TRISCEND NP™

Overview and Capabilities

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The Power of a New Perspective

About Triscend^NP

Founded in 2001, Triscend^NP, LLC (Triscend) is transforming the way organizations approach the design, implementation, and maintenance of talent and capital management plans in non-profit organizations. Triscend leadership has diverse backgrounds and experience ranging from healthcare, finance, investment banking, and insurance. This gives the firm a unique perspective, and it brings this experience to bear for the benefit of its organization and executive clients.

Working collaboratively with associations, academic institutions, non-profit healthcare organizations, and credit unions, Triscend provides fiscally responsible talent and capital management solutions designed to appropriately reward key talent while ensuring the funds are allocated in a way that supports the organization's mission. Triscend currently maintains relationships with hundreds of corporate and executive clients in over 30 states. The primary focus of our work in talent and capital management relates to:

- Cost Reduction
- Capital Preservation and Growth
- Executive Retention and Orderly Succession

Collectively the non-profit organizations that have implemented plans with Triscend are projected to receive over $2.0 billion in capital and interest recovery in addition to cost savings. Triscend executives are also frequently asked to speak and publish content related to issues of concern to its markets. Examples of activity in these areas include:

- Trustee Magazine
- Becker's Healthcare
- LEAP
- The Leader's Board
- American College of Healthcare Executives
- Credit Union Today

Our Method

Selecting and implementing an executive benefit plan is a significant undertaking requiring information gathering, learning, and analysis. These processes affect multiple levels of the organization from the executive suite to the Board of Directors. Unless the organization has a structured plan for conducting the process and, ultimately making an informed decision, it runs the risk of expending resources without achieving its objectives.

For us to best serve the organization and ensure a good outcome, we must first get to know the organization and its executives, so we understand their goals and objectives and the manner in which decisions are made. From there we work with clients to educate them on the options that will meet their needs and assist them in navigating the internal decision processes based on our extensive non-profit experience. Only then, do we design and propose a solution for consideration.

Once implemented, plans require regular monitoring and maintenance to be successful. This involves the formation of deep, lifelong relationships with our clients. As a result, Triscend has built industry-leading information systems and service capabilities to support our clients' plans.

Overview [1]

In response to the needs of tax-exempt organizations to attract and retain top talent in an environment of limited financial resources and increasing attention surrounding executive compensation, Triscend^NP developed a more financially and socially responsible solution.

The CAP-EX Program (CAP-EX) is designed to grow capital, retain talent and serve the community. CAP-EX was developed to address five critical needs:

- Provide a tool to attract and retain high-quality leadership
- More effectively align the interests of the organization and the executive
- Improve stewardship of the organization's financial resources
- Enhance the organization's financial position
- Provide a more flexible and reliable benefit program for the executive

CAP-EX is an alternative to traditional deferred compensation arrangements and has been carefully crafted to address the historical issues plaguing legacy split dollar plans. CAP-EX (and, split dollar arrangements in general) is also considered a non-compensatory arrangement and should not be includable in remuneration for the purposes of the new excise tax on excess compensation.

Excise Tax on Excess Executive Compensation

With the passage of P.L. 115-97 (also known as the Tax Cuts and Jobs Act), tax-exempt employers are under increased pressure to address the manner in which executive compensation and benefits are structures for highly compensated senior executives.

While structured differently, the compensation practices of tax-exempt organizations have come under increasing scrutiny from the government as well as the public. There is a growing perception that executives of tax-exempt organizations are failing to embrace their organization's stated purpose, are over-paid and should have their compensation and benefits limited beyond the current reasonable compensation tests and intermediate sanctions. Some in Congress have even raised the possibility of removing the tax exemption for some types of currently tax-exempt organizations based upon these perceptions – often fostered by their for-profit competitors.

The Act takes a different approach, imposing a §162(m)-type penalty on the not-for-profit employer. Since nonprofit employers do not use tax deductions, new IRC §4960 imposes an excise tax on compensation more than $1 million.[2] The excise tax rate is the corporate tax rate then in effect, which under the Act is 21%. The tax-exempt employer pays the tax.

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[1] **Disclaimer:** This executive summary is intended to give the reader a broad understanding of CAP-EX. It is not intended to be a detailed description of CAP-EX, nor is it intended to be legal, accounting or regulatory advice of any kind. It is required that all potential clients seek independent legal, accounting and regulatory advice from their own, independent advisors, prior to the implementation of CAP-EX.

[2] The Act also imposes the excise tax on parachute payments, which generally arise if the employer pays severance that is three times or more the individual's 5-year average W-2 compensation. This parachute part of the excise tax only applies if the individual qualifies as a highly-compensated individual ($120,000 in 2017 and 2018).

§4960 excerpt: There is hereby imposed a tax equal to the product of the [corporate tax rate] and . . . so much of the remuneration paid . . . by an applicable tax-exempt organization for the taxable year with respect to employment of any covered employee in excess of $1,000,000 . . . The employer shall be liable for the tax imposed…

The §4960 excise tax applies to the not-for-profit organization's five highest compensated employees (or former employees) for the year, plus anyone who was in the five-highest group for any preceding year (2017 or later).[3]

Even though a covered employee's aggregate annual salary and incentive payments may be less than $1 million, it is essential to recognize that this change in the tax law essentially means that any deferred compensation arrangement increases the likelihood of incurring the §4960 tax. This is important because "remuneration" includes deferred compensation, not as it accrues each year, but in a lump sum in the year it vests (i.e., is no longer subject to a "substantial risk of forfeiture"). Under many plans, deferred compensation accrues over 10 or more years so that the vesting amounts can represent many multiples of current salary and bonus. Nevertheless, the full amount of vesting deferred compensation is added to current compensation, significantly increasing the risks that the total for the year will exceed $1 million, resulting in the 21% excise tax on the excess.

CAP-EX Description

To address the concerns surrounding traditional split dollar structures, the CAP-EX Program employs two life insurance policies with different economic objectives. The first objective is for the organization to recover its capital (premiums) plus a rate of return. The second objective is to create excess value that can be accessed by the participant as future cash flow (typically during retirement). These two goals conflict with one another and are not efficiently addressed within a traditional structure.

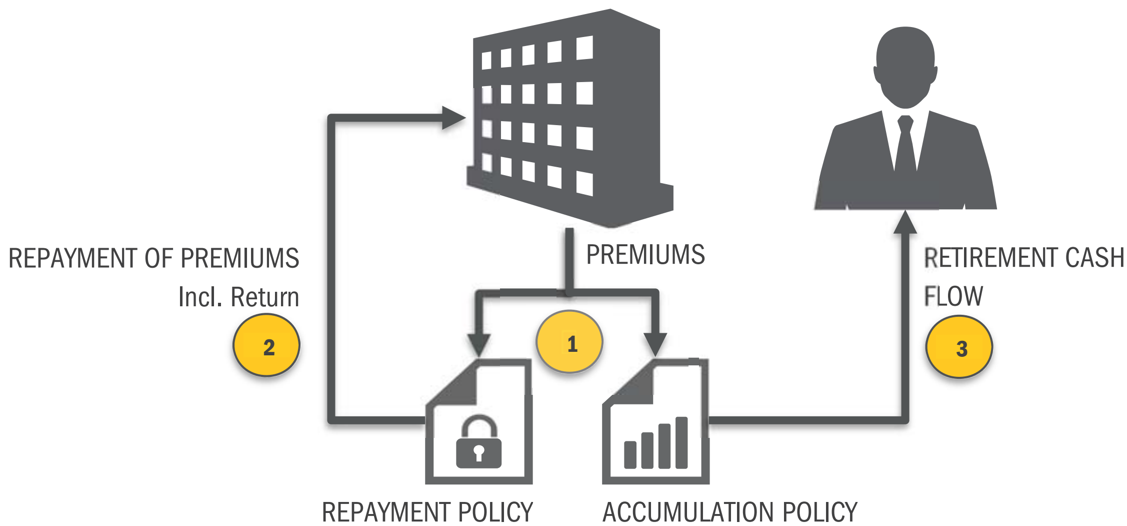
Historically organizations and participants have used single life insurance policies for these transactions. The single policy design is less economically efficient and structurally unsafe and unsound:

Efficiency: Life insurance policies can be structured and priced to be proficient at providing a death benefit or accumulating cash values but not both. CAP-EX features a two-policy structure in which one policy, known as "Repayment Policy", is designed exclusively to provide a death benefit to repay the organization, and the other policy, referred to as "Accumulation Policy", aims to accumulate cash values that the participant can access. This approach provides for more competitive policy pricing, flexibility and features consistent with each objective.

Safety and Soundness: A common weakness in traditional split dollar plans is the possibility a participant would borrow too much from the life insurance policy during retirement, putting it at risk of lapse or a reduced and insufficient death benefit. This result has the effect of compromising the ability of the organization to be repaid its investment plus return. A lapse, should it occur, would result in adverse accounting implications for the organization and adverse tax consequences for the participant. Under the CAP-EX Program, the Repayment Policy is designed to repay the organization its capital and return and, importantly, the participant may not borrow from or otherwise access this policy under any circumstances. Also, the use of two policies allows for the Accumulation Policy to be designed with features that eliminate the risk of a policy lapse in the future.

[3] The Act excludes compensation paid to physicians and nurses for rendering medical services. Payments to these professionals for administrative services are included, however.

How the CAP-EX Plan Works



1. The organization pays the premiums on two life insurance policies, each with a specific purpose. The primary goal of the Repayment Policy is the return of the organization's premiums including (in many cases) a rate of return. The Accumulation Policy is designed to efficiently accumulate cash value available to the executive as retirement cash flow. It is most common for all funds necessary to fund the arrangement be paid at implementation.

2. The premiums paid by the organization to the life insurance policies are treated as a loan to the participant for tax purposes only. The loan must bear a sufficient rate of return to avoid income inclusion. By regulation, this rate should be no less than the long-term Applicable Federal Rate (AFR) in effect the month the investment is made.

The organization typically records the arrangement on its financial statements as an asset that will accrue a return. The organization will be repaid its premium and accumulated return usually at the mortality of the participant. Unlike more conventional plans (SERPs, 457(f)), the funds resulting from the repayment of the investment and accrued return are recovered by the organization in the future and can be used in support of its mission.

3. The participant can access the value of the Accumulation Policy in the future through policy loans. This access is typically subject to vesting requirements as determined by the agreement between the organization and participant. It is also possible for the organization and the participant's beneficiaries to share in any excess death benefits (any amount more than the premiums plus accumulated return).

Solution Impact

Participant's Perspective

- Increased projected annual retirement cash flows
- Life insurance policy loans are not includable in income mitigating the risk of tax rate changes
- A death benefit to participant's estate in the event of a premature death
- More flexible vesting options

Organization's Perspective

- Replaced benefit expense with other income
- Eliminated SERP liability
- Improved Form 990 disclosure
- Provides Organization with a recovery of capital (and accrued interest) in the future
- Generates additional portfolio earnings consistent with the Organization's history and objectives

Important Considerations

Many legacy split dollar arrangements have failed to achieve objectives due to a variety of design, product, and administration weaknesses. The following table summarizes each issue, and then compares traditional split dollar plans to the CAP-EX Program; specifically, the manner in which CAP-EX either eliminates or mitigates these risks.

Issue	Historical Split Dollar	CAP-EX Program
The interest rate on the split-dollar investment.	Variable, short-term rate, subject to change and increases.	Fixed, long-term rate, not subject to change.
The potential for increasing tax rates.	Lower tax rates assumed in retirement. Higher rates result in higher tax cost.	Accrue and pay interest at death.
Tax advantages assume the employer will be paid back.	Single policy. Any borrowings will automatically compromise organization's collateral.	Two policies. Employer repayment isolated to the policy on which there can be no borrowing.
Realization of a stable, consistent arbitrage.	Variable life, highly volatile, policy crediting.	Repayment Policy & Accumulation Policy conservatively illustrated IUL or Whole Life.
Adverse tax consequences due to policy lapse.	Single policy structure makes over-loan protection rider unavailable.	Two policy structure allows for the use of over-loan protection rider.
Re-education and monitoring of carrier and policy performance.	Little, if any, ongoing education and administration.	Vigilant, ongoing organization & participant re-education, and continuous carrier and product monitoring.