

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 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 2.52% interest rate, the long-term AFR in effect for the month in which this report is written (February 2013).

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; therefore, significantly greater amounts than usual can typically 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, 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 2.52% for February 2013. Other Applicable Federal Rates in effect for February 2013 are:

Mid-term loans (over 3 years but not over 9): 1.01%;

Short-term loans (3 years or less): 0.21%;

Demand loans: 0.21%.

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 2013 blended rate for demand loans will not be announced until late June 2013.

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.

Illustration of Policy Values Funding The Plan

Loan-Based Private Split Dollar Using Indexed Survivor UL

Presented By: [Licensed user's name appears here]
Date: 02/15/2013
Values Page: 1

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

		M/F Age	Indexed SUL Interest Rate	Initial Premium	Initial Policy Death Benefit			
		65/60	8.00%	706,649	12,000,000			
		(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	706,649	0	619,811	300,611	12,619,810		
2	66/61	706,649	0	1,390,176	1,070,976	13,390,180		
3	67/62	706,649	0	2,224,973	1,905,773	14,224,970		
4	68/63	706,649	0	3,129,680	2,810,479	15,129,680		
5	69/64	706,649	0	4,109,489	3,790,289	16,109,490		
6	70/65	0	0	4,448,209	4,144,969	16,448,210		
7	71/66	0	0	4,808,978	4,521,698	16,808,980		
8	72/67	0	0	5,199,066	4,927,746	17,199,070		
9	73/68	0	0	5,617,518	5,362,157	17,617,520		
10	74/69	0	0	6,065,848	5,826,448	18,065,850		
11	75/70	0	0	6,542,553	6,327,093	18,542,550		
12	76/71	0	0	7,050,347	6,858,827	19,050,350		
13	77/72	0	0	7,585,286	7,417,706	19,585,290		
14	78/73	0	0	8,148,186	8,004,546	20,148,190		
15	79/74	0	0	8,748,615	8,628,915	20,748,620		
16	80/75	0	0	9,389,768	9,294,008	21,389,770		
20	84/79	0	0	12,338,794	12,338,794	24,338,790		
25	89/84	0	0	16,831,036	16,831,036	28,831,040		
30	94/89	0	0	21,417,482	21,417,482	33,417,480		
35	99/94	0	0	23,464,170	23,464,169	35,464,170		
		3,533,245	0					

*This is an example of an InsMark supplemental illustration for indexed survivor universal life. In an actual presentation, this footnote will refer to an accompanying basic illustration from a specific life insurance company with important details, caveats, and guarantees.

Summary

Loan-Based Private Split Dollar Funded With Indexed Survivor UL

Presented By: [Licensed user's name appears here]
Date: 02/15/2013
Summary Page: 1

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

M/F Age	Indexed SUL Interest Rate	Initial Policy Death Benefit	Assumed Long-Term AFR for All Years Illustrated	Promissory Note Interest Rate
65/60	8.00%	12,000,000	2.52%	2.52%

		Gift and Loan Summary			Analysis of the Collateral			
		(1)	(2)	(3)	(4)	(5)	(6)	(7)
		Gift to Trust for Premium	Loan to Trust for Premium	Year End Balance of Loan	Year End Premium Reserve Account*	Year End Accum Value**	Year End Cash Value**	Year End Death Benefit
Year	Ages					Indexed Survivor UL		
1	65/60	0	3,333,333	3,333,333	2,705,485	619,811	300,611	12,619,810
2	66/61	0	0	3,333,333	2,058,801	1,390,176	1,070,976	13,390,180
3	67/62	0	0	3,333,333	1,392,716	2,224,973	1,905,773	14,224,970
4	68/63	0	0	3,333,333	706,649	3,129,680	2,810,479	15,129,680
5	69/64	0	0	3,333,333	0	4,109,489	3,790,289	16,109,490
6	70/65	0	0	3,333,333	0	4,448,209	4,144,969	16,448,210
7	71/66	0	0	3,333,333	0	4,808,978	4,521,698	16,808,980
8	72/67	0	0	3,333,333	0	5,199,066	4,927,746	17,199,070
9	73/68	0	0	3,333,333	0	5,617,518	5,362,157	17,617,520
10	74/69	0	0	3,333,333	0	6,065,848	5,826,448	18,065,850
11	75/70	0	0	3,333,333	0	6,542,553	6,327,093	18,542,550
12	76/71	0	0	3,333,333	0	7,050,347	6,858,827	19,050,350
13	77/72	0	0	3,333,333	0	7,585,286	7,417,706	19,585,290
14	78/73	0	0	3,333,333	0	8,148,186	8,004,546	20,148,190
15	79/74	0	0	3,333,333	0	8,748,615	8,628,915	20,748,620
16	80/75	0	0	3,333,333	0	9,389,768	9,294,008	21,389,770
20	84/79	0	0	3,333,333	0	12,338,794	12,338,794	24,338,790
25	89/84	0	0	3,333,333	0	16,831,036	16,831,036	28,831,040
30	94/89	0	0	3,333,333	0	21,417,482	21,417,482	33,417,480
35	99/94	0	0	3,333,333	0	23,464,170	23,464,169	35,464,170
		0	3,333,333					

35 Year Analysis

*See Premium Reserve Account Analysis.

**This is an example of an InsMark supplemental illustration for indexed survivor universal life. In an actual presentation, this footnote will refer to an accompanying basic illustration from a specific life insurance company with important details, caveats, and guarantees.

	Living Values †	Death Benefit
Indexed SUL:	23,464,169	35,464,170
Loan Repayment Due:	3,333,333	3,333,333
Value to Policy Owner:	20,130,836	32,130,837

†Cash value less loans due Lender.

Loan-Based Private Split Dollar

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

Presented By: [Licensed user's name appears here]
 Date: 02/15/2013
 PRA Analysis Page: 1

Lender and Trust Grantor: Jerry and Janet 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	3,333,333	706,649	706,649	2,705,485
2	66/61	0	706,649	706,649	2,058,801
3	67/62	0	706,649	706,649	1,392,716
4	68/63	0	706,649	706,649	706,649
5	69/64	0	706,649	706,649	0

3,333,333	3,533,245	3,533,245
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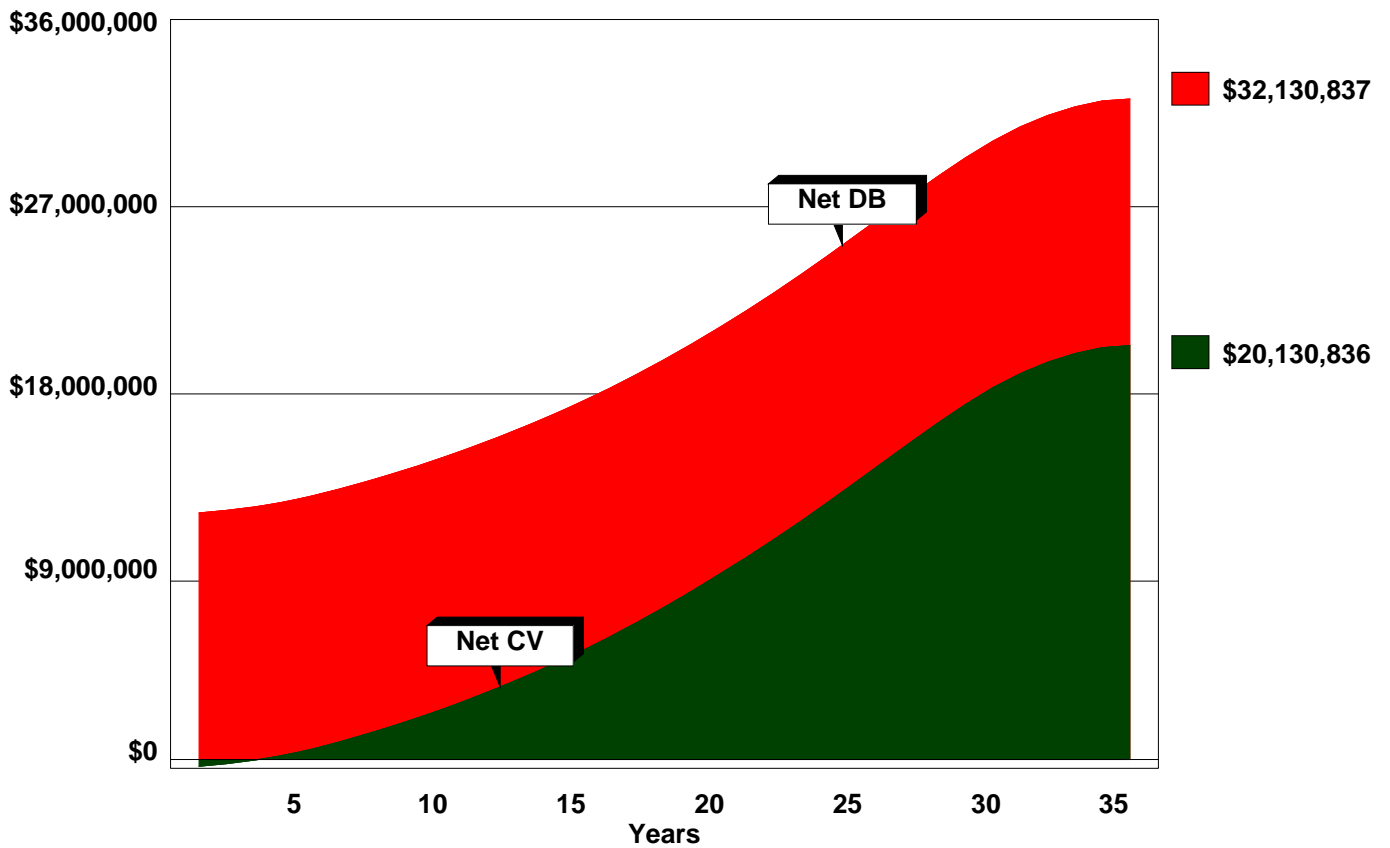
*Column (4) is the source of the values in Column (4) on the page entitled Summary of the Plan.

Loan-Based Private Split Dollar Funded With Indexed Survivor UL

Presented By: [Licensed user's name appears here]
Date: 02/15/2013

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

Trust's 35 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.

Promissory Note Analysis

Loan-Based Private Split Dollar Funded With Indexed Survivor UL

Presented By: [Licensed user's name appears here]
Date: 02/15/2013
Promissory Note Analysis Page: 1

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

		M/F Age 65/60	Assumed Long-Term AFR for All Years Illustrated 2.52%	Promissory Note Interest Rate 2.52%		
		(1)	(2)	(3)	(4)	
Year	Ages	Loan from Lender to Trust for Premium*	Loan Interest Due Lender from Trust	Gift to Trust to Apply on Loan Interest Due Lender	Year End Balance of Loan	
1	65/60	3,333,333	84,000	84,000	3,333,333	
2	66/61	0	84,000	84,000	3,333,333	
3	67/62	0	84,000	84,000	3,333,333	
4	68/63	0	84,000	84,000	3,333,333	
5	69/64	0	84,000	84,000	3,333,333	
6	70/65	0	84,000	84,000	3,333,333	
7	71/66	0	84,000	84,000	3,333,333	
8	72/67	0	84,000	84,000	3,333,333	
9	73/68	0	84,000	84,000	3,333,333	
10	74/69	0	84,000	84,000	3,333,333	
11	75/70	0	84,000	84,000	3,333,333	
12	76/71	0	84,000	84,000	3,333,333	
13	77/72	0	84,000	84,000	3,333,333	
14	78/73	0	84,000	84,000	3,333,333	
15	79/74	0	84,000	84,000	3,333,333	
16	80/75	0	84,000	84,000	3,333,333	
20	84/79	0	84,000	84,000	3,333,333	
25	89/84	0	84,000	84,000	3,333,333	
30	94/89	0	84,000	84,000	3,333,333	
35	99/94	0	84,000	84,000	3,333,333	
		3,333,333	2,940,000	2,940,000		

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

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 associated with this plan is due in 35 years or at the prior death of the insureds.

Gift Analysis

Loan-Based Private Split Dollar Funded With Indexed Survivor UL

Presented By: [Licensed user's name appears here]
Date: 02/15/2013
Gift Analysis Page: 1

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

		M/F Age 65/60	Annual Gift Exclusions 6	Beginning Lifetime Gift Exemption 10,500,000				
Year	Ages	(1) Lifetime Gift Exemption	(2) Annual Gift Exclusion Indexed @ 0.00%	(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	10,500,000	84,000	10,584,000	0	84,000	84,000	10,500,000
2	66/61	10,500,000	84,000	10,584,000	0	84,000	84,000	10,500,000
3	67/62	10,500,000	84,000	10,584,000	0	84,000	84,000	10,500,000
4	68/63	10,500,000	84,000	10,584,000	0	84,000	84,000	10,500,000
5	69/64	10,500,000	84,000	10,584,000	0	84,000	84,000	10,500,000
6	70/65	10,500,000	84,000	10,584,000	0	84,000	84,000	10,500,000
7	71/66	10,500,000	84,000	10,584,000	0	84,000	84,000	10,500,000
8	72/67	10,500,000	84,000	10,584,000	0	84,000	84,000	10,500,000
9	73/68	10,500,000	84,000	10,584,000	0	84,000	84,000	10,500,000
10	74/69	10,500,000	84,000	10,584,000	0	84,000	84,000	10,500,000
11	75/70	10,500,000	84,000	10,584,000	0	84,000	84,000	10,500,000
12	76/71	10,500,000	84,000	10,584,000	0	84,000	84,000	10,500,000
13	77/72	10,500,000	84,000	10,584,000	0	84,000	84,000	10,500,000
14	78/73	10,500,000	84,000	10,584,000	0	84,000	84,000	10,500,000
15	79/74	10,500,000	84,000	10,584,000	0	84,000	84,000	10,500,000
16	80/75	10,500,000	84,000	10,584,000	0	84,000	84,000	10,500,000
20	84/79	10,500,000	84,000	10,584,000	0	84,000	84,000	10,500,000
25	89/84	10,500,000	84,000	10,584,000	0	84,000	84,000	10,500,000
30	94/89	10,500,000	84,000	10,584,000	0	84,000	84,000	10,500,000
35	99/94	10,500,000	84,000	10,584,000	0	84,000	84,000	10,500,000
			2,940,000		0	2,940,000	2,940,000	

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