

A Private Leveraged Benefit Plan (Using Guidelines From IRC Section 7872)

This plan involves a series of promissory notes between a Lender -- usually a parent or grandparent -- and an irrevocable trust formed on behalf of children or grandchildren. The plan is designed to operate within the IRC Section 7872 safe harbor of IRS Notice 2002-8.

The Promissory Notes: The transaction involves successive term loans in which the Lender lends funds to the trust which uses the borrowed funds to purchase a life insurance policy usually on the life of the Lender and/or spouse. The policy is assigned to the Lender as security for the loans, and each loan is due within a specific term of years. If the Lender dies before the loans are repaid, the promissory notes call for the immediate repayment of the loans. None of the loans should require use of the Lender's annual gift exclusion and/or lifetime gift exemption, thus this portion of the transaction should have no restrictive funding limitations.

Loan Interest: Interest on each loan can be paid in cash or accrued, i.e., added to the loan. The interest rate for the life of each loan is set to the long-term rate in effect at the beginning of the loan under IRC Section 7872. Under this code section, if no interest or an inadequate rate of interest is charged on a loan, the IRS recharacterizes the loan into an "arms-length" transaction and imputes an interest rate that is deemed to have been received by the Lender and paid by the trust. The rate is published monthly and is determined by the length of the loan transaction, i.e., either the short-term rate (less than 3 years), the mid-term rate (over 3 years but not over 9 years), or the long-term rate (over 9 years). The long-term rate in effect for the month in which this report is written (April 2002) is 5.62%.

The accompanying material illustrates a constant 5.62% interest rate on the entire series of loans illustrated; however, the loan interest rate for each new loan will likely be different. Each future loan should bear at least the appropriate Sec. 7872 loan interest rate in effect during the month the new loan is executed, and each new loan should be evidenced by its own promissory note, as well.

There are four ways to deal with unknown future Sec. 7872 loan interest rates:

1. Accept the risk: If the loan interest is paid in cash, gifts to the trust for its loan interest are immediately returned in the form of non-taxable interest, so it makes little difference in most cases if the loan interest varies.
2. Accrue additional loan interest: If the loan interest rate increases, do not increase the gifts to the trust that provide it with funds to pay the loan interest. The trust could accrue the additional loan interest or withdraw funds from the policy to make up the difference in the loan interest due.
3. Renegotiate the loan: Wait until a time when the Sec. 7872 rate dips and recast the series of promissory notes into a new note at the reduced rate.

4. Change the plan design: Consolidate all loans at the inception of the plan. In this case, the loaned funds in excess of those needed to pay the policy's initial premium should be reserved by the trustee and used to pay the remaining stream of premiums as they fall due.

The accompanying calculations assume the trust is a so-called "defective" grantor trust, and additional gifts to the trust are usually scheduled to offset any loan interest due by the trust. The Lender is assumed to be the grantor of the trust and, due to grantor trust rules, there is no income tax due by the Lender on such loan interest received, i.e., the Lender and the trust are a single income tax entity. (IRC Section 671 and 675, IRS Reg. 1.671-2(c) and Rev. Rul. 85-13.) Thus, if gifts for loan interest are made, they are returned at once as non-taxable loan interest.

The Plan's Leverage: There are two possible sources of leverage: 1) The potential spread in value between the policy's values and the loans and 2) Since the loaned funds should not apply against the Lender's (and his/her spouse's) lifetime gift exemption or annual gift exclusions, significantly greater amounts than usual can be allocated to the trust without incurring gift or estate taxes.

Taxation At Death: The life insurance payable to the trust should be free of all estate transfer taxes as the presence of the loans to the trust should not contaminate the estate tax free nature of the life insurance death benefit (PLR 9809032). The promissory notes are repayable by the trust at the end of the term of years specified in each promissory note or at the death of the Lender, whichever occurs first, and repayment proceeds triggered by the death of the Lender will be subject to estate settlement costs in the estate of the Lender. If there is any accrued loan interest included in the repayment proceeds, there should be no income tax consequences to the Lender's estate on the loan interest component since, as indicated above, the Lender and the trust are a single income tax entity.

Policy Loans: The trustee of the trust can borrow policy cash values in excess of those that collateralize the promissory notes and any accrued interest and, if deemed appropriate by the trustee, these policy loans can be used to provide cash flow to trust beneficiaries. The trustee can also use policy loans for promissory note repayments or loan interest payments.

Note: Policy loans reduce cash values and death benefits, and the lapse of a loaned policy could result in severe tax ramifications to the policy owner. Be sure to consult your professional tax adviser if you have any questions about this issue.

Important Note

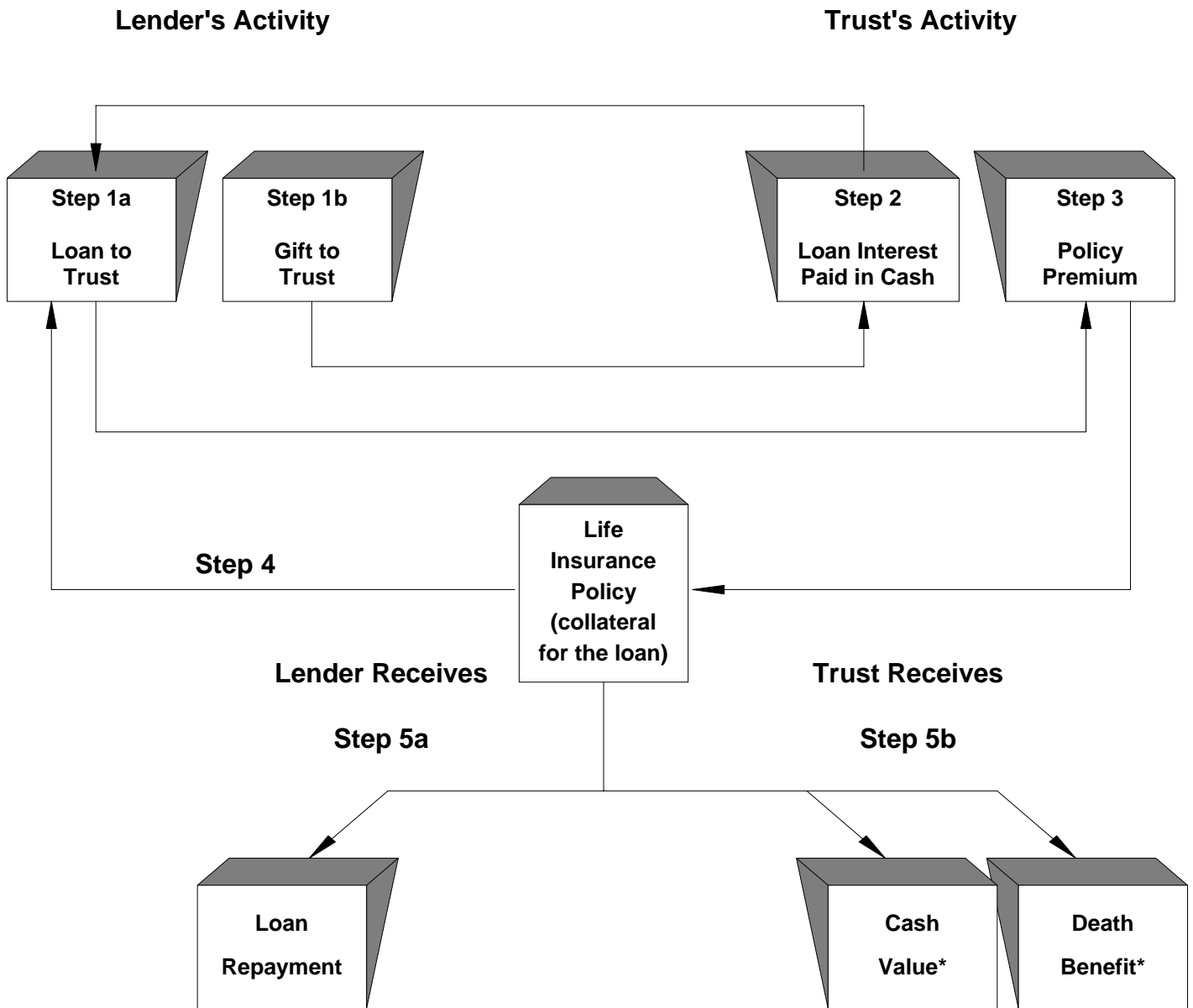
This report and the accompanying material are not a substitute for advice from legal and tax advisers of all participants, and the accompanying plan, or any variation thereof, should not be utilized without their specific review and approval.

A Private Leveraged Benefit Plan (Using Guidelines From IRC Section 7872) Funded With Variable Survivor Life (VSL)

Presented By: [Licensed user's name appears here]
Date: 04/01/2002

Lender and Trust Grantor: Jerry Grant
Borrower and Policy Owner: Grant Family Trust
Insured: Jerry Grant/Janet Grant

Flow Chart Analysis



*Net of loan repayment.

Illustration of Values

A Private Leveraged Benefit Plan Using Variable Survivor Life (VSL)

Presented By: [Licensed user's name appears here]
Date: 04/01/2002
Values Page: 1

Lender and Trust Grantor: Jerry Grant
Borrower and Policy Owner: Grant Family Trust
Insured: Jerry Grant/Janet Grant

		M/F Age	VSL Interest Rate	Initial Payment	Initial Policy Death Benefit		
		65/60	10.00%	300,000	10,000,000		
		(1)	(2)	(3)	(4)	(5)	
Year	Ages	Policy Premium	Pre-Tax Policy Cash Flow	Year End Accum Value*	Year End Cash Value*	Death Benefit	
1	65/60	300,000	0	224,448	0	10,224,450	
2	66/61	300,000	0	549,531	283,531	10,549,530	
3	67/62	300,000	0	901,372	635,372	10,901,370	
4	68/63	300,000	0	1,282,245	1,016,245	11,282,250	
5	69/64	300,000	0	1,693,993	1,427,992	11,693,990	
6	70/65	0	0	1,829,140	1,576,440	11,829,140	
7	71/66	0	0	1,970,151	1,730,751	11,970,150	
8	72/67	0	0	2,122,024	1,895,924	12,122,020	
9	73/68	0	0	2,282,809	2,070,009	12,282,810	
10	74/69	0	0	2,452,513	2,253,013	12,452,510	
11	75/70	0	0	2,628,522	2,448,972	12,628,520	
12	76/71	0	0	2,811,623	2,652,023	12,811,620	
13	77/72	0	0	2,996,923	2,857,273	12,996,920	
14	78/73	0	0	3,183,361	3,063,661	13,183,360	
15	79/74	0	0	3,377,031	3,277,281	13,377,030	
16	80/75	0	0	3,578,549	3,498,749	13,578,550	
17	81/76	0	0	3,786,087	3,726,237	13,786,090	
20	84/79	0	0	4,396,615	4,396,614	14,396,610	
25	89/84	0	0	5,172,231	5,172,230	15,172,230	
30	94/89	0	0	4,523,176	4,523,176	14,523,180	
		1,500,000	0				

*This is an example of an InsMark "supplemental" illustration for variable universal life insurance. In a real presentation, this footnote will refer to an accompanying "basic" illustration from a specific life insurance company and a prospectus.

Summary of the Plan

A Private Leveraged Benefit Plan (Using Guidelines From IRC Section 7872) Funded With Variable Survivor Life (VSL)

Presented By: [Licensed user's name appears here]
Date: 04/01/2002
Summary Page: 1

Lender and Trust Grantor: Jerry Grant
Borrower and Policy Owner: Grant Family Trust
Insured: Jerry Grant/Janet Grant

M/F VSL
Age Interest Rate
65/60 10.00%

Initial Policy
Death Benefit
10,000,000

			Gift and Loan Summary			Analysis of the Collateral		
		(1)	(2)	(3)	(4)	(5)	(6)	
Year	Ages	Beginning of Year Gift to Trust for Premium	Beginning of Year Loan to Trust for Premium	Year End Balance of Loan	Year End Accum Value*	Year End Cash Value*	Year End Death Benefit	
1	65/60	0	300,000	300,000	224,448	0	10,224,450	
2	66/61	0	300,000	600,000	549,531	283,531	10,549,530	
3	67/62	0	300,000	900,000	901,372	635,372	10,901,370	
4	68/63	0	300,000	1,200,000	1,282,245	1,016,245	11,282,250	
5	69/64	0	300,000	1,500,000	1,693,993	1,427,992	11,693,990	
6	70/65	0	0	1,500,000	1,829,140	1,576,440	11,829,140	
7	71/66	0	0	1,500,000	1,970,151	1,730,751	11,970,150	
8	72/67	0	0	1,500,000	2,122,024	1,895,924	12,122,020	
9	73/68	0	0	1,500,000	2,282,809	2,070,009	12,282,810	
10	74/69	0	0	1,500,000	2,452,513	2,253,013	12,452,510	
11	75/70	0	0	1,500,000	2,628,522	2,448,972	12,628,520	
12	76/71	0	0	1,500,000	2,811,623	2,652,023	12,811,620	
13	77/72	0	0	1,500,000	2,996,923	2,857,273	12,996,920	
14	78/73	0	0	1,500,000	3,183,361	3,063,661	13,183,360	
15	79/74	0	0	1,500,000	3,377,031	3,277,281	13,377,030	
16	80/75	0	0	1,500,000	3,578,549	3,498,749	13,578,550	
17	81/76	0	0	1,500,000	3,786,087	3,726,237	13,786,090	
20	84/79	0	0	1,500,000	4,396,615	4,396,614	14,396,610	
25	89/84	0	0	1,500,000	5,172,231	5,172,230	15,172,230	
30	94/89	0	0	1,500,000	4,523,176	4,523,176	14,523,180	
		0	1,500,000					

30 Year Analysis

	Living Values	Death Benefit
VSL:	4,523,176	14,523,180
Loan Repayment Due:	1,500,000	1,500,000
Value to Policy Owner:	3,023,176	13,023,180

*This is an example of an InsMark "supplemental" illustration for variable universal life insurance. In a real presentation, this footnote will refer to an accompanying "basic" illustration from a specific life insurance company and a prospectus.

Promissory Note Analysis

A Private Leveraged Benefit Plan (Using Guidelines From IRC Section 7872) Funded With Variable Survivor Life (VSL)

Presented By: [Licensed user's name appears here]
Date: 04/01/2002
Promissory Note Analysis Page: 1

Lender and Trust Grantor: Jerry Grant
Borrower and Policy Owner: Grant Family Trust
Insured: Jerry Grant/Janet Grant

		M/F Age	IRC Sec. 7872 Long Term Rate*	Promissory Note Interest Rate	
		65/60	5.62%	5.62%	
Year	Ages	(1) Beginning of Year Loan to Trust for Premium	(2) Year End Loan Interest Due	(3) Year End Gift to Trust for Loan Interest	(4) Year End Balance of Loan
1	65/60	300,000	16,860	16,860	300,000
2	66/61	300,000	33,720	33,720	600,000
3	67/62	300,000	50,580	50,580	900,000
4	68/63	300,000	67,440	67,440	1,200,000
5	69/64	300,000	84,300	84,300	1,500,000
6	70/65	0	84,300	84,300	1,500,000
7	71/66	0	84,300	84,300	1,500,000
8	72/67	0	84,300	84,300	1,500,000
9	73/68	0	84,300	84,300	1,500,000
10	74/69	0	84,300	84,300	1,500,000
11	75/70	0	84,300	84,300	1,500,000
12	76/71	0	84,300	84,300	1,500,000
13	77/72	0	84,300	84,300	1,500,000
14	78/73	0	84,300	84,300	1,500,000
15	79/74	0	84,300	84,300	1,500,000
16	80/75	0	84,300	84,300	1,500,000
17	81/76	0	84,300	84,300	1,500,000
20	84/79	0	84,300	84,300	1,500,000
25	89/84	0	84,300	84,300	1,500,000
30	94/89	0	84,300	84,300	1,500,000
		1,500,000	2,360,400	2,360,400	

*See accompanying Private Leveraged Benefit Plan report for remarks regarding IRC Section 7872 interest rate.

The promissory note between the parties is presumed to be secured by a collateral assignment of the policy.

Gift Analysis

A Private Leveraged Benefit Plan (Using Guidelines From IRC Section 7872) Funded With Variable Survivor Life (VSL)

Presented By: [Licensed user's name appears here]
Date: 04/01/2002
Gift Analysis Page: 1

Lender and Trust Grantor: Jerry Grant
Borrower and Policy Owner: Grant Family Trust
Insured: Jerry Grant/Janet Grant

		M/F Age 65/60	Annual Gift Exclusions 8	Beginning Lifetime Gift Exemption 2,000,000				
Year	Ages	(1) Lifetime Gift Exemption	(2) Annual Gift Exclusion Indexed @ 3.00%	(3) Maximum Tax Free Gifts Available (1) + (2)	(4) Beginning of Year Gift to Trust for Premium	(5) Year End Gift to Trust for Loan Interest	(6) Total Gift to Trust (4) + (5)	(7) Remaining Tax Free Gifts Available
1	65/60	2,000,000	88,000	2,088,000	0	16,860	16,860	2,071,140
2	66/61	2,000,000	88,000	2,088,000	0	33,720	33,720	2,054,280
3	67/62	2,000,000	88,000	2,088,000	0	50,580	50,580	2,037,420
4	68/63	2,000,000	96,000	2,096,000	0	67,440	67,440	2,028,560
5	69/64	2,000,000	96,000	2,096,000	0	84,300	84,300	2,011,700
6	70/65	2,000,000	96,000	2,096,000	0	84,300	84,300	2,011,700
7	71/66	2,000,000	104,000	2,104,000	0	84,300	84,300	2,019,700
8	72/67	2,000,000	104,000	2,104,000	0	84,300	84,300	2,019,700
9	73/68	2,000,000	104,000	2,104,000	0	84,300	84,300	2,019,700
10	74/69	2,000,000	112,000	2,112,000	0	84,300	84,300	2,027,700
11	75/70	2,000,000	112,000	2,112,000	0	84,300	84,300	2,027,700
12	76/71	2,000,000	120,000	2,120,000	0	84,300	84,300	2,035,700
13	77/72	2,000,000	120,000	2,120,000	0	84,300	84,300	2,035,700
14	78/73	2,000,000	128,000	2,128,000	0	84,300	84,300	2,043,700
15	79/74	2,000,000	128,000	2,128,000	0	84,300	84,300	2,043,700
16	80/75	2,000,000	136,000	2,136,000	0	84,300	84,300	2,051,700
17	81/76	2,000,000	136,000	2,136,000	0	84,300	84,300	2,051,700
20	84/79	2,000,000	152,000	2,152,000	0	84,300	84,300	2,067,700
25	89/84	2,000,000	176,000	2,176,000	0	84,300	84,300	2,091,700
30	94/89	2,000,000	200,000	2,200,000	0	84,300	84,300	2,115,700
			4,080,000		0	2,360,400	2,360,400	

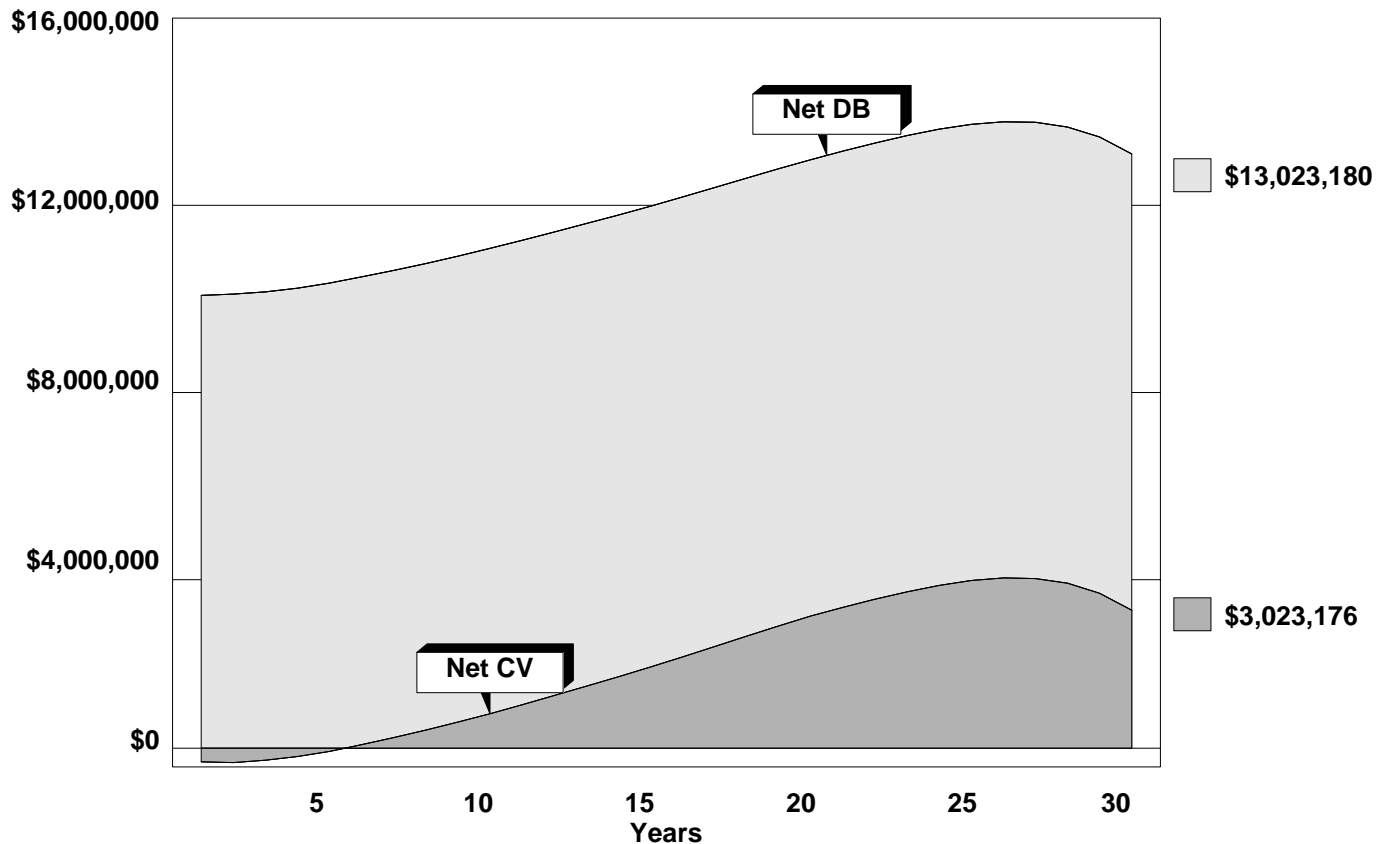
Column (1) is in accordance with the estate tax rules enacted in June 2001.

**A Private Leveraged Benefit Plan
 (Using Guidelines From IRC Section 7872)
 Funded With
 Variable Survivor Life (VSL)**

Presented By: [Licensed user's name appears here]
 Date: 04/01/2002

Lender and Trust Grantor: Jerry Grant
 Borrower and Policy Owner: Grant Family Trust
 Insured: Jerry Grant/Janet Grant

Trust's 30 Year Graphic Analysis



- Net CV - Trust's Cash Value Less Cum. Loan Due Lender
- Net DB - Trust's Estate Tax Free Death Benefit Less Cum. Loan Due Lender