Cash value life insurance makes Harbaugh college football's top-paid coach

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Michigan head coach Jim Harbaugh throws a football on the field before an NCAA college football game against Iowa on Nov. 12, 2016. Thanks to a creative compensation plan that includes cash value life insurance, Harbaugh is college football's top-paid coach. (AP Photo/Charlie Neibergall)

In August, the University of Michigan announced that it had amended its contract with head football coach Jim Harbaugh to include a creative deferred compensation alternative involving cash value life insurance.

The arrangement makes Harbaugh the highest paid college football coach in the country, according to Sports Illustrated and other news outlets.

What most people don't know, however, is that the compensation strategy was designed to provide Harbaugh with millions of dollars of tax-free cash during retirement. It's one that can also be incredibly effective on a much smaller scale.

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The details of Harbaugh's agreement

When Harbaugh was originally hired at Michigan, the parties had agreed to sit down and discuss the establishment of a deferred compensation package after the end of his first season. What they ultimately agreed to, however, will likely prove to be much more valuable.

Instead of a Deferred Compensation Agreement, Harbaugh and Michigan entered into a Split-Dollar Loan Agreement under which the University agreed to make seven loan advances, of $2 million each, that would be used by Harbaugh to pay premiums on a life insurance policy.

As long as the policy remains in force, the loan will not have to be repaid until Harbaugh dies, at which time, Michigan will recoup its original $14 million investment, and Harbaugh's beneficiaries will receive the remainder of the death benefit. While some news reports have stated that Harbaugh's beneficiaries are guaranteed to receive at least 150 percent of the amount due back to the University ($21 million, once the full loan has been extended), the actual terms of the "Loan Agreement" only require that the residual death benefit (net of the loan) be at least $1,120,000 following Harbaugh's attainment of age 70.

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In the meantime, the Loan Agreement allows Harbaugh to borrow money out of the policy (tax-free) as long as the policy continues to meet certain sustainability requirements immediately following the loan.

Some of the finer details of the arrangement have not been made public. These include such particulars as:

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    - The exact life insurance product being purchased;
    - Harbaugh's medical underwriting; and
    - Harbaugh's plans for taking cash out of the policy.

But it is possible to get a rough estimate of the economic benefit Harbaugh can expect to receive from the contract by making a few basic assumptions.