

# Private Limited Collateral Assignment Split Dollar

For: A. J. Montgomery/Nancy Montgomery



Presented By: \_\_\_\_\_

[Licensed user's name appears here]

# Private Limited Collateral Assignment Split Dollar

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

Plan Sponsor: A. J. and Nancy Montgomery

Plan Recipient and Policy Owner: Montgomery Family Trust  
 Insured: A. J. Montgomery/Nancy Montgomery

## Preface

Of all the strategies used by families for wealth preservation planning, Limited Collateral Assignment Split Dollar is one of the most efficient.

With this arrangement, parents (referred to as "Plan Sponsor") pay a substantial share of the premiums for a cash value life insurance policy insuring one (or both) of their lives. An irrevocable trust (referred to as "Plan Recipient", or "trust") formed on behalf of children is typically the owner of the policy.

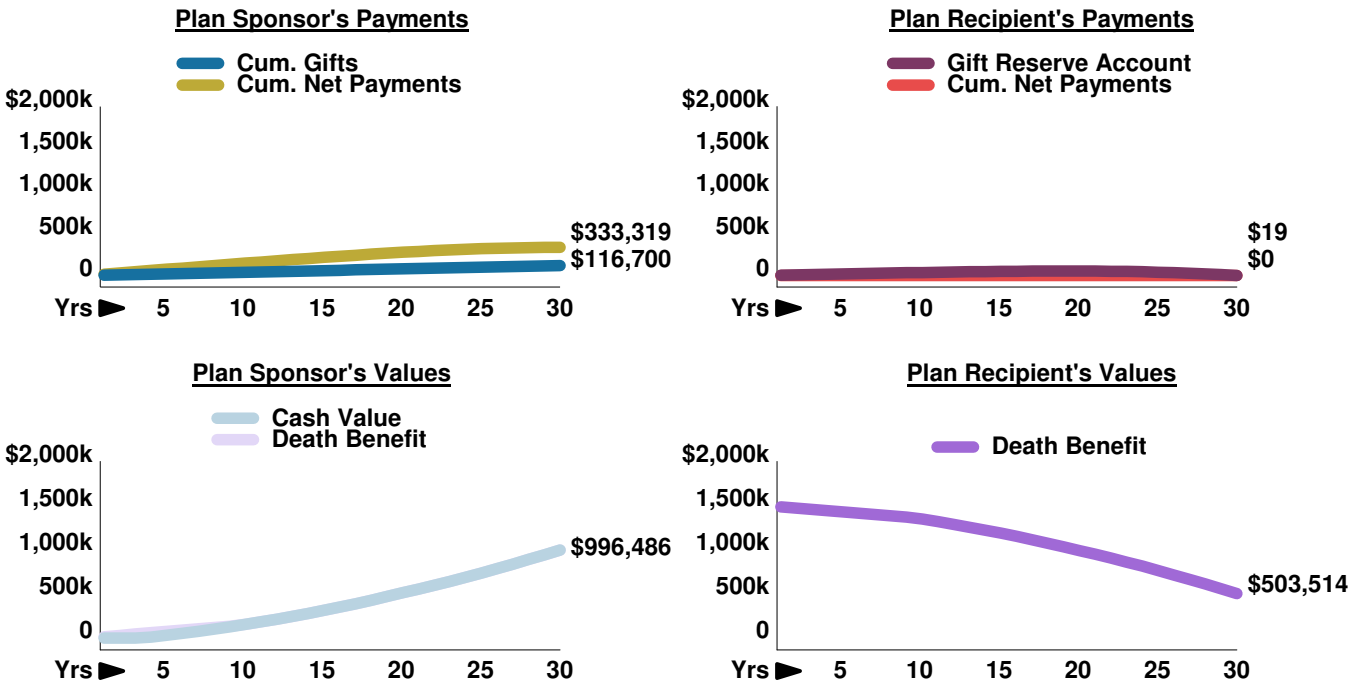
Through use of a Split Dollar Agreement containing a limited collateral assignment, the Plan Recipient assigns the Plan Sponsor an interest in the policy equal to the Plan Sponsor's aggregate premiums or the policy's cash values, if greater. (This means that none of the policy's cash values are the property of the Plan Recipient -- a key to avoiding additional gift tax consequences associated with The Final Split Dollar Regulations (68 FR 54336) issued in September 2003.)

The trust is usually expected to pay a portion of the plan's premiums, and these payments are pegged to the IRS-approved Table 2001 rates issued in IRS Notice 2001-10. In the accompanying presentation, gifts from the Plan Sponsor are illustrated in order to offset the

trust's schedule of payments. Normally any premium payment by the trust would result in taxable income to the Plan Sponsor (Reg. Section 1.61-22(f)(2)(ii)); however, the accompanying illustration assumes that the trust is an intentionally defective, irrevocable, grantor trust in which the trust and the Plan Sponsor are assumed to be a single income tax entity, and thus the Plan Sponsor should not be taxed on the trust's payment to the plan. (IRC Secs. 671 and 675, Reg. Section 1.671-2(c), and Rev. Rul. 85-13.)

The main purpose of the arrangement is to provide the trust with access to inexpensive life insurance death benefits, keep the policy's death proceeds out of the Plan Sponsor's estate, yet not have any portion of the policy's cash values constitute gifts to the trust.

This strategy combines low cost coverage for the trust with an impressive array of cash values for the Plan Sponsor, thus generating a program that should be financially compelling to both Plan Sponsor and the trust.



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.

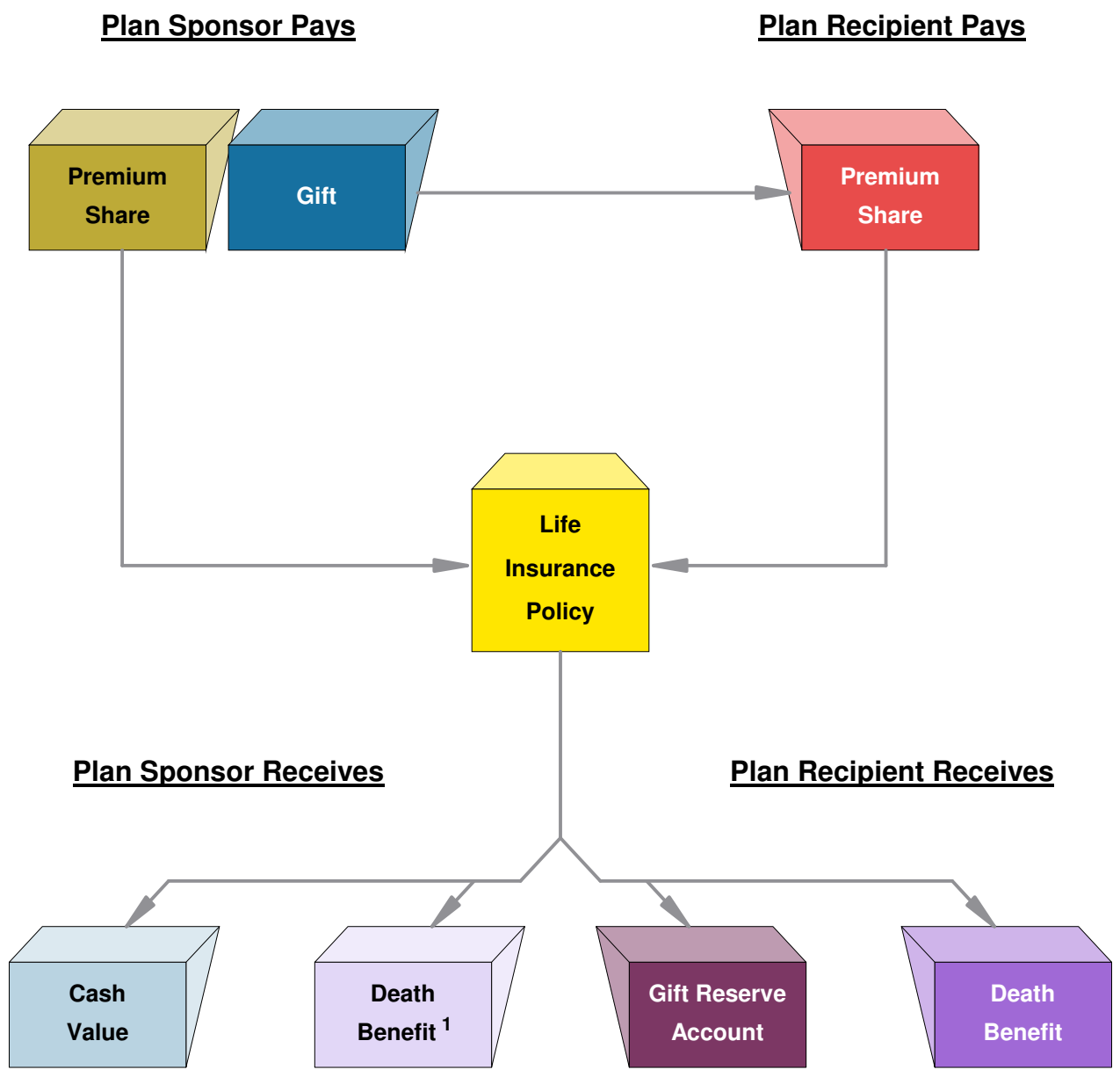
# Private Limited Collateral Assignment Split Dollar Using Cash Value Insurance (CVI)

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

Plan Sponsor: A. J. and Nancy Montgomery

## Who Pays What - Who Receives What

Plan Recipient and Policy Owner: Montgomery Family Trust  
Insured: A. J. Montgomery/Nancy Montgomery



<sup>1</sup> Equal to remaining balance after Plan Recipient's portion is deducted.

# Private Limited Collateral Assignment Split Dollar Using Cash Value Insurance (CVI)

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

Plan Sponsor: A. J. and Nancy Montgomery

## Plan Recipient's Gift Reserve Account and Net Payment Analysis

Plan Recipient and Policy Owner: Montgomery Family Trust  
Insured: A. J. Montgomery/Nancy Montgomery

CVI  
Interest Rate  
8.00%

Year	M/F Ages	Plan Sponsor A. J. and Nancy Montgomery					Plan Recipient and Policy Owner Montgomery Family Trust		
		(1) Gifts to Plan Recipient	(2) Split Dollar Premium Share	(3) Accum Value*	(4) Cash Value*	(5) Share of Death Benefit	(6) Net Payment**	(7) Gift Reserve Account	(8) Share of Death Benefit
1	65/60	3,890	14,882	2,626	0	14,882	0	3,772	1,485,118
2	66/61	3,890	14,855	17,670	0	29,737	0	7,517	1,470,263
3	67/62	3,890	14,819	33,794	0	44,557	0	11,226	1,455,444
4	68/63	3,890	14,773	51,088	11,188	59,329	0	14,889	1,440,671
5	69/64	3,890	14,715	69,884	29,984	74,044	0	18,494	1,425,956
6	70/65	3,890	14,645	89,955	52,050	88,689	0	22,029	1,411,311
7	71/66	3,890	14,561	110,965	75,055	103,250	0	25,480	1,396,750
8	72/67	3,890	14,460	133,639	99,724	117,710	0	28,830	1,382,290
9	73/68	3,890	14,346	157,738	125,818	132,056	0	32,066	1,367,944
10	74/69	3,890	14,221	183,305	153,380	153,380	0	35,177	1,346,620
11	75/70	3,890	14,080	210,055	183,122	183,122	0	38,147	1,316,878
12	76/71	3,890	13,912	238,168	214,228	214,228	0	40,949	1,285,772
13	77/72	3,890	13,706	267,126	246,179	246,179	0	43,545	1,253,821
14	78/73	3,890	13,470	296,932	278,977	278,977	0	45,905	1,221,023
15	79/74	3,890	13,193	328,463	313,501	313,501	0	47,988	1,186,499
16	80/75	3,890	12,874	361,934	349,964	349,964	0	49,752	1,150,036
17	81/76	3,890	12,495	397,306	388,328	388,328	0	51,137	1,111,672
18	82/77	3,890	12,055	434,242	428,257	428,257	0	52,082	1,071,743
19	83/78	3,890	11,578	472,471	469,478	469,478	0	52,550	1,030,522
20	84/79	3,890	10,994	512,035	512,035	512,035	0	52,434	987,965
21	85/80	3,890	10,300	553,158	553,158	553,158	0	51,624	946,842
22	86/81	3,890	9,440	596,040	596,040	596,040	0	49,954	903,960
23	87/82	3,890	8,511	640,799	640,799	640,799	0	47,355	859,201
24	88/83	3,890	7,585	687,534	687,534	687,534	0	43,830	812,466
25	89/84	3,890	6,607	736,077	736,076	736,076	0	39,327	763,924
26	90/85	3,890	5,626	785,987	785,987	785,987	0	33,843	714,013
27	91/86	3,890	4,501	836,984	836,984	836,984	0	27,234	663,016
28	92/87	3,890	3,333	889,029	889,029	889,029	0	19,457	610,971
29	93/88	3,890	2,013	942,256	942,256	942,256	0	10,360	557,744
30	94/89	3,890	769	996,486	996,486	996,486	0	19	503,514
		116,700	333,319				0		

\*This is an example of a "supplemental" life insurance illustration. In actual presentations, this footnote will refer you to an accompanying "basic" illustration from a specific life insurance company.

\*\*See Plan Recipient's Gift Reserve Account and Net Payment Analysis.

Split dollar arrangement presumed terminated in year 30.

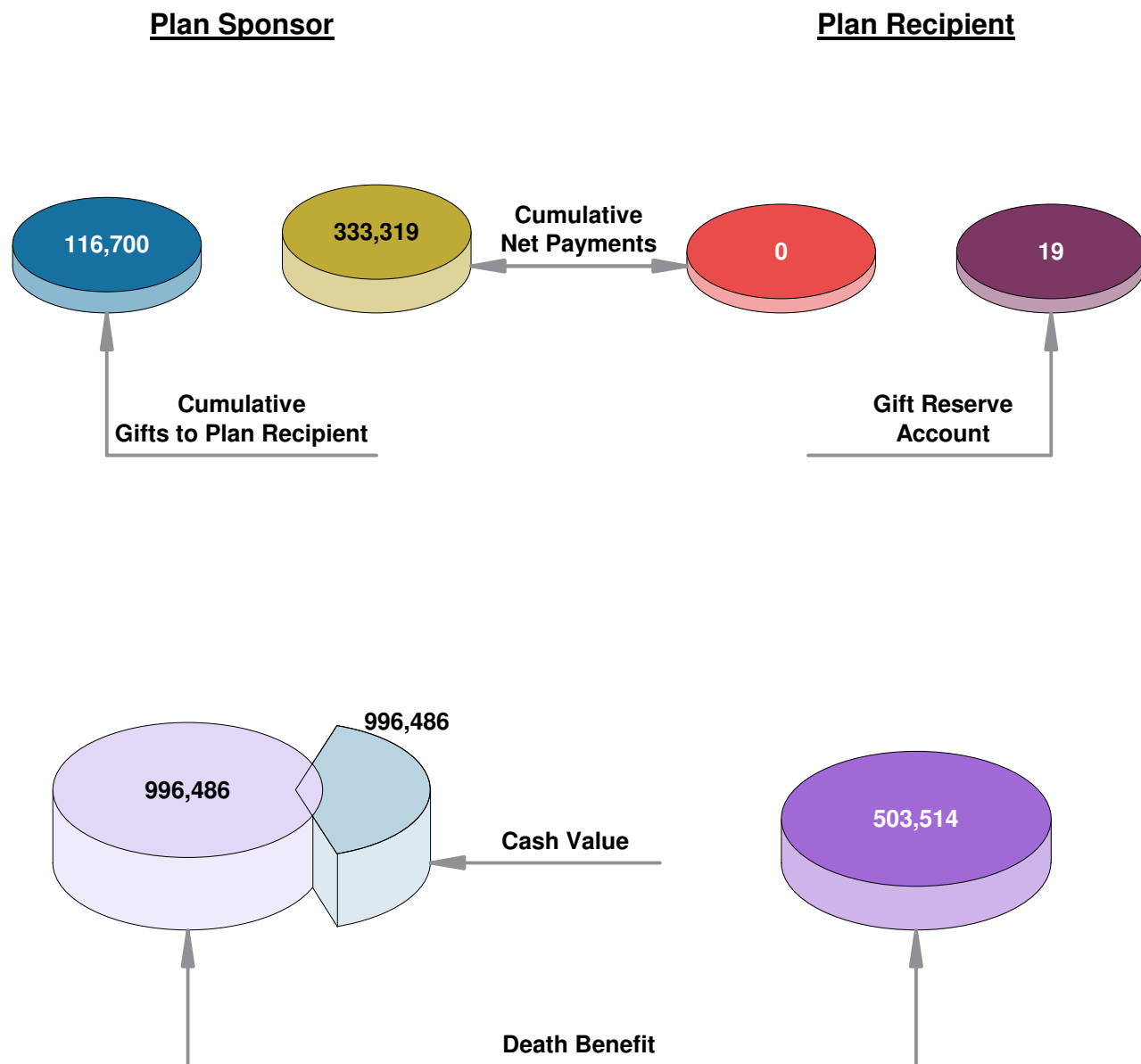
# Private Limited Collateral Assignment Split Dollar Using Cash Value Insurance (CVI)

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

Plan Sponsor: A. J. and Nancy Montgomery

A Look at Year 30

Plan Recipient and Policy Owner: Montgomery Family Trust  
Insured: A. J. Montgomery/Nancy Montgomery



# Private Limited Collateral Assignment Split Dollar Using Cash Value Insurance (CVI)

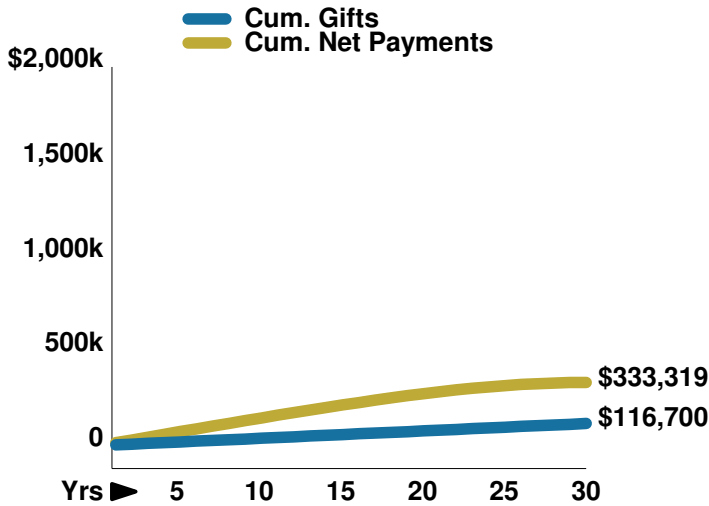
Presented By: [Licensed user's name appears here]

Plan Sponsor: A. J. and Nancy Montgomery

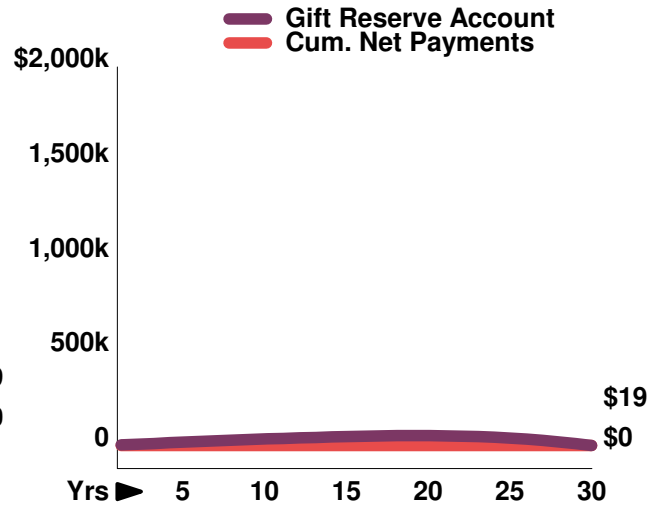
## 30 Year Analysis

Plan Recipient and Policy Owner: Montgomery Family Trust  
Insured: A. J. Montgomery/Nancy Montgomery

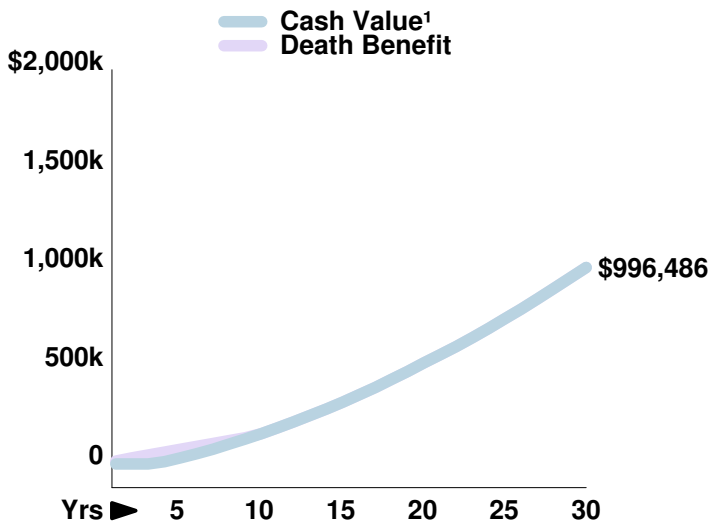
### Plan Sponsor's Payments



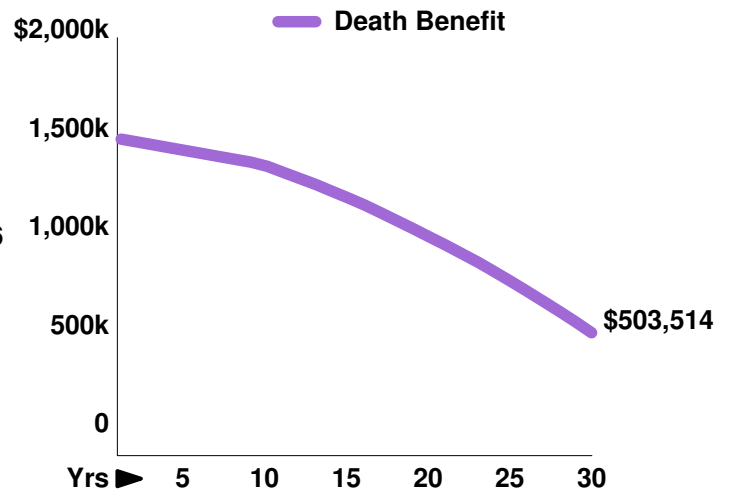
### Plan Recipient's Payments



### Plan Sponsor's Values



### Plan Recipient's Values



<sup>1</sup> Plan Sponsor cash value equal to Plan Sponsor death benefit in year 10 and thereafter.

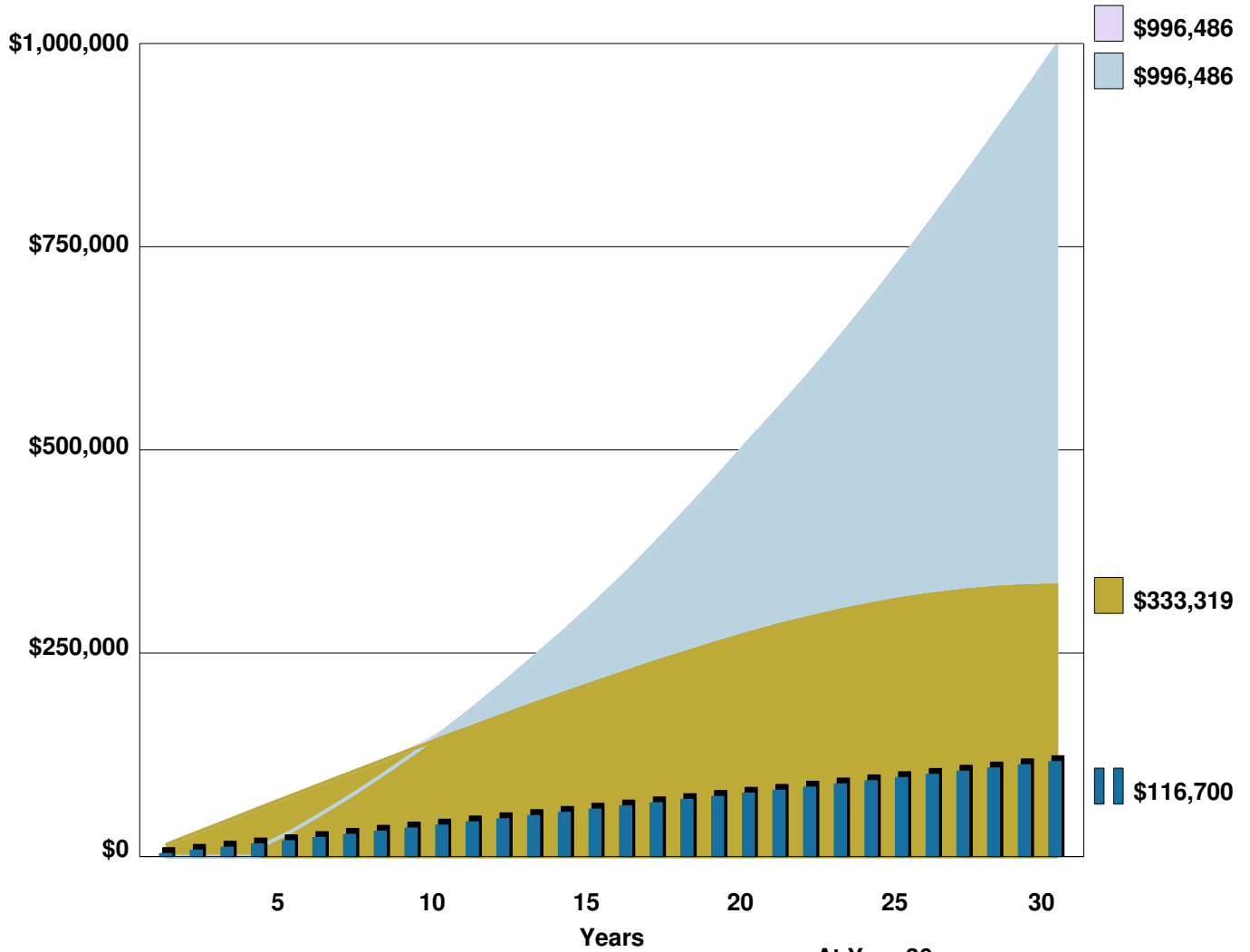
# Private Limited Collateral Assignment Split Dollar Using Cash Value Insurance (CVI)

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

Plan Sponsor: A. J. and Nancy Montgomery

## Plan Sponsor's 30 Year Analysis

Plan Recipient and Policy Owner: Montgomery Family Trust  
Insured: A. J. Montgomery/Nancy Montgomery



**At Year 30**

Plan Sponsor's Cumulative Gifts	\$116,700
Plan Sponsor's Cumulative Net Payments	\$333,319
Plan Sponsor's Cash Value	\$996,486
Plan Sponsor's Death Benefit	\$996,486

(DB equals CV in year 10 and thereafter.)

# Private Limited Collateral Assignment Split Dollar Using Cash Value Insurance (CVI)

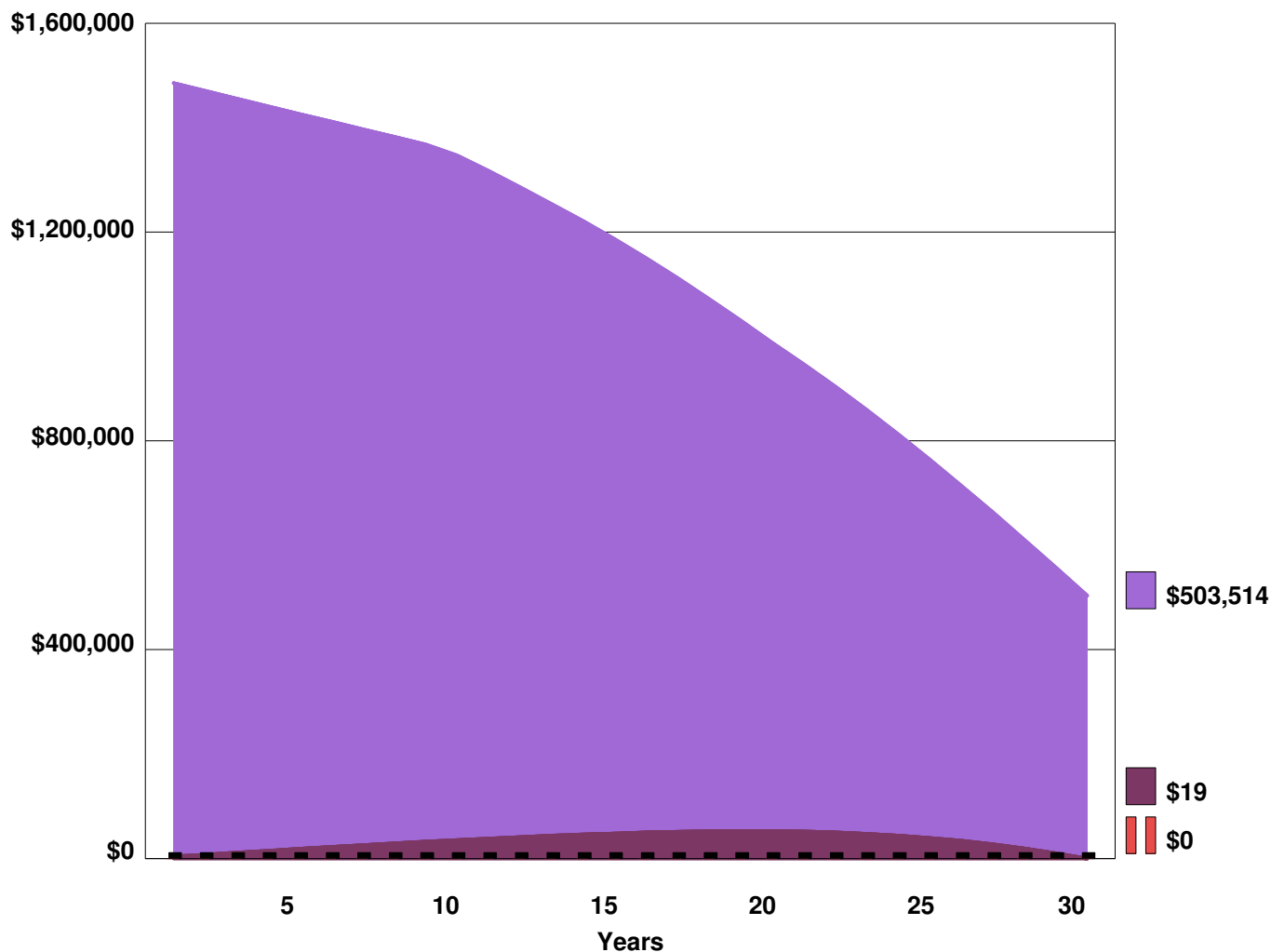
Presented By: [Licensed user's name appears here]

Plan Sponsor: A. J. and Nancy Montgomery

## Plan Recipient's 30 Year Analysis

Plan Recipient and Policy Owner: Montgomery Family Trust

Insured: A. J. Montgomery/Nancy Montgomery



	<u>At Year 30</u>
Plan Recipient's Cumulative Net Payments	\$0
Gift Reserve Account	\$19
Plan Recipient's Death Benefit	\$503,514



# Private Limited Collateral Assignment Split Dollar Using Cash Value Insurance (CVI)

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

Plan Sponsor: A. J. and Nancy Montgomery

## Plan Recipient's Gift Reserve Account and Net Payment Analysis

Plan Recipient and Policy Owner: Montgomery Family Trust  
Insured: A. J. Montgomery/Nancy Montgomery

CVI  
Interest Rate  
8.00%

Year	M/F Ages	Plan Sponsor's Gifts		Plan Sponsor's Costs	
		(1) Gifts to Plan Recipient	(2) Cumulative Gifts to Plan Recipient	(3) Split Dollar Premium Share	(4) Cum. Split Dollar Premium Share
1	65/60	3,890	3,890	14,882	14,882
2	66/61	3,890	7,780	14,855	29,737
3	67/62	3,890	11,670	14,819	44,556
4	68/63	3,890	15,560	14,773	59,329
5	69/64	3,890	19,450	14,715	74,044
6	70/65	3,890	23,340	14,645	88,689
7	71/66	3,890	27,230	14,561	103,250
8	72/67	3,890	31,120	14,460	117,710
9	73/68	3,890	35,010	14,346	132,056
10	74/69	3,890	38,900	14,221	146,277
11	75/70	3,890	42,790	14,080	160,357
12	76/71	3,890	46,680	13,912	174,269
13	77/72	3,890	50,570	13,706	187,975
14	78/73	3,890	54,460	13,470	201,445
15	79/74	3,890	58,350	13,193	214,638
16	80/75	3,890	62,240	12,874	227,512
17	81/76	3,890	66,130	12,495	240,007
18	82/77	3,890	70,020	12,055	252,062
19	83/78	3,890	73,910	11,578	263,640
20	84/79	3,890	77,800	10,994	274,634
21	85/80	3,890	81,690	10,300	284,934
22	86/81	3,890	85,580	9,440	294,374
23	87/82	3,890	89,470	8,511	302,885
24	88/83	3,890	93,360	7,585	310,470
25	89/84	3,890	97,250	6,607	317,077
26	90/85	3,890	101,140	5,626	322,703
27	91/86	3,890	105,030	4,501	327,204
28	92/87	3,890	108,920	3,333	330,537
29	93/88	3,890	112,810	2,013	332,550
30	94/89	3,890	116,700	769	333,319
		<b>116,700</b>		<b>333,319</b>	

This is an example of a "supplemental" life insurance illustration. In actual presentations, this footnote will refer you to an accompanying "basic" illustration from a specific life insurance company.

Split dollar arrangement presumed terminated in year 30.

# Private Limited Collateral Assignment Split Dollar Using Cash Value Insurance (CVI)

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

Plan Sponsor: A. J. and Nancy Montgomery

## Plan Recipient's Gift Reserve Account and Net Payment Analysis

Plan Recipient and Policy Owner: Montgomery Family Trust  
Insured: A. J. Montgomery/Nancy Montgomery

		Gift Reserve Account Analysis					Net Payment Analysis		
Year	M/F Ages	(1) Gift from Plan Sponsor	(2) Portion of Gift Used by Plan Recipient in Current Year*	(3) Portion of Gift to Reserve Account (1)-(2)	(4) Plan Recipient's Withdrawal from Gift Reserve Account*	(5) Balance in Gift Reserve Account	(6) Plan Recipient's Split Dollar Premium Share	(7) Plan Recipient's Split Dollar Net Payment (6)-(2)-(4)	(8) Plan's Additional Imputed Gift Valuation
1	65/60	3,890	118	3,772	0	3,772	118	0	0
2	66/61	3,890	145	3,745	0	7,517	145	0	0
3	67/62	3,890	181	3,709	0	11,226	181	0	0
4	68/63	3,890	227	3,663	0	14,889	227	0	0
5	69/64	3,890	285	3,605	0	18,494	285	0	0
6	70/65	3,890	355	3,535	0	22,029	355	0	0
7	71/66	3,890	439	3,451	0	25,480	439	0	0
8	72/67	3,890	540	3,350	0	28,830	540	0	0
9	73/68	3,890	654	3,236	0	32,066	654	0	0
10	74/69	3,890	779	3,111	0	35,177	779	0	0
11	75/70	3,890	920	2,970	0	38,147	920	0	0
12	76/71	3,890	1,088	2,802	0	40,949	1,088	0	0
13	77/72	3,890	1,294	2,596	0	43,545	1,294	0	0
14	78/73	3,890	1,530	2,360	0	45,905	1,530	0	0
15	79/74	3,890	1,807	2,083	0	47,988	1,807	0	0
16	80/75	3,890	2,126	1,764	0	49,752	2,126	0	0
17	81/76	3,890	2,505	1,385	0	51,137	2,505	0	0
18	82/77	3,890	2,945	945	0	52,082	2,945	0	0
19	83/78	3,890	3,422	468	0	52,550	3,422	0	0
20	84/79	3,890	3,890	0	116	52,434	4,006	0	0
21	85/80	3,890	3,890	0	810	51,624	4,700	0	0
22	86/81	3,890	3,890	0	1,670	49,954	5,560	0	0
23	87/82	3,890	3,890	0	2,599	47,355	6,489	0	0
24	88/83	3,890	3,890	0	3,525	43,830	7,415	0	0
25	89/84	3,890	3,890	0	4,503	39,327	8,393	0	0
26	90/85	3,890	3,890	0	5,484	33,843	9,374	0	0
27	91/86	3,890	3,890	0	6,609	27,234	10,499	0	0
28	92/87	3,890	3,890	0	7,777	19,457	11,667	0	0
29	93/88	3,890	3,890	0	9,097	10,360	12,987	0	0
30	94/89	3,890	3,890	0	10,341	19	14,231	0	0
		116,700	64,150	52,550	52,531		116,681	0	0

\*For premium payment.

This is an example of a "supplemental" life insurance illustration. In actual presentations, this footnote will refer you to an accompanying "basic" illustration from a specific life insurance company.

Assuming column (6) offsets the economic benefit for gift valuation, column (8) is this plan's additional imputed gift. (U.S. 38 rate calculation (Table 2001 based).)

# Private Limited Collateral Assignment Split Dollar Using Cash Value Insurance (CVI)

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

Plan Sponsor: A. J. and Nancy Montgomery

## Illustration of Policy Values Funding The Plan

Plan Recipient and Policy Owner: Montgomery Family Trust

Insured: A. J. Montgomery/Nancy Montgomery

		CVI Interest Rate 8.00%	Initial Payment 15,000	Initial Death Benefit 1,500,000			
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	15,000	0	2,626	0	1,500,000	
2	66/61	15,000	0	17,670	0	1,500,000	
3	67/62	15,000	0	33,794	0	1,500,000	
4	68/63	15,000	0	51,088	11,188	1,500,000	
5	69/64	15,000	0	69,884	29,984	1,500,000	
6	70/65	15,000	0	89,955	52,050	1,500,000	
7	71/66	15,000	0	110,965	75,055	1,500,000	
8	72/67	15,000	0	133,639	99,724	1,500,000	
9	73/68	15,000	0	157,738	125,818	1,500,000	
10	74/69	15,000	0	183,305	153,380	1,500,000	
11	75/70	15,000	0	210,055	183,122	1,500,000	
12	76/71	15,000	0	238,168	214,228	1,500,000	
13	77/72	15,000	0	267,126	246,179	1,500,000	
14	78/73	15,000	0	296,932	278,977	1,500,000	
15	79/74	15,000	0	328,463	313,501	1,500,000	
16	80/75	15,000	0	361,934	349,964	1,500,000	
17	81/76	15,000	0	397,306	388,328	1,500,000	
18	82/77	15,000	0	434,242	428,257	1,500,000	
19	83/78	15,000	0	472,471	469,478	1,500,000	
20	84/79	15,000	0	512,035	512,035	1,500,000	
21	85/80	15,000	0	553,158	553,158	1,500,000	
22	86/81	15,000	0	596,040	596,040	1,500,000	
23	87/82	15,000	0	640,799	640,799	1,500,000	
24	88/83	15,000	0	687,534	687,534	1,500,000	
25	89/84	15,000	0	736,077	736,076	1,500,000	
26	90/85	15,000	0	785,987	785,987	1,500,000	
27	91/86	15,000	0	836,984	836,984	1,500,000	
28	92/87	15,000	0	889,029	889,029	1,500,000	
29	93/88	15,000	0	942,256	942,256	1,500,000	
30	94/89	15,000	0	996,486	996,486	1,500,000	
		450,000	0				

\*This is an example of a "supplemental" life insurance illustration. In actual presentations, this footnote will refer you to an accompanying "basic" illustration from a specific life insurance company.