Loan-Based Private Split Dollar

For: Jerry Grant/Janet Grant

Presented By:

[Licensed user's name appears here]

Preface

Loan-based private split dollar 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.

Promissory Notes: The loans associated with the arrangement are evidenced by a series of promissory notes between the Lender and the trust, and the life insurance policy is assigned as collateral security for the loans. The loans are term loans, i.e., they are 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 repayments.

Loan Interest: The interest rate for the life of each loan is set at least 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 borrower. 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 entire series of premium loans illustrated in the accompanying material reflects a constant 3.37% interest rate, the long-term AFR in effect for the month in which this report is written (May 2014). The loan interest rate for each new loan will likely be different, and each future loan must bear interest equal to or greater than the AFR in effect during the month the new loan is executed. Each new loan should be evidenced by its own promissory note as well.

There are four ways to deal with unknown future 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, the trust could be allowed to accrue the additional loan interest. Alternatively, the trustee may be able to withdraw funds from the policy to make up the difference in the loan interest due.
3. Renegotiate the loans: Wait until a time when the AFR dips and recast the series of notes into a new note at the reduced rate. For a detailed analysis of this strategy, see the report entitled "Renegotiating the Applicable Federal Rate".
4. 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 to pay the remaining stream of premiums as they fall due.

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.

Preface (continued)

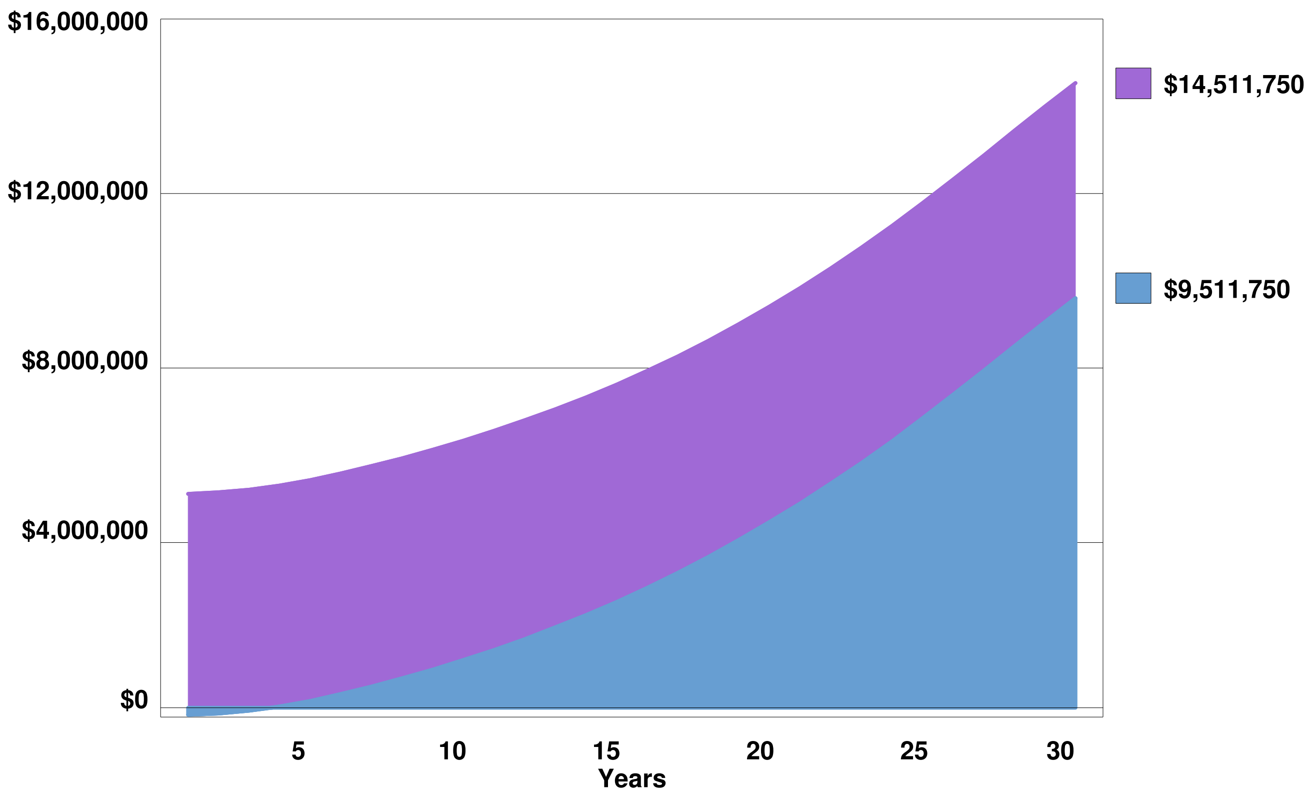
Taxation At Death: The life insurance payable to the trust should be free of all estate transfer taxes as the presence of the loans to the trust should not contaminate the estate tax free nature of the life insurance death benefit (PLR 9809032). The promissory notes are repayable by the trust at the end of the term of years specified in 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 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 trust are a single income tax entity.

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 can be used to provide cash flow to trust beneficiaries. The trustee can also use policy loans proceeds for promissory note repayments or loan interest payments.

Notes

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.



	At Year 30
Trust's Cash Value Less Cum. Loan Due Lender	$9,511,750
Trust's Estate Tax Free Death Benefit Less Cum. Loan Due Lender	$14,511,750

This graphic assumes the non-guaranteed values shown continue in all years. This is not likely, and actual results may be more or less favorable.

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

Supplemental Report: Duration of Loans

Each premium payment is considered a new loan, and 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 3.37% for May 2014. Other Applicable Federal Rates in effect for May 2014 are:

Mid-term loans (over 3 years but not over 9): 1.93%;

Short-term loans (3 years or less): 0.33%;

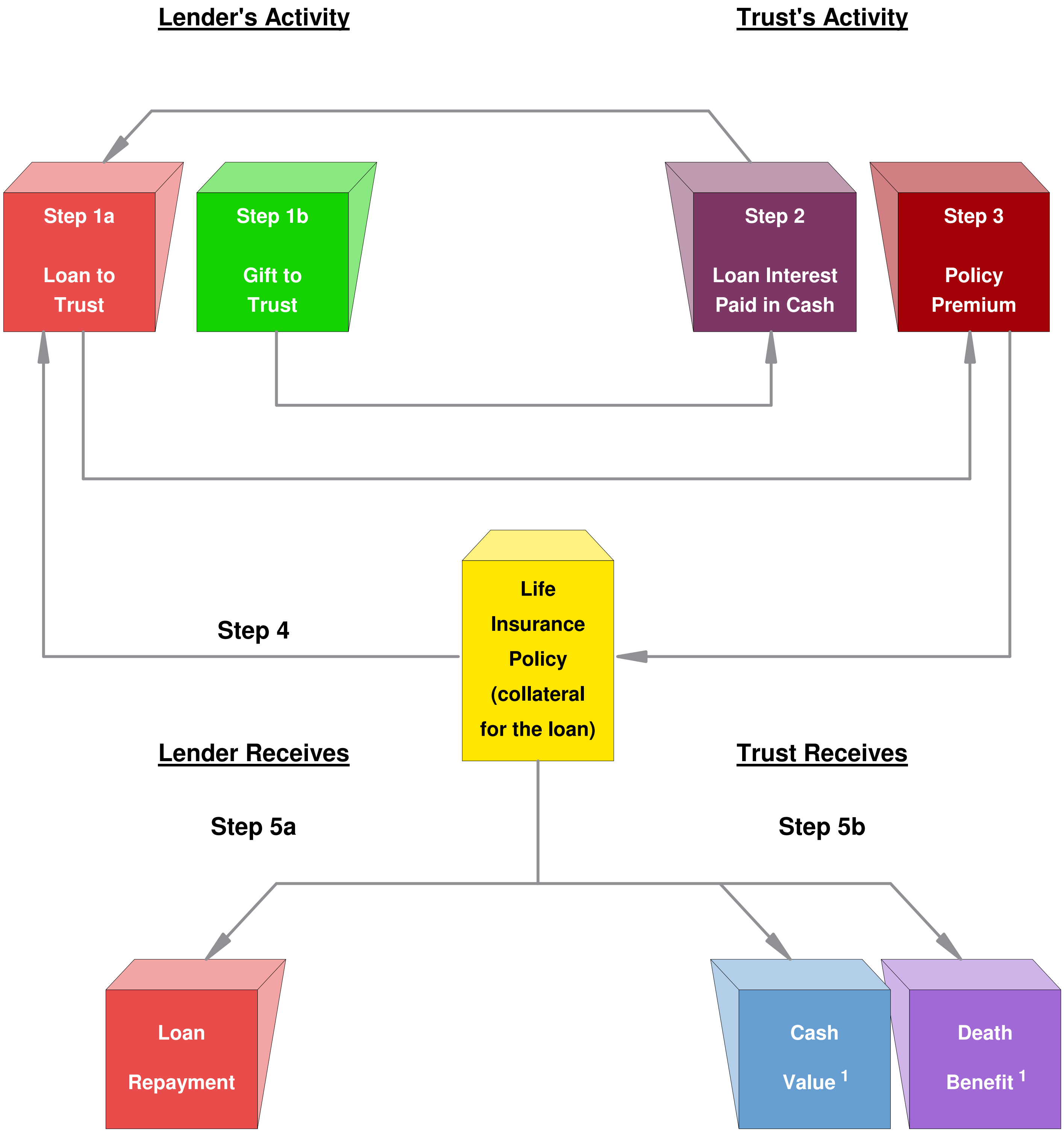
Demand loans: 0.33%.

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 2014 blended rate for demand loans will not be announced until late June 2014.

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.

Flow Chart



[1] Net of loan repayment.

Loan-Based Private Split Dollar Using Indexed Survivor UL

Presented By: [Licensed User's name appears here] | Lender and Trust Grantor: Jerry Grant

Illustration of Policy Values Funding The Plan

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

Indexed SUL Interest Rate	Initial Premium	Initial Policy Death Benefit
8.50%	300,000	5,000,000

Year	M/F 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	268,107	135,107	5,268,108
2	66/61	300,000	0	601,226	468,226	5,601,226
3	67/62	300,000	0	963,888	830,888	5,963,888
4	68/63	300,000	0	1,358,751	1,225,751	6,358,751
5	69/64	300,000	0	1,788,401	1,655,401	6,788,401
6	70/65	0	0	1,944,880	1,818,530	6,944,880
7	71/66	0	0	2,112,626	1,992,926	7,112,626
8	72/67	0	0	2,294,907	2,181,857	7,294,907
9	73/68	0	0	2,491,591	2,385,191	7,491,591
10	74/69	0	0	2,703,601	2,603,851	7,703,601
11	75/70	0	0	2,930,626	2,840,851	7,930,626
12	76/71	0	0	3,174,144	3,094,344	8,174,144
13	77/72	0	0	3,432,891	3,363,066	8,432,891
14	78/73	0	0	3,707,612	3,647,762	8,707,612
15	79/74	0	0	4,002,751	3,952,876	9,002,751
16	80/75	0	0	4,320,146	4,280,246	9,320,146
17	81/76	0	0	4,660,554	4,630,629	9,660,554
18	82/77	0	0	5,023,300	5,003,350	10,023,300
19	83/78	0	0	5,407,775	5,397,800	10,407,770
20	84/79	0	0	5,814,691	5,814,691	10,814,690
21	85/80	0	0	6,245,516	6,245,516	11,245,520
22	86/81	0	0	6,701,472	6,701,471	11,701,470
23	87/82	0	0	7,183,084	7,183,084	12,183,080
24	88/83	0	0	7,690,366	7,690,366	12,690,370
25	89/84	0	0	8,221,028	8,221,027	13,221,030
26	90/85	0	0	8,769,834	8,769,834	13,769,830
27	91/86	0	0	9,330,842	9,330,842	14,330,840
28	92/87	0	0	9,897,702	9,897,702	14,897,700
29	93/88	0	0	10,462,756	10,462,756	15,462,760
30	94/89	0	0	11,011,750	11,011,750	16,011,750
		1,500,000	0			

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

Summary

Indexed SUL Interest Rate	Initial Policy Death Benefit	Assumed Long-Term AFR for All Years Illustrated	Promissory Note Interest Rate
8.50%	5,000,000	3.37%	3.37%

		Gift and Loan Summary			Analysis of the Collateral: Indexed Survivor UL		
Year	M/F Ages	(1) Gift to Trust for Premium	(2) Loan to Trust for Premium	(3) Year End Balance of Loan	(4) Year End Accum Value*	(5) Year End Cash Value*	(6) Year End Death Benefit
1	65/60	0	300,000	300,000	268,107	135,107	5,268,108
2	66/61	0	300,000	600,000	601,226	468,226	5,601,226
3	67/62	0	300,000	900,000	963,888	830,888	5,963,888
4	68/63	0	300,000	1,200,000	1,358,751	1,225,751	6,358,751
5	69/64	0	300,000	1,500,000	1,788,401	1,655,401	6,788,401
6	70/65	0	0	1,500,000	1,944,880	1,818,530	6,944,880
7	71/66	0	0	1,500,000	2,112,626	1,992,926	7,112,626
8	72/67	0	0	1,500,000	2,294,907	2,181,857	7,294,907
9	73/68	0	0	1,500,000	2,491,591	2,385,191	7,491,591
10	74/69	0	0	1,500,000	2,703,601	2,603,851	7,703,601
11	75/70	0	0	1,500,000	2,930,626	2,840,851	7,930,626
12	76/71	0	0	1,500,000	3,174,144	3,094,344	8,174,144
13	77/72	0	0	1,500,000	3,432,891	3,363,066	8,432,891
14	78/73	0	0	1,500,000	3,707,612	3,647,762	8,707,612
15	79/74	0	0	1,500,000	4,002,751	3,952,876	9,002,751
16	80/75	0	0	1,500,000	4,320,146	4,280,246	9,320,146
17	81/76	0	0	1,500,000	4,660,554	4,630,629	9,660,554
18	82/77	0	0	1,500,000	5,023,300	5,003,350	10,023,300
19	83/78	0	0	1,500,000	5,407,775	5,397,800	10,407,770
20	84/79	0	0	1,500,000	5,814,691	5,814,691	10,814,690
21	85/80	0	0	1,500,000	6,245,516	6,245,516	11,245,520
22	86/81	0	0	1,500,000	6,701,472	6,701,471	11,701,470
23	87/82	0	0	1,500,000	7,183,084	7,183,084	12,183,080
24	88/83	0	0	1,500,000	7,690,366	7,690,366	12,690,370
25	89/84	0	0	1,500,000	8,221,028	8,221,027	13,221,030
26	90/85	0	0	1,500,000	8,769,834	8,769,834	13,769,830
27	91/86	0	0	1,500,000	9,330,842	9,330,842	14,330,840
28	92/87	0	0	1,500,000	9,897,702	9,897,702	14,897,700
29	93/88	0	0	1,500,000	10,462,756	10,462,756	15,462,760
30	94/89	0	0	1,500,000	11,011,750	11,011,750	16,011,750
		0	1,500,000				

30 Year Analysis

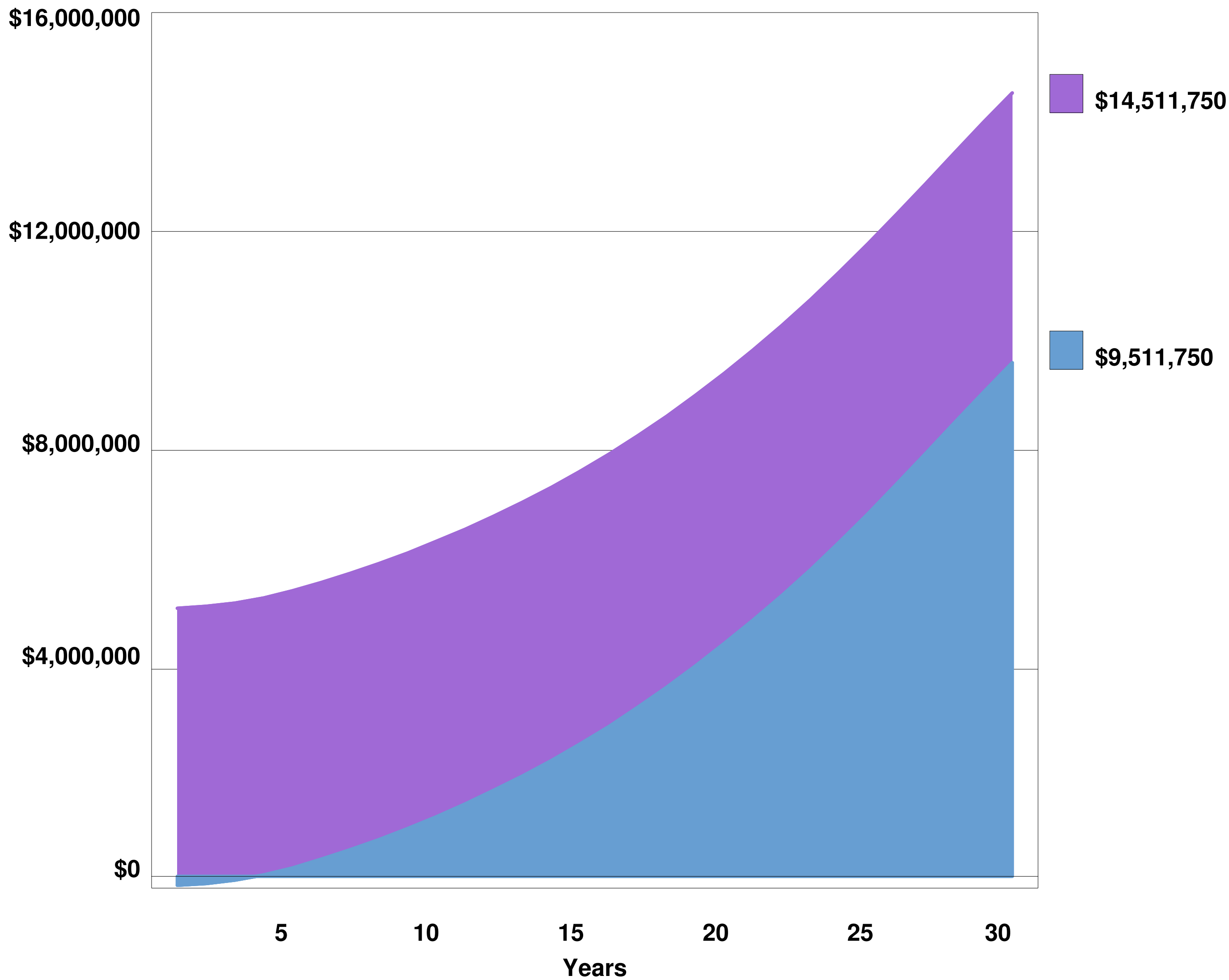
	Living Values †	Death Benefit
Indexed SUL:	11,011,750	16,011,750
Loan Repayment Due:	1,500,000	1,500,000
Value to Policy Owner:	9,511,750	14,511,750

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

†Cash value less loans due Lender.

Trust's 30 Year Analysis

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



		At Year 30
Trust's Cash Value Less Cum. Loan Due Lender		$9,511,750
Trust's Estate Tax Free Death Benefit Less Cum. Loan Due Lender		$14,511,750

Promissory Note Analysis

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

Assumed Long-Term AFR for All Years Illustrated 3.37%

Promissory Note Interest Rate 3.37%

Year	M/F Ages	(1) Loan from Lender to Trust for Premium*	(2) Loan Interest Due Lender from Trust	(3) Gift to Trust to Apply on Loan Interest Due Lender	(4) Year End Balance of Loan
1	65/60	300,000	10,110	10,110	300,000
2	66/61	300,000	20,220	20,220	600,000
3	67/62	300,000	30,330	30,330	900,000
4	68/63	300,000	40,440	40,440	1,200,000
5	69/64	300,000	50,550	50,550	1,500,000
6	70/65	0	50,550	50,550	1,500,000
7	71/66	0	50,550	50,550	1,500,000
8	72/67	0	50,550	50,550	1,500,000
9	73/68	0	50,550	50,550	1,500,000
10	74/69	0	50,550	50,550	1,500,000
11	75/70	0	50,550	50,550	1,500,000
12	76/71	0	50,550	50,550	1,500,000
13	77/72	0	50,550	50,550	1,500,000
14	78/73	0	50,550	50,550	1,500,000
15	79/74	0	50,550	50,550	1,500,000
16	80/75	0	50,550	50,550	1,500,000
17	81/76	0	50,550	50,550	1,500,000
18	82/77	0	50,550	50,550	1,500,000
19	83/78	0	50,550	50,550	1,500,000
20	84/79	0	50,550	50,550	1,500,000
21	85/80	0	50,550	50,550	1,500,000
22	86/81	0	50,550	50,550	1,500,000
23	87/82	0	50,550	50,550	1,500,000
24	88/83	0	50,550	50,550	1,500,000
25	89/84	0	50,550	50,550	1,500,000
26	90/85	0	50,550	50,550	1,500,000
27	91/86	0	50,550	50,550	1,500,000
28	92/87	0	50,550	50,550	1,500,000
29	93/88	0	50,550	50,550	1,500,000
30	94/89	0	50,550	50,550	1,500,000
		1,500,000	1,415,400	1,415,400	

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.

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

Gift Analysis

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

Annual Gift Exclusions	Beginning Lifetime Gift Exemption
6	10,680,000

Year	M/F 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	10,680,000	84,000	10,764,000	0	10,110	10,110	10,753,890
2	66/61	10,680,000	84,000	10,764,000	0	20,220	20,220	10,743,780
3	67/62	10,680,000	90,000	10,770,000	0	30,330	30,330	10,739,670
4	68/63	10,680,000	90,000	10,770,000	0	40,440	40,440	10,729,560
5	69/64	10,680,000	96,000	10,776,000	0	50,550	50,550	10,725,450
6	70/65	10,680,000	96,000	10,776,000	0	50,550	50,550	10,725,450
7	71/66	10,680,000	102,000	10,782,000	0	50,550	50,550	10,731,450
8	72/67	10,680,000	102,000	10,782,000	0	50,550	50,550	10,731,450
9	73/68	10,680,000	108,000	10,788,000	0	50,550	50,550	10,737,450
10	74/69	10,680,000	108,000	10,788,000	0	50,550	50,550	10,737,450
11	75/70	10,680,000	114,000	10,794,000	0	50,550	50,550	10,743,450
12	76/71	10,680,000	120,000	10,800,000	0	50,550	50,550	10,749,450
13	77/72	10,680,000	120,000	10,800,000	0	50,550	50,550	10,749,450
14	78/73	10,680,000	126,000	10,806,000	0	50,550	50,550	10,755,450
15	79/74	10,680,000	126,000	10,806,000	0	50,550	50,550	10,755,450
16	80/75	10,680,000	132,000	10,812,000	0	50,550	50,550	10,761,450
17	81/76	10,680,000	138,000	10,818,000	0	50,550	50,550	10,767,450
18	82/77	10,680,000	144,000	10,824,000	0	50,550	50,550	10,773,450
19	83/78	10,680,000	144,000	10,824,000	0	50,550	50,550	10,773,450
20	84/79	10,680,000	150,000	10,830,000	0	50,550	50,550	10,779,450
21	85/80	10,680,000	156,000	10,836,000	0	50,550	50,550	10,785,450
22	86/81	10,680,000	162,000	10,842,000	0	50,550	50,550	10,791,450
23	87/82	10,680,000	162,000	10,842,000	0	50,550	50,550	10,791,450
24	88/83	10,680,000	168,000	10,848,000	0	50,550	50,550	10,797,450
25	89/84	10,680,000	174,000	10,854,000	0	50,550	50,550	10,803,450
26	90/85	10,680,000	180,000	10,860,000	0	50,550	50,550	10,809,450
27	91/86	10,680,000	186,000	10,866,000	0	50,550	50,550	10,815,450
28	92/87	10,680,000	192,000	10,872,000	0	50,550	50,550	10,821,450
29	93/88	10,680,000	198,000	10,878,000	0	50,550	50,550	10,827,450
30	94/89	10,680,000	204,000	10,884,000	0	50,550	50,550	10,833,450
			4,056,000		0	1,415,400	1,415,400	

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