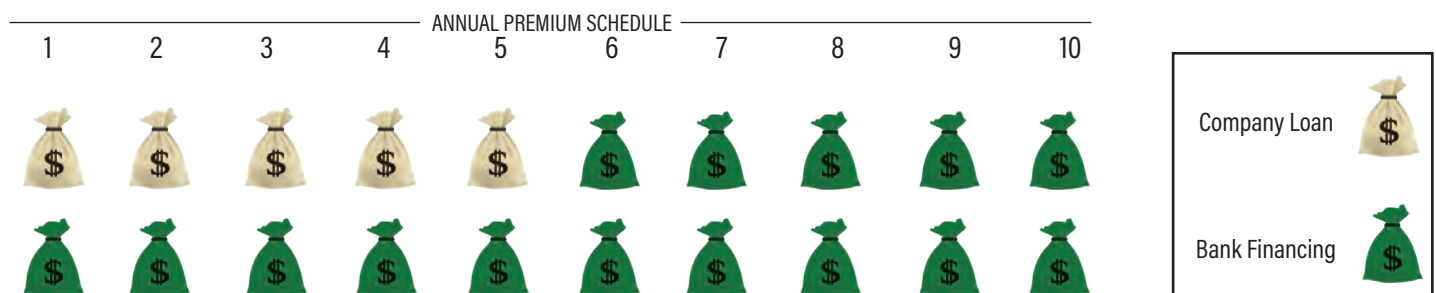
Employer Benefits

- Provide more relevant benefits but at the same cost
- Improve your balance sheet, because Tri-Zen is an asset instead of a liability
- Reduce payroll related taxes
- Recruit top employees
- Retain current top employees
- Can be used to replace existing plans, like Deferred Compensation or Bonus Plans
- Consolidate benefit plans, especially if these plans are underfunded
- Offer Tri-Zen only to your most valued employees (Discriminatory)
- Built-in vesting
- Diversify from qualified plans
- Company does not need to sign any loan documents



Limited Premium Payment Schedule

The diagram shows how the company makes only five years of contributions and a bank loans the remaining amount needed to purchase the life insurance policy. **The life insurance policy is the ONLY collateral for the bank loan.** Cash value in the policy may be protected from bankruptcy while employee benefits are portable after five years.



How Tri-Zen Works

Tri-Zen Structure

1

Allocate Funds

Use existing money that was going to be used for:

- Deferred compensation
- Pay raise
- Bonus
- Acquisition

2

Trust

Instead of paying these funds to the employee, they are loaned and put into a trust. The employer gets repaid by the life insurance policy at a later date. Each sub-trust is protected and independently managed by a national trust company.

3

Tri-Zen Growth Vehicle

A life insurance policy is jointly funded by the employer and bank financing. The company loans are leveraged approximately 3:1.

Features and Benefits Provided by the Life Insurance Policy

Permanent Death Benefit Protection

A cash value life insurance policy with accelerated benefit riders can provide a tax-free¹ death benefit and/or living benefits of:

Critical Illness

(Cancer, Heart Attack, Stroke, etc.)

Critical Injury

(Coma, Brain Injury, Paralysis, Burns)

Chronic Illness

(Assistance with daily living, bathing, eating, dressing, transferring, etc.)

Terminal Illness

(May provide living benefits if death is expected within 12-24 months. Term varies by state.)

Cash Accumulation

Potential Upside Growth Linked to the Market Index

(Opportunity for interest credited based on market index or a fixed rate)

No Investment Losses, Ever

(0% floor protects against declines in an index)

Cash Value Growth Is Tax-Deferred

Potential Tax-Free Withdrawals

(Access to cash value using policy loans and withdrawals that may be tax-free)

Supplemental Retirement Income

Receipt of benefits depends on rider and meeting certain qualifications and riders vary by state. The use of one benefit may reduce or eliminate other policy and rider benefits. Payment of living benefits will reduce the cash value and death benefit. Policy loans and withdrawals reduce the policy's cash value and death benefit and may result in a taxable event. Substantial tax ramifications could result upon contract lapse or surrender. Surrender charges may reduce the policy's cash value in early years. It is possible that coverage will expire when either no premiums are paid following the initial premium, or subsequent premiums are insufficient to continue coverage. The Kai-Zen Strategy is dependent on the client making contributions for the first 5 years therefore not defaulting on the policy, which could result in policy lapse and surrender charges. The client will not have access to the policy, the cash values, the death benefits or the living benefits until the loan is repaid and the assignment is released. The lender has the right to discontinue funding new premiums, exit the market, or to demand loan repayment based on the terms and conditions signed by the Master Trust. See the Master Trust documents for additional information. There are some exceptions to this rule. Please consult a tax professional for advice concerning your individual situation.

How Tri-Zen Works

Tri-Zen Structure Continued

4

Bank Loan Repayment

Based on policy performance, the bank loan is repaid around year 15 using the cash value in the policy. The policy is left with residual cash value that continues to grow.

If an employee needs to access the cash in the policy prior to this, or if illness or death occurs, the bank loan can be repaid at any time. After that, the employee can access their policy as long as the death benefit is sufficient enough to repay the employer at a later date.

5

Ongoing Servicing

Once the bank has been repaid, the trust company, and/or Third Party Services firm will provide annual reports on the status of the policy. Both the employer and employee have options for how they would like this to operate, which is typically agreed upon at the start of the plan.

6

Employer Loan Repayment

At death, the employer loan is repaid using a portion of the employee's death benefit. The remaining amount goes to the employee's heirs.

(Note: Surplus cash value can also be used to repay the employer, but most choose to wait and use the death benefit.)

Stress Testing

When deciding whether Tri-Zen is right for your company, it is important to understand how this strategy performs in various market conditions. That is why NIW conducts "stress testing" on all of our designs before making them available to the market. When stress testing, potential designs undergo simulations of The Great Depression and the high interest 80's, two of the country's harshest economic time periods. This rigorous process guides the selection of optimal products and loan terms, allowing NIW to deliver designs of the highest quality and durability.

Loan Servicing

Since 2003, a core strength of NIW has been its multi-lender platform, which is critical to the success of loan transactions and negotiations. First, clients require confidence that lending will be available throughout the life of the financing transaction. Having a multi-lender platform ensures that there will always be funds available. A multi-lender platform also benefits clients because NIW is able to negotiate better terms and have multiple alternatives should a lender pull out or not wish to continue. In the latest banking crisis, NIW actually added more lenders to its supply list and continued to process new cases as well as fund existing cases. When combined with our top-of-the-line servicing, NIW's extensive lender partner list contributes greatly to NIW having the highest overall persistency rate in the industry.

Additional Links

- Supporting life insurance company illustration
- Tri-Zen Webpage (<http://www.kaizenplan.com/what-is-tri-zen/>)
- Tri-Zen Brochure (<http://www.niwcorp.com/tri-zen/>)
- Split Dollar Regulations (<https://www.law.cornell.edu/cfr/text/26/1.61-22>)
- Understanding IUL (<http://www.niwcorp.com/iul/>)
- Financing of IUL (<http://www.niwcorp.com/financed-insurance/>)
- Financing Risks (<http://www.niwcorp.com/financed-insurance/financed-insurance-risks/>)
- About NIW (<http://www.niwcorp.com/background/>)

Tri-Zen[®]



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