



Features of Loan-Based Split Dollar

Important Note: All aspects of Loan-Based Split Dollar must be reviewed and approved by a client's legal and tax counsel before the arrangement is utilized for any purpose.

Loan-Based Split Dollar ("LB-SD") (cast between Employers and Executives)

- ◆ LB-SD complies with the Final Split Dollar Regulations issued in September 2003.
- ◆ LB-SD illustration data is obtained through an electronic link to insurance company's illustration systems via InsMark's proprietary Button File technology.
- ◆ System illustrates new equity-type plans as well as the *conversion of in-force equity split dollar plans* (including the conversion of prior Employer split dollar advances to loans).
- ◆ LB-SD illustrates loans from Employer to covered Executive for policy premiums.
- ◆ LB-SD illustrates long-term loans (more than 9 years).
Note: Upon specific approval from the licensed insurance company, LB-SD can be configured to illustrate demand loans.
- ◆ LB-SD will not produce an illustration dated in any month in which the user has not first visited InsMark's website to download the Applicable Federal Rates in effect for that month.
- ◆ LB-SD illustrates loan interest *at least* at the Applicable Federal Rate established under IRC Sections 7872 and 1274(d).
Note: Use of interest-bearing loans (as opposed to interest-free loans) eliminates any impact from the Original Issue Discount ("OID") rules of IRC Sections 1271-1275. When applicable, these rules require the Executive to include in income the difference between the face amount of each loan from the Employer and the present value of that loan discounted at the Applicable Federal Rate. Frequently, this can result in taxable income equal to 60% to 70% of each loan.
- ◆ LB-SD can illustrate a single loan to the Executive placed in a Premium Reserve Account to be used to "feed" a policy with sufficient annual premiums to avoid MEC classification. This allows a favorable long-term Applicable Federal Rate to be locked down for the term of the loan.
Note: The Premium Reserve Account can be illustrated as a taxable or tax exempt account or a period-certain single premium immediate annuity -- with the latter generating an additional sale.
- ◆ LB-SD can illustrate bonuses from Employer to Executive to provide funds for loan interest using a single bonus, gross-up bonus, or design-your-own bonus. LB-SD alternatively can illustrate some (or all) loan interest due the Employer paid by policy loan. LB-SD can also illustrate repayment of the Employer's loans from policy loans. The user can designate any combination of these features.

Note: Even if offset by a bonus, so long as loan interest due to the Employer is actually paid by the Executive (not deemed paid as is the case with a below-market loan), deemed dividend distributions are avoided for a participating Shareholder-Executive.

- ◆ Illustrations are accompanied by a multi-page Preface that is illustration-specific in its details.
- ◆ LB-SD presents numerical data in Summary and Employer/Executive-specific formats.
- ◆ Special numerical columns in the reports can be included that illustrate policy loans funding retirement income for the Executive.
- ◆ LB-SD contains InsMark's unique InsScribe[®] System which automatically generates illustration-specific Flow Charts and Graphs.
- ◆ LB-SD illustrates Employer's year-by-year cumulative Charge to Earnings.
- ◆ LB-SD includes a comprehensive PowerPoint show useful for producer and adviser education.
- ◆ LB-SD includes a comprehensive electronic Guide to Marketing.
- ◆ LB-SD includes significant specimen documents including promissory notes and collateral assignments both of which contain reassignment provisions should the Employer wish to obtain loans from another source (e.g., a bank) to fund the plan.
- ◆ LB-SD blocks the illustration of a modified endowment contract as a MEC securing a loan produces taxable income to the policy owner to the extent of any gain in the policy (realized or unrealized).