

Loan-Based Private Split Dollar

For: Jerry Grant/Janet Grant



Presented By: _____

[Licensed user's name appears here]

Preface

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

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.

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 3.37% interest rate, the long-term AFR in effect for the month in which this report is written (May 2014).

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

Loan-Based Private Split Dollar

Presented By: [Licensed User's name appears here]

Lender and Trust Grantor: Jerry Grant

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

Preface (continued)

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.

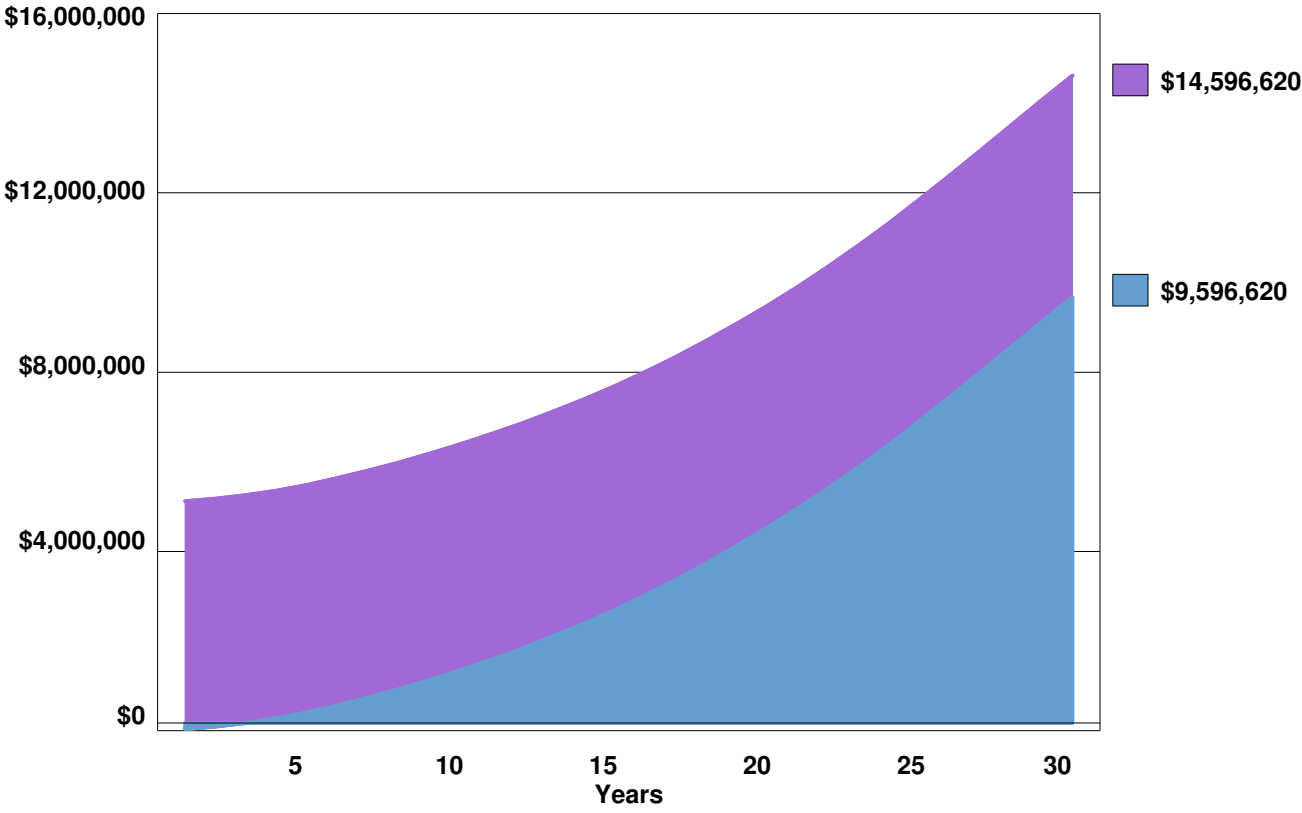
Policy Loans: Assuming the terms of the trust authorize borrowing on the policy, the trustee of the trust can borrow policy cash values in excess of those that collateralize the promissory notes and any accrued interest and, if deemed appropriate by the trustee, policy loans could be used to provide 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.

Loan-based private split dollar is designed to be in compliance with the Final Split Dollar Regulations issued in September 2003 (68 FR 54336).

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 ■ \$9,596,620
Trust's Estate Tax Free Death Benefit Less Cum. Loan Due Lender ■ \$14,596,620

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.

Supplemental Report: Duration of Loans

Borrower and Policy Owner: Grant Family Trust

Insured: Jerry Grant/Janet Grant

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.

Loan-Based Private Split Dollar Funded With Indexed Survivor UL

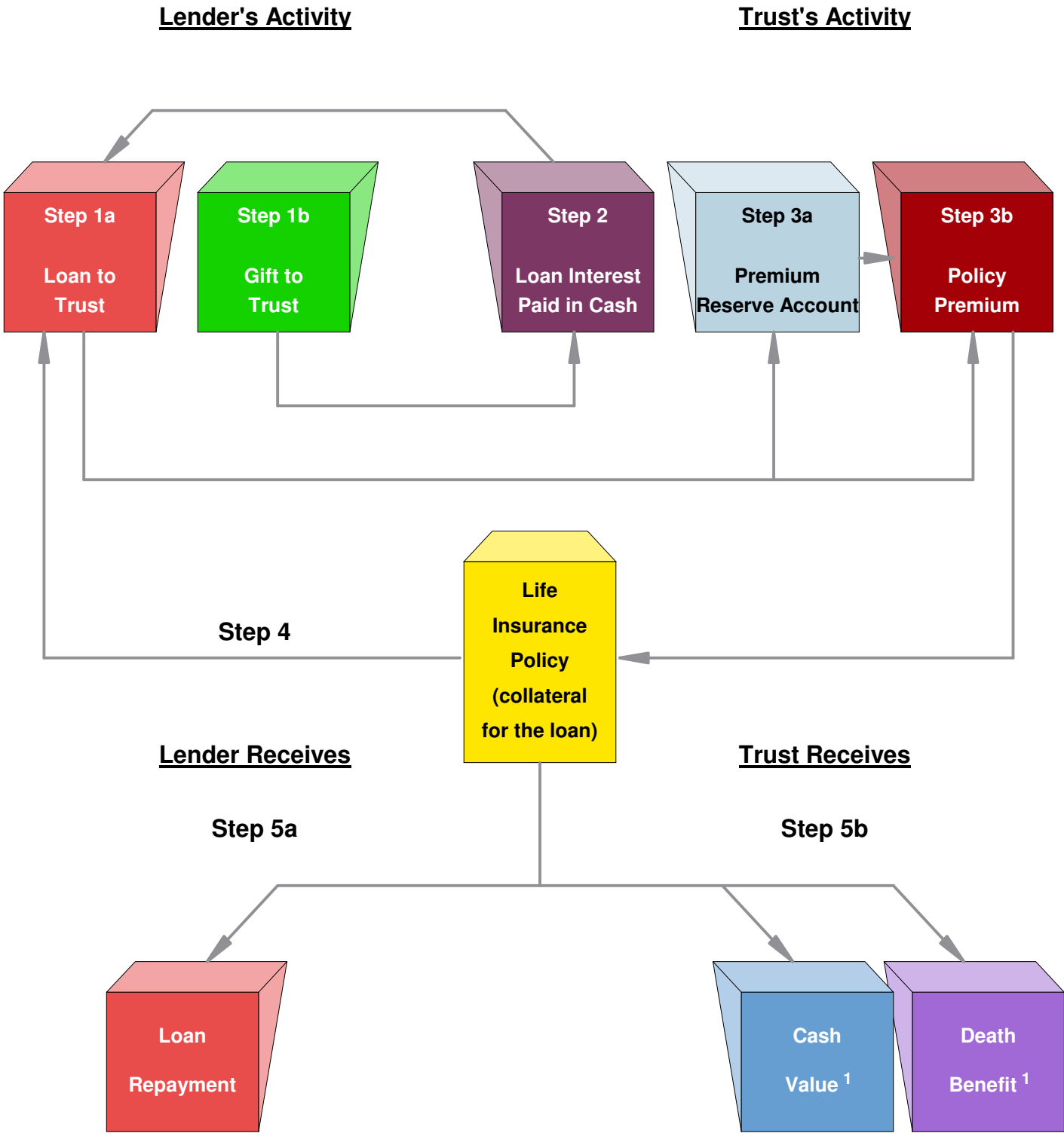
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Lender and Trust Grantor: Jerry Grant

Borrower and Policy Owner: Grant Family Trust

Insureds: Jerry Grant/Janet Grant

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 8.50%	Initial Premium 300,000	Initial Policy Death Benefit 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.

Loan-Based Private Split Dollar Funded With Indexed Survivor UL

Presented By: [Licensed User's name appears here]

Lender and Trust Grantor: Jerry Grant

Summary

Borrower and Policy Owner: Grant Family Trust

Insureds: Jerry Grant/Janet Grant

Indexed SUL
Interest Rate
8.50%

Initial Policy
Death Benefit
5,000,000

Assumed Long-Term AFR
for All Years Illustrated
3.37%

Promissory Note
Interest Rate
3.37%

		Gift and Loan Summary			Analysis of the Collateral			
		(1)	(2)	(3)	Indexed Survivor UL			
Year	M/F Ages	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
1	65/60	0	1,415,130	1,415,130	1,148,584	268,107	135,107	5,268,108
2	66/61	0	0	1,415,130	874,041	601,226	468,226	5,601,226
3	67/62	0	0	1,415,130	591,263	963,888	830,888	5,963,888
4	68/63	0	0	1,415,130	300,001	1,358,751	1,225,751	6,358,751
5	69/64	0	0	1,415,130	1	1,788,401	1,655,401	6,788,401
6	70/65	0	0	1,415,130	0	1,944,880	1,818,530	6,944,880
7	71/66	0	0	1,415,130	0	2,112,626	1,992,926	7,112,626
8	72/67	0	0	1,415,130	0	2,294,907	2,181,857	7,294,907
9	73/68	0	0	1,415,130	0	2,491,591	2,385,191	7,491,591
10	74/69	0	0	1,415,130	0	2,703,601	2,603,851	7,703,601
11	75/70	0	0	1,415,130	0	2,930,626	2,840,851	7,930,626
12	76/71	0	0	1,415,130	0	3,174,144	3,094,344	8,174,144
13	77/72	0	0	1,415,130	0	3,432,891	3,363,066	8,432,891
14	78/73	0	0	1,415,130	0	3,707,612	3,647,762	8,707,612
15	79/74	0	0	1,415,130	0	4,002,751	3,952,876	9,002,751
16	80/75	0	0	1,415,130	0	4,320,146	4,280,246	9,320,146
17	81/76	0	0	1,415,130	0	4,660,554	4,630,629	9,660,554
18	82/77	0	0	1,415,130	0	5,023,300	5,003,350	10,023,300
19	83/78	0	0	1,415,130	0	5,407,775	5,397,800	10,407,775
20	84/79	0	0	1,415,130	0	5,814,691	5,814,691	10,814,691
21	85/80	0	0	1,415,130	0	6,245,516	6,245,516	11,245,520
22	86/81	0	0	1,415,130	0	6,701,472	6,701,471	11,701,470
23	87/82	0	0	1,415,130	0	7,183,084	7,183,084	12,183,080
24	88/83	0	0	1,415,130	0	7,690,366	7,690,366	12,690,370
25	89/84	0	0	1,415,130	0	8,221,028	8,221,027	13,221,030
26	90/85	0	0	1,415,130	0	8,769,834	8,769,834	13,769,830
27	91/86	0	0	1,415,130	0	9,330,842	9,330,842	14,330,840
28	92/87	0	0	1,415,130	0	9,897,702	9,897,702	14,897,700
29	93/88	0	0	1,415,130	0	10,462,756	10,462,756	15,462,760
30	94/89	0	0	1,415,130	0	11,011,750	11,011,750	16,011,750
		0	1,415,130					

30 Year Analysis

*See Premium Reserve Account Analysis.

**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.

	Living Values †	Death Benefit
Indexed SUL:	11,011,750	16,011,750
Loan Repayment Due:	1,415,130	1,415,130
Value to Policy Owner:	9,596,620	14,596,620

†Cash value less loans due Lender.

Loan-Based Private Split Dollar Funded With Indexed Survivor UL

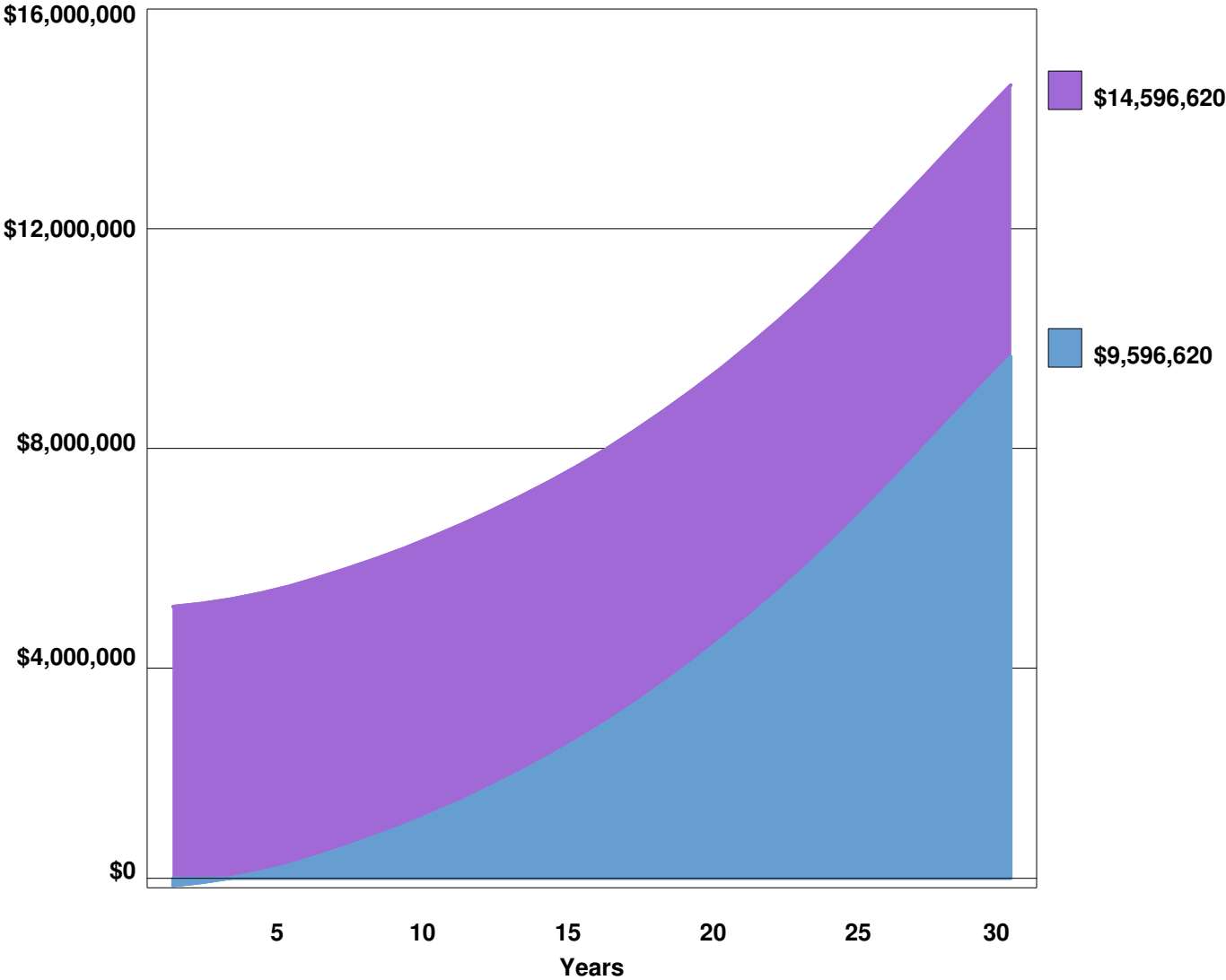
Presented By: [Licensed User's name appears here]

Lender and Trust Grantor: Jerry Grant

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 ■ \$9,596,620
Trust's Estate Tax Free Death Benefit Less Cum. Loan Due Lender ■ \$14,596,620

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

Loan-Based Private Split Dollar Funded With Indexed Survivor UL

Presented By: [Licensed User's name appears here]

Lender and Trust Grantor: Jerry Grant

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	1,415,130	47,690	47,690	1,415,130
2	66/61	0	47,690	47,690	1,415,130
3	67/62	0	47,690	47,690	1,415,130
4	68/63	0	47,690	47,690	1,415,130
5	69/64	0	47,690	47,690	1,415,130
6	70/65	0	47,690	47,690	1,415,130
7	71/66	0	47,690	47,690	1,415,130
8	72/67	0	47,690	47,690	1,415,130
9	73/68	0	47,690	47,690	1,415,130
10	74/69	0	47,690	47,690	1,415,130
11	75/70	0	47,690	47,690	1,415,130
12	76/71	0	47,690	47,690	1,415,130
13	77/72	0	47,690	47,690	1,415,130
14	78/73	0	47,690	47,690	1,415,130
15	79/74	0	47,690	47,690	1,415,130
16	80/75	0	47,690	47,690	1,415,130
17	81/76	0	47,690	47,690	1,415,130
18	82/77	0	47,690	47,690	1,415,130
19	83/78	0	47,690	47,690	1,415,130
20	84/79	0	47,690	47,690	1,415,130
21	85/80	0	47,690	47,690	1,415,130
22	86/81	0	47,690	47,690	1,415,130
23	87/82	0	47,690	47,690	1,415,130
24	88/83	0	47,690	47,690	1,415,130
25	89/84	0	47,690	47,690	1,415,130
26	90/85	0	47,690	47,690	1,415,130
27	91/86	0	47,690	47,690	1,415,130
28	92/87	0	47,690	47,690	1,415,130
29	93/88	0	47,690	47,690	1,415,130
30	94/89	0	47,690	47,690	1,415,130
		1,415,130	1,430,700	1,430,700	

*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 30 years or at the prior death of the insureds.

Loan-Based Private Split Dollar Funded With Indexed Survivor UL

Presented By: [Licensed User's name appears here]

Lender and Trust Grantor: Jerry Grant

Gift Analysis

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

		Annual Gift Exclusions 6		Beginning Lifetime Gift Exemption 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	47,690	47,690	10,716,310
2	66/61	10,680,000	84,000	10,764,000	0	47,690	47,690	10,716,310
3	67/62	10,680,000	90,000	10,770,000	0	47,690	47,690	10,722,310
4	68/63	10,680,000	90,000	10,770,000	0	47,690	47,690	10,722,310
5	69/64	10,680,000	96,000	10,776,000	0	47,690	47,690	10,728,310
6	70/65	10,680,000	96,000	10,776,000	0	47,690	47,690	10,728,310
7	71/66	10,680,000	102,000	10,782,000	0	47,690	47,690	10,734,310
8	72/67	10,680,000	102,000	10,782,000	0	47,690	47,690	10,734,310
9	73/68	10,680,000	108,000	10,788,000	0	47,690	47,690	10,740,310
10	74/69	10,680,000	108,000	10,788,000	0	47,690	47,690	10,740,310
11	75/70	10,680,000	114,000	10,794,000	0	47,690	47,690	10,746,310
12	76/71	10,680,000	120,000	10,800,000	0	47,690	47,690	10,752,310
13	77/72	10,680,000	120,000	10,800,000	0	47,690	47,690	10,752,310
14	78/73	10,680,000	126,000	10,806,000	0	47,690	47,690	10,758,310
15	79/74	10,680,000	126,000	10,806,000	0	47,690	47,690	10,758,310
16	80/75	10,680,000	132,000	10,812,000	0	47,690	47,690	10,764,310
17	81/76	10,680,000	138,000	10,818,000	0	47,690	47,690	10,770,310
18	82/77	10,680,000	144,000	10,824,000	0	47,690	47,690	10,776,310
19	83/78	10,680,000	144,000	10,824,000	0	47,690	47,690	10,776,310
20	84/79	10,680,000	150,000	10,830,000	0	47,690	47,690	10,782,310
21	85/80	10,680,000	156,000	10,836,000	0	47,690	47,690	10,788,310
22	86/81	10,680,000	162,000	10,842,000	0	47,690	47,690	10,794,310
23	87/82	10,680,000	162,000	10,842,000	0	47,690	47,690	10,794,310
24	88/83	10,680,000	168,000	10,848,000	0	47,690	47,690	10,800,310
25	89/84	10,680,000	174,000	10,854,000	0	47,690	47,690	10,806,310
26	90/85	10,680,000	180,000	10,860,000	0	47,690	47,690	10,812,310
27	91/86	10,680,000	186,000	10,866,000	0	47,690	47,690	10,818,310
28	92/87	10,680,000	192,000	10,872,000	0	47,690	47,690	10,824,310
29	93/88	10,680,000	198,000	10,878,000	0	47,690	47,690	10,830,310
30	94/89	10,680,000	204,000	10,884,000	0	47,690	47,690	10,836,310
			4,056,000		0	1,430,700	1,430,700	

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