

Loan-Based Private Split Dollar

Preface

This arrangement involves a promissory note between a Lender -- usually a parent or grandparent -- and an irrevocable trust formed on behalf of children or grandchildren. It is designed to be in compliance with the Final Split Dollar Regulations issued in September 2003 (68 FR 54336).

Promissory Note: The one-time loan associated with the plan arrangement is evidenced by a promissory note between the Lender and the trust, and the life insurance policy is assigned as collateral security for the loan. The loan is a term loan, i.e., it is due at the end of a specific period of years; however, the promissory note calls for the acceleration of repayment should the insured die prior to the date of scheduled loan repayment.

Loan Interest: The interest rate for the life of the loan is set to the long-term rate in effect at the beginning of the loan under IRC Sections 7872(f)(2)(A) and 1274(d) (often referred to as the "Applicable Federal Rate" or "AFR"). 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 (3 years or less), the mid-term rate (over 3 years but not over 9 years), or the long-term rate (over 9 years).

So long as the loan interest rate is equal to or exceeds the Applicable Federal Rate, no interest is imputed by the IRS on the transaction. For illustrative purposes, the loan illustrated in the accompanying material reflects a constant 5.21% interest rate, the long-term AFR in effect for the month in which this report is written (August 2004).

The accompanying calculations assume the trust is a so-called "intentionally 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 as non-taxable loan interest.

Annual Gift Exclusions and Lifetime Gift Exemptions: 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 loan to the trust should not contaminate the estate tax free nature of the life insurance death benefit (PLR 9809032). The promissory note is repayable by the trust at the end of the term of years specified in the 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.

Premium Reserve Account: Although the loan to the trust involves a one-time transfer of funds from the Lender to the trust, the life insurance policy in the accompanying material bears multiple scheduled premiums due to the more favorable taxation of policies not funded with a single premium. The loaned funds in excess of the dollars needed to pay the policy's initial premium are reserved by the trustee in a Premium Reserve Account ("PRA") and used to pay the stream of multiple premiums required for the most favorable taxation of policy values. Any taxable interest earned by the trust on its PRA from an outside source is taxable to the Lender (grantor trust "single entity" rules do not apply to interest from outside sources). Due to this, a tax exempt account is often the preferred vehicle for the PRA.

Policy Loans: Assuming the terms of the trust authorize borrowing on the policy, 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 could be used to provide cash flow to trust beneficiaries. The trustee can also use policy loans for promissory note repayments or loan interest payments.

Notes

Policy loans reduce cash values and death benefits, and the lapse of a policy with loans could result in significant tax ramifications to the policy owner.

Be sure to consult with your own tax attorney and accountant before entering into this or any other arrangement involving tax, legal, and economic considerations.

Loan-Based Private Split Dollar

Supplemental Report: Duration of Loans

The accompanying illustrations reflect loans that may remain in effect for many years. Most loans illustrated are assumed to be long-term loans (over 9 years) bearing a loan interest rate equal to or greater than the Applicable Federal Rate of 5.21% for August 2004. Other Applicable Federal Rates in effect for August 2004 are:

Mid-term loans (over 3 years but not over 9): 4.00%;

Short-term loans (3 years or less): 2.37%;

Demand loans: 2.37%.

The demand loan rate changes monthly -- an unhappy condition for a loan expected to remain in effect for many years. A so-called "blended" rate that is stable for one year at a time can be used for demand loans. The 2004 blended rate for demand loans is 1.99%, and the blended rate for 2005 will not be announced until late June 2005.

Stability of loan interest is an important component of any arrangement involving loans. A dramatic rise in loan interest rates at the maturity of a demand, short-term or mid-term loan may result in less-than-acceptable loan interest rates when the loan is renewed. When you are dealing with a financial arrangement of many years, long-term loans produce more stable interest rates that can be renegotiated downward should rates decline, but are capped at rates that are known as each loan is made. For an example of renegotiating loan interest downward, see the report entitled "Renegotiating the Applicable Federal Rate".

Due to the relative stability of the long-term Applicable Federal Rate coupled with the ability to renegotiate it downward, you may wish to establish your arrangement using long-term loans.

Loan-Based Private Split Dollar Funded With Variable Survivor Life (VSL)

Illustration of Values of The Policy Funding Loan-Based Private Split Dollar

Presented By: [Licensed User's Name Appears Here]
Date: 08/17/2004
Values Page: 1

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

		M/F Age	VSL Interest Rate	Initial Premium	Initial Policy Death Benefit		
		65/60	10.00%	300,000	10,000,000		
Year	Ages	(1) Policy Premium	(2) Pre-Tax Policy Cash Flow	(3) Year End Accum Value*	(4) Year End Cash Value*	(5) 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				

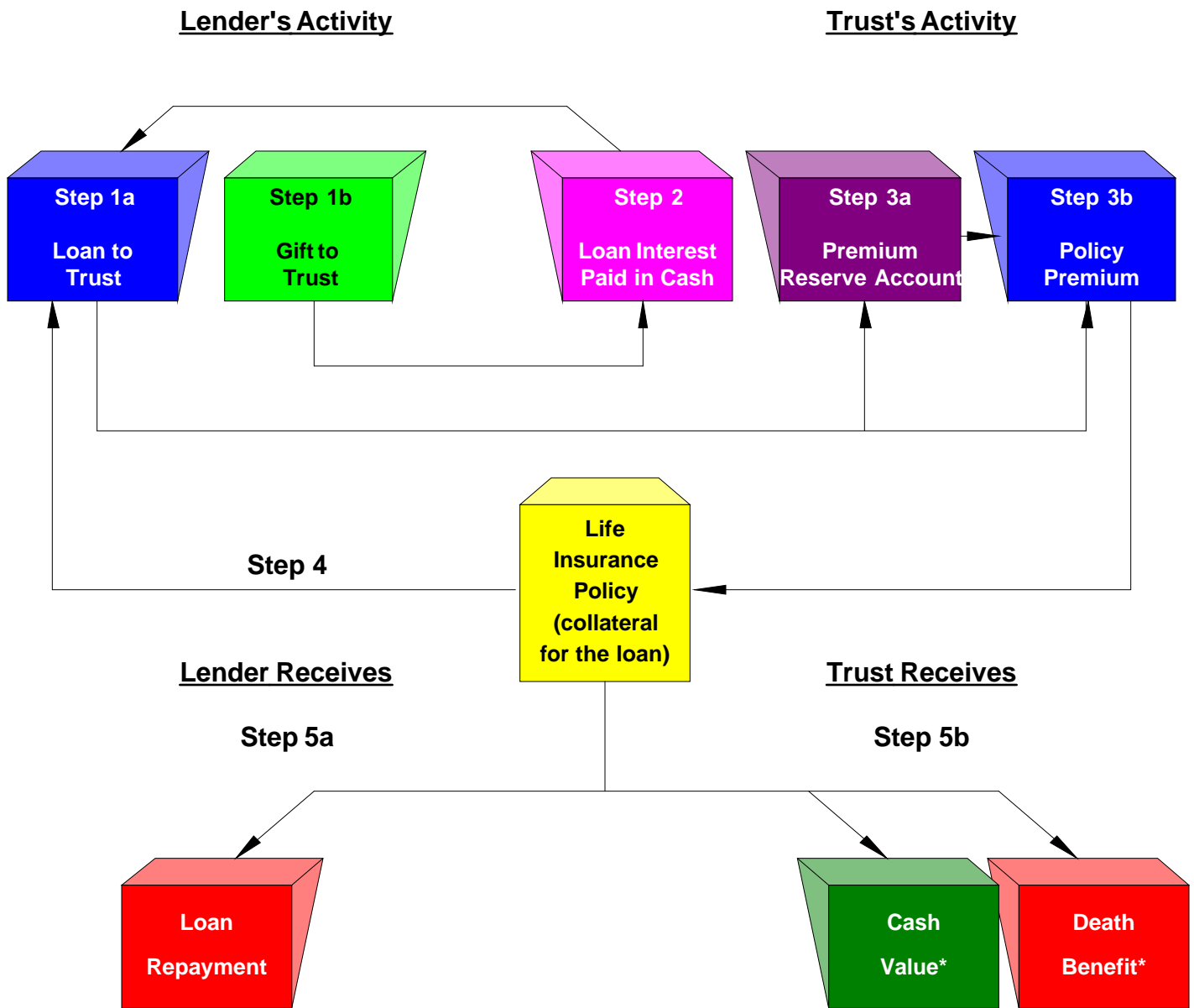
*This is an example of an InsMark "supplemental" illustration for variable survivor universal life. For an actual presentation, this footnote will refer to an accompanying "basic" illustration from a specific life insurance company and a prospectus.

Loan-Based Private Split Dollar Funded With Variable Survivor Life (VSL)

Presented By: [Licensed User's Name Appears Here]
Date: 08/17/2004

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

Flow Chart Analysis



*Net of loan repayment.

Loan-Based Private Split Dollar

Premium Reserve Account (PRA) Analysis Using a Tax Exempt Account

Presented By: [Licensed User's Name Appears Here]
Date: 08/17/2004
PRA Analysis Page: 1

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

M/F PRA's Assumed
Age Tax Exempt Yield
65/60 3.00%

Funding the Life Insurance Policy

Year	Ages	(1) Trust's Allocation to the Premium Reserve Account	(2) Life Insurance Premium Due	(3) Withdrawal from the Premium Reserve Account for Premium	(4) Year End Balance in Premium Reserve Acc't Incl. Interest*
1	65/60	1,415,130	300,000	300,000	1,148,584
2	66/61	0	300,000	300,000	874,041
3	67/62	0	300,000	300,000	591,263
4	68/63	0	300,000	300,000	300,001
5	69/64	0	300,000	300,000	1

1,415,130	1,500,000	1,500,000
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*Column (4) is the source of the values in column (4) on the page entitled Summary of the Plan.

Summary

Loan-Based Private Split Dollar Funded With Variable Survivor Life (VSL)

Presented By: [Licensed User's Name Appears Here]
Date: 08/17/2004
Summary Page: 1

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

M/F Age 65/60	VSL Interest Rate 10.00%	Initial Policy Death Benefit 10,000,000	Assumed Long-Term AFR for All Years Illustrated 5.21%
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		Gift and Loan Summary			Analysis of the Collateral			
Year	Ages	(1) Gift to Trust for Premium	(2) Loan to Trust for Premium	(3) Year End Balance of Loan	(4) Year End Premium Reserve Account*	(5) (6) (7) Variable Survivor Life (VSL)		
						Year End Accum Value**	Year End Cash Value**	Year End Death Benefit
1	65/60	0	1,415,130	1,415,130	1,148,584	224,448	0	10,224,450
2	66/61	0	0	1,415,130	874,041	549,531	283,531	10,549,530
3	67/62	0	0	1,415,130	591,263	901,372	635,372	10,901,370
4	68/63	0	0	1,415,130	300,001	1,282,245	1,016,245	11,282,250
5	69/64	0	0	1,415,130	1	1,693,993	1,427,992	11,693,990
6	70/65	0	0	1,415,130	0	1,829,140	1,576,440	11,829,140
7	71/66	0	0	1,415,130	0	1,970,151	1,730,751	11,970,150
8	72/67	0	0	1,415,130	0	2,122,024	1,895,924	12,122,020
9	73/68	0	0	1,415,130	0	2,282,809	2,070,009	12,282,810
10	74/69	0	0	1,415,130	0	2,452,513	2,253,013	12,452,510
11	75/70	0	0	1,415,130	0	2,628,522	2,448,972	12,628,520
12	76/71	0	0	1,415,130	0	2,811,623	2,652,023	12,811,620
13	77/72	0	0	1,415,130	0	2,996,923	2,857,273	12,996,920
14	78/73	0	0	1,415,130	0	3,183,361	3,063,661	13,183,360
15	79/74	0	0	1,415,130	0	3,377,031	3,277,281	13,377,030
16	80/75	0	0	1,415,130	0	3,578,549	3,498,749	13,578,550
17	81/76	0	0	1,415,130	0	3,786,087	3,726,237	13,786,090
20	84/79	0	0	1,415,130	0	4,396,615	4,396,614	14,396,610
25	89/84	0	0	1,415,130	0	5,172,231	5,172,230	15,172,230
30	94/89	0	0	1,415,130	0	4,523,176	4,523,176	14,523,180
		0	1,415,130					

30 Year Analysis

*See Premium Reserve Account Analysis.

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

	Living Values†	Death Benefit
VSL:	4,523,176	14,523,180
Loan Repayment Due:	1,415,130	1,415,130
Value to Policy Owner:	3,108,046	13,108,050

†Cash value less loans due Lender.

Promissory Note Analysis

Loan-Based Private Split Dollar Funded With Variable Survivor Life (VSL)

Presented By: [Licensed User's Name Appears Here]
Date: 08/17/2004
Promissory Note Analysis Page: 1

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

M/F Age 65/60	Funds for Loan Collateral* 1,415,130	Assumed Long-Term AFR for All Years Illustrated 5.21%	Promissory Note Interest Rate 5.21%		
Year	Ages	(1) Loan to Trust for Premium	(2) Loan Interest Due	(3) Gift to Trust for Loan Interest	(4) Year End Balance of Loan
1	65/60	1,415,130	73,728	73,728	1,415,130
2	66/61	0	73,728	73,728	1,415,130
3	67/62	0	73,728	73,728	1,415,130
4	68/63	0	73,728	73,728	1,415,130
5	69/64	0	73,728	73,728	1,415,130
6	70/65	0	73,728	73,728	1,415,130
7	71/66	0	73,728	73,728	1,415,130
8	72/67	0	73,728	73,728	1,415,130
9	73/68	0	73,728	73,728	1,415,130
10	74/69	0	73,728	73,728	1,415,130
11	75/70	0	73,728	73,728	1,415,130
12	76/71	0	73,728	73,728	1,415,130
13	77/72	0	73,728	73,728	1,415,130
14	78/73	0	73,728	73,728	1,415,130
15	79/74	0	73,728	73,728	1,415,130
16	80/75	0	73,728	73,728	1,415,130
17	81/76	0	73,728	73,728	1,415,130
20	84/79	0	73,728	73,728	1,415,130
25	89/84	0	73,728	73,728	1,415,130
30	94/89	0	73,728	73,728	1,415,130
		1,415,130	2,211,840	2,211,840	

*Trust's source of funds for loan collateral:
\$1,415,130 loan + \$0 gift = \$1,415,130

See the accompanying supplemental report entitled
"Loan-Based Private Split Dollar (Preface)" for remarks
regarding loan interest rates used in this illustration.

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

The promissory note associated with this plan is due in 30
years or at the prior death of the insureds.

Gift Analysis

Loan-Based Private Split Dollar Funded With Variable Survivor Life (VSL)

Presented By: [Licensed User's Name Appears Here]
Date: 08/17/2004
Gift Analysis Page: 1

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

		M/F Age 65/60	Funds for Loan Collateral* 1,415,130	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) Gift to Trust for Premium	(5) Gift to Trust for Loan Interest	(6) Total Gift to Trust (4) + (5)	(7) Remaining Tax Free Gifts Available (3) - (6)
1	65/60	2,000,000	88,000	2,088,000	0	73,728	73,728	2,014,272
2	66/61	2,000,000	88,000	2,088,000	0	73,728	73,728	2,014,272
3	67/62	2,000,000	96,000	2,096,000	0	73,728	73,728	2,022,272
4	68/63	2,000,000	96,000	2,096,000	0	73,728	73,728	2,022,272
5	69/64	2,000,000	96,000	2,096,000	0	73,728	73,728	2,022,272
6	70/65	2,000,000	104,000	2,104,000	0	73,728	73,728	2,030,272
7	71/66	2,000,000	104,000	2,104,000	0	73,728	73,728	2,030,272
8	72/67	2,000,000	112,000	2,112,000	0	73,728	73,728	2,038,272
9	73/68	2,000,000	112,000	2,112,000	0	73,728	73,728	2,038,272
10	74/69	2,000,000	120,000	2,120,000	0	73,728	73,728	2,046,272
11	75/70	2,000,000	120,000	2,120,000	0	73,728	73,728	2,046,272
12	76/71	2,000,000	120,000	2,120,000	0	73,728	73,728	2,046,272
13	77/72	2,000,000	128,000	2,128,000	0	73,728	73,728	2,054,272
14	78/73	2,000,000	128,000	2,128,000	0	73,728	73,728	2,054,272
15	79/74	2,000,000	136,000	2,136,000	0	73,728	73,728	2,062,272
16	80/75	2,000,000	136,000	2,136,000	0	73,728	73,728	2,062,272
17	81/76	2,000,000	144,000	2,144,000	0	73,728	73,728	2,070,272
20	84/79	2,000,000	160,000	2,160,000	0	73,728	73,728	2,086,272
25	89/84	2,000,000	184,000	2,184,000	0	73,728	73,728	2,110,272
30	94/89	2,000,000	216,000	2,216,000	0	73,728	73,728	2,142,272
			4,264,000		0	2,211,840	2,211,840	

*Trust's source of funds for loan collateral:
\$1,415,130 loan + \$0 gift = \$1,415,130

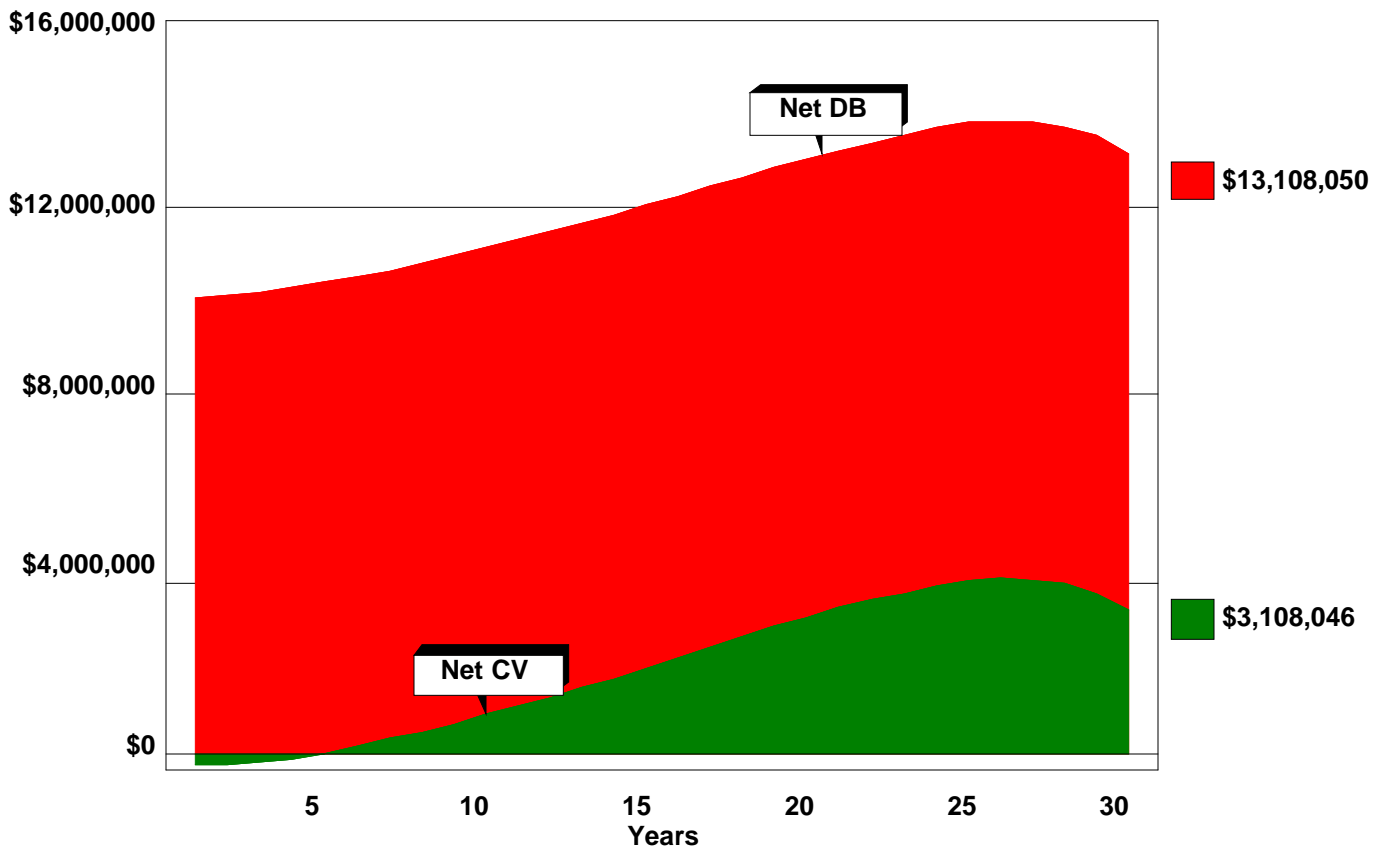
Values in Column (3) are based on client input assumptions.

Loan-Based Private Split Dollar Funded With Variable Survivor Life (VSL)

Presented By: [Licensed User's Name Appears Here]
Date: 08/17/2004

Lender and Trust Grantor: Jerry Grant
Borrower and Policy Owner: Grant Family Trust
Insureds 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

Note: Cash Value and Death Benefit includes Trust's Premium Reserve Account in years 1-5.