

Limited Collateral Assignment Split Dollar

The Plan Description

Of all the strategies used by employers to provide unique fringe benefits for a valuable executive who is also a controlling stockholder, this split dollar arrangement is one of the most effective.

With this plan, the employer pays all (or substantially all) of the premiums due on a cash value life insurance policy on the life of the executive. The policy is typically owned by an irrevocable trust formed by the executive but, in order to address issues raised by the Final Split Dollar Regulations (68 FR 54336) issued in September 2003, all policy cash values are collaterally assigned to the employer. Policy death benefits are shared, with the employer entitled to an amount equal to its cumulative premiums or the policy cash values, if greater. The balance of death proceeds are paid to the trust.

In order to accommodate the executive's estate planning needs, the employer's loan, withdrawal, and policy cancellation rights are usually removed from the collateral assignment associated with this plan (hence the phrase "limited collateral assignment") in order to comply with the dictates of Rev. Rul. 82-145 and the Controlling Stockholder regulations of IRC Section 2042.

Split dollar plans have yearly income tax ramifications for the covered executive. Unless an offsetting payment is made, an executive covered with this type of arrangement is in receipt of a taxable economic benefit to the extent relief is provided from paying premiums personally. Since any premium payment by the executive results in taxable income to the employer (Reg. Section 1.61-22(f)(2)(ii)), the accompanying illustration assumes that the executive pays no share of the premium. As a result, the executive will be in receipt of imputed income each year based on the attained age rates contained in Table 2001 (issued as part of IRS Notice 2001-10). This income consequence is illustrated in the accompanying reports. Whether offset by a bonus or not, the imputed income of the plan constitutes a gift of future interest to the trust.

Extensive life insurance coverage for the executive, combined with an impressive array of cash values for the employer, constitute a program that should be financially compelling to both employer and executive.

Note: The Final Split Dollar Regulations (68 FR 54336) issued in September 2003 should have no adverse impact on this plan as illustrated; however, in all cases, the approval of a client's legal and tax advisers must be secured regarding the implementation of any form of split dollar.

Limited Collateral Assignment Split Dollar Using Universal Life (UL)

Illustration of Values of The Policy Used in the Plan

Values Page: 1

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

For: George Baker, MD/Virginia Baker
The Baker Corporation

Date: [Current date appears here]

	M/F Age 45/40	UL Interest Rate 5.00%	Initial Payment 10,000	Initial Death Benefit 2,000,000	
	(1) Net Payment	(2) Pre-Tax Policy Cash Flow	(3) Year End Accum Value*	(4) Year End Cash Value*	(5) Death Benefit
1	10,000	0	4,337	0	2,004,337
2	10,000	0	14,412	0	2,014,412
3	10,000	0	24,966	8,566	2,024,966
4	10,000	0	35,974	19,574	2,035,975
5	10,000	0	47,508	31,108	2,047,508
6	10,000	0	59,830	43,430	2,059,830
7	10,000	0	72,755	56,355	2,072,755
8	10,000	0	86,316	69,916	2,086,317
9	10,000	0	100,501	84,101	2,100,501
10	10,000	0	115,343	98,943	2,115,343
11	10,000	0	130,829	116,069	2,130,829
12	10,000	0	146,969	133,849	2,146,969
13	10,000	0	163,825	152,345	2,163,825
14	10,000	0	181,510	171,670	2,181,510
15	10,000	0	200,192	191,992	2,200,192
16	10,000	0	219,827	213,267	2,219,827
17	10,000	0	240,444	235,524	2,240,444
18	10,000	0	262,072	258,792	2,262,072
19	10,000	0	284,767	283,127	2,284,767
20	10,000	0	308,512	308,512	2,308,513
	200,000	0			

*This illustration assumes the nonguaranteed values shown continue in all years. This is not likely, and actual results may be more or less favorable. This illustration is not valid unless accompanied by a proposal from SAMPLE LIFE.

Limited Collateral Assignment Split Dollar Using Universal Life (UL)

Illustration of Values of The Policy Used in the Plan

Values Page: 2

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

For: George Baker, MD/Virginia Baker
The Baker Corporation

Date: [Current date appears here]

	M/F Age 45/40	UL Interest Rate 5.00%	Initial Payment 10,000	Initial Death Benefit 2,000,000	
Year	(1) Net Payment	(2) Pre-Tax Policy Cash Flow	(3) Year End Accum Value*	(4) Year End Cash Value*	(5) Death Benefit
21	0	0	323,296	323,296	2,323,296
22	0	0	338,523	338,523	2,338,523
23	0	0	354,169	354,169	2,354,169
24	0	0	370,282	370,282	2,370,282
25	0	0	386,961	386,961	2,386,961
26	0	0	404,213	404,213	2,404,213
27	0	0	421,922	421,922	2,421,922
28	0	0	439,941	439,941	2,439,941
29	0	0	458,065	458,064	2,458,065
30	0	0	476,004	476,004	2,476,004
31	0	0	493,331	493,331	2,493,331
32	0	0	509,814	509,814	2,509,814
33	0	0	525,679	525,679	2,525,679
34	0	0	540,940	540,940	2,540,940
35	0	0	555,466	555,466	2,555,466
36	0	0	569,094	569,094	2,569,094
37	0	0	581,281	581,281	2,581,282
38	0	0	590,867	590,867	2,590,867
39	0	0	596,675	596,675	2,596,675
40	0	0	598,004	598,004	2,598,004
	200,000	0			

*This illustration assumes the nonguaranteed values shown continue in all years. This is not likely, and actual results may be more or less favorable. This illustration is not valid unless accompanied by a proposal from SAMPLE LIFE.

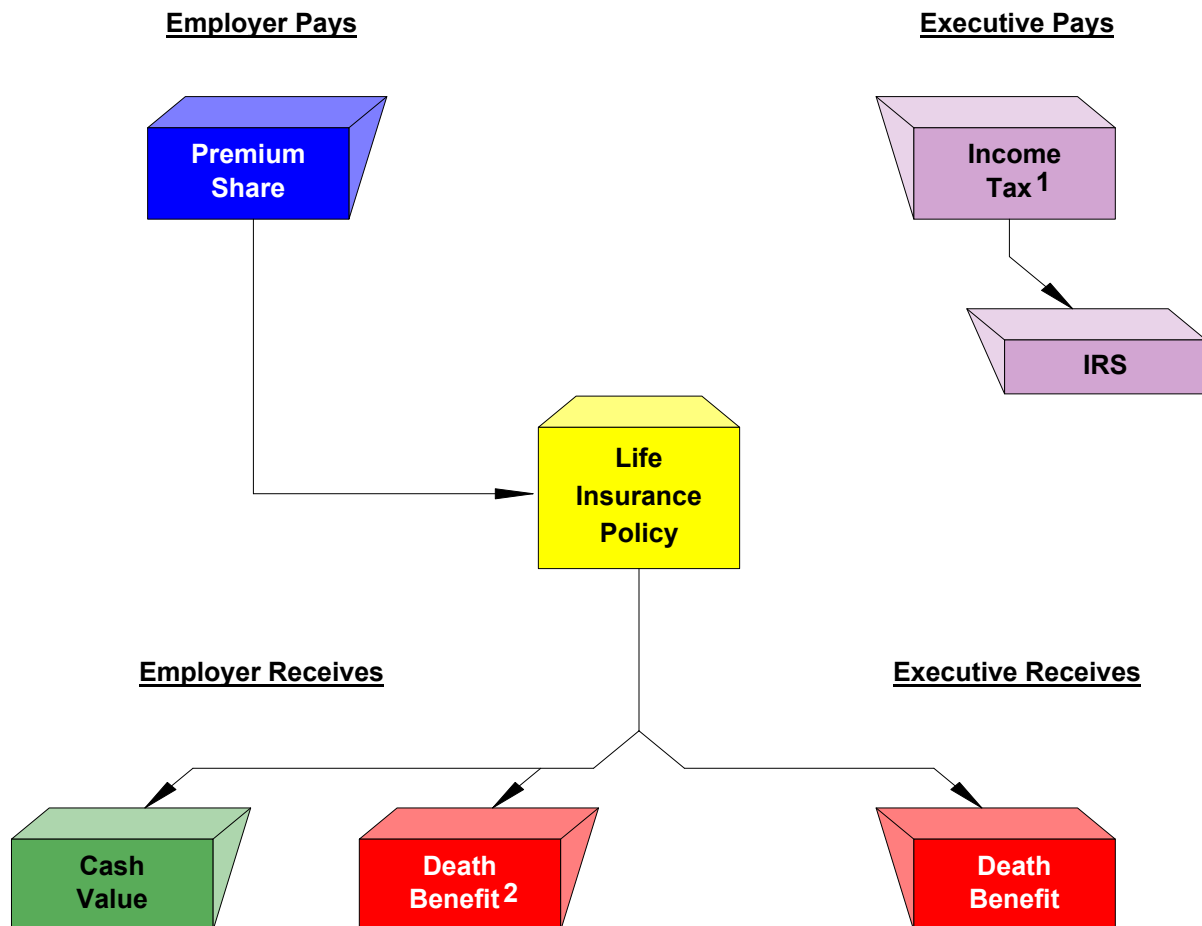
Limited Collateral Assignment Split Dollar Using Universal Life (UL)

Who Pays What - Who Receives What

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

For: George Baker, MD/Virginia Baker
The Baker Corporation

Flow Chart Analysis



(1) For any economic benefit imputed on the plan.

(2) Equal to remaining balance after executive's portion is deducted.

Summary of Costs and Benefits

Limited Collateral Assignment Split Dollar Using Universal Life (UL)

Summary Page: 1

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

For: George Baker, MD/Virginia Baker
The Baker Corporation

Date: [Current date appears here]

M/F Age 45/40	Form of Transaction (Ltd. Coll. Ass.)	Employer's Tax Bracket 15.00%	Executive's Tax Bracket 35.00%	UL Interest Rate 5.00%
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Year	Employer				Executive	
	(1) Net Payment	(2) Policy Accum Value*	(3) Policy Cash Value*	(4) Share of Policy Death Benefit	(5) Net Payment	(6) Share of Policy Death Benefit
1	10,000	4,337	0	10,000	1	1,994,337
2	10,000	14,412	0	20,000	1	1,994,412
3	10,000	24,966	8,566	30,000	1	1,994,966
4	10,000	35,974	19,574	40,000	2	1,995,975
5	10,000	47,508	31,108	50,000	2	1,997,508
6	10,000	59,830	43,430	60,000	2	1,999,830
7	10,000	72,755	56,355	70,000	3	2,002,755
8	10,000	86,316	69,916	80,000	4	2,006,317
9	10,000	100,501	84,101	90,000	5	2,010,501
10	10,000	115,343	98,943	100,000	6	2,015,343
11	10,000	130,829	116,069	116,069	7	2,014,760
12	10,000	146,969	133,849	133,849	8	2,013,120
13	10,000	163,825	152,345	152,345	11	2,011,480
14	10,000	181,510	171,670	171,670	13	2,009,840
15	10,000	200,192	191,992	191,992	16	2,008,200
16	10,000	219,827	213,267	213,267	20	2,006,560
17	10,000	240,444	235,524	235,524	24	2,004,920
18	10,000	262,072	258,792	258,792	30	2,003,280
19	10,000	284,767	283,127	283,127	37	2,001,640
20	10,000	308,512	308,512	308,512	45	2,000,001
	200,000				238	

*This illustration assumes the nonguaranteed values shown continue in all years. This is not likely, and actual results may be more or less favorable. This illustration is not valid unless accompanied by a proposal from SAMPLE LIFE.

Split dollar arrangement presumed terminated in year 40.

Summary of Costs and Benefits

Limited Collateral Assignment Split Dollar Using Universal Life (UL)

Summary Page: 2

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

For: George Baker, MD/Virginia Baker
The Baker Corporation

Date: [Current date appears here]

M/F Age 45/40	Form of Transaction (Ltd. Coll. Ass.)	Employer's Tax Bracket 15.00%	Executive's Tax Bracket 35.00%	UL Interest Rate 5.00%
---------------------	---	-------------------------------------	--------------------------------------	------------------------------

Year	Employer				Executive	
	(1) Net Payment	(2) Policy Accum Value*	(3) Policy Cash Value*	(4) Share of Policy Death Benefit	(5) Net Payment	(6) Share of Policy Death Benefit
21	0	323,296	323,296	323,296	56	2,000,000
22	0	338,523	338,523	338,523	69	2,000,000
23	0	354,169	354,169	354,169	87	2,000,000
24	0	370,282	370,282	370,282	110	2,000,000
25	0	386,961	386,961	386,961	140	2,000,000
26	0	404,213	404,213	404,213	176	2,000,000
27	0	421,922	421,922	421,922	220	2,000,000
28	0	439,941	439,941	439,941	273	2,000,000
29	0	458,065	458,064	458,064	335	2,000,001
30	0	476,004	476,004	476,004	405	2,000,000
31	0	493,331	493,331	493,331	489	2,000,000
32	0	509,814	509,814	509,814	592	2,000,000
33	0	525,679	525,679	525,679	722	2,000,000
34	0	540,940	540,940	540,940	877	2,000,000
35	0	555,466	555,466	555,466	1,066	2,000,000
36	0	569,094	569,094	569,094	1,294	2,000,000
37	0	581,281	581,281	581,281	1,577	2,000,001
38	0	590,867	590,867	590,867	1,924	2,000,000
39	0	596,675	596,675	596,675	2,324	2,000,000
40	0	598,004	598,004	598,004	2,838	2,000,000
	200,000				15,812	

*This illustration assumes the nonguaranteed values shown continue in all years. This is not likely, and actual results may be more or less favorable. This illustration is not valid unless accompanied by a proposal from SAMPLE LIFE.

Split dollar arrangement presumed terminated in year 40.

Executive's Personal Report

Limited Collateral Assignment Split Dollar Using Universal Life (UL)

Executive's Personal Report Page: 1
Date: [Current date appears here]

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

For: George Baker, MD/Virginia Baker
The Baker Corporation

M/F Age 45/40	Form of Transaction (Ltd. Coll. Ass.)	Executive's Tax Bracket 35.00%	UL Interest Rate 5.00%
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Gross Interest Rate Required on a Hypothetical Taxable Investment to Match the Executive's Share of Universal Life (UL) Policy Values over 40 Years

	Hypothetical Taxable Alternative
To match Death Benefit of: \$2,000,000	55.38%

Income Tax Considerations

1. Hypothetical Taxable Investment: Interest is taxed as earned.
2. Universal Life (UL):
 - a. Death Benefit including cash value component is income tax free.
 - b. Loans are income tax free as long as the policy is kept in force.
 - c. Withdrawals and other non-loan policy cash flow up to cost basis (not in violation of IRC Section 7702) are income tax free as a return of premium.
 - d. Cash values shown assume most favorable combination of b and/or c.

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Employer's Analysis

Limited Collateral Assignment Split Dollar Using Universal Life (UL)

Employer's Page: 1

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

For: George Baker, MD/Virginia Baker
The Baker Corporation

Date: [Current date appears here]

M/F Age 45/40	Form of Transaction (Ltd. Coll. Ass.)	Employer's Tax Bracket 15.00%	UL Interest Rate 5.00%
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Year	Employer's Costs		Employer's Values		
	(1) Split Dollar Premium Share	(2) Cum. Split Dollar Premium Share	(3) Accum Value*	(4) Cash Value*	(5) Employer's Share of Death Benefit
1	10,000	10,000	4,337	0	10,000
2	10,000	20,000	14,412	0	20,000
3	10,000	30,000	24,966	8,566	30,000
4	10,000	40,000	35,974	19,574	40,000
5	10,000	50,000	47,508	31,108	50,000
6	10,000	60,000	59,830	43,430	60,000
7	10,000	70,000	72,755	56,355	70,000
8	10,000	80,000	86,316	69,916	80,000
9	10,000	90,000	100,501	84,101	90,000
10	10,000	100,000	115,343	98,943	100,000
11	10,000	110,000	130,829	116,069	116,069
12	10,000	120,000	146,969	133,849	133,849
13	10,000	130,000	163,825	152,345	152,345
14	10,000	140,000	181,510	171,670	171,670
15	10,000	150,000	200,192	191,992	191,992
16	10,000	160,000	219,827	213,267	213,267
17	10,000	170,000	240,444	235,524	235,524
18	10,000	180,000	262,072	258,792	258,792
19	10,000	190,000	284,767	283,127	283,127
20	10,000	200,000	308,512	308,512	308,512
	200,000				

*This illustration assumes the nonguaranteed values shown continue in all years. This is not likely, and actual results may be more or less favorable. This illustration is not valid unless accompanied by a proposal from SAMPLE LIFE.

Split dollar arrangement presumed terminated in year 40.

Employer's Analysis

Limited Collateral Assignment Split Dollar Using Universal Life (UL)

Employer's Page: 2

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

For: George Baker, MD/Virginia Baker
The Baker Corporation

Date: [Current date appears here]

M/F Age 45/40	Form of Transaction (Ltd. Coll. Ass.)	Employer's Tax Bracket 15.00%	UL Interest Rate 5.00%
---------------------	---	-------------------------------------	------------------------------

Year	Employer's Costs		Employer's Values		
	(1) Split Dollar Premium Share	(2) Cum. Split Dollar Premium Share	(3) Accum Value*	(4) Cash Value*	(5) Employer's Share of Death Benefit
21	0	200,000	323,296	323,296	323,296
22	0	200,000	338,523	338,523	338,523
23	0	200,000	354,169	354,169	354,169
24	0	200,000	370,282	370,282	370,282
25	0	200,000	386,961	386,961	386,961
26	0	200,000	404,213	404,213	404,213
27	0	200,000	421,922	421,922	421,922
28	0	200,000	439,941	439,941	439,941
29	0	200,000	458,065	458,064	458,064
30	0	200,000	476,004	476,004	476,004
31	0	200,000	493,331	493,331	493,331
32	0	200,000	509,814	509,814	509,814
33	0	200,000	525,679	525,679	525,679
34	0	200,000	540,940	540,940	540,940
35	0	200,000	555,466	555,466	555,466
36	0	200,000	569,094	569,094	569,094
37	0	200,000	581,281	581,281	581,281
38	0	200,000	590,867	590,867	590,867
39	0	200,000	596,675	596,675	596,675
40	0	200,000	598,004	598,004	598,004
	200,000				

*This illustration assumes the nonguaranteed values shown continue in all years. This is not likely, and actual results may be more or less favorable. This illustration is not valid unless accompanied by a proposal from SAMPLE LIFE.

Split dollar arrangement presumed terminated in year 40.

Executive's Analysis

Limited Collateral Assignment Split Dollar Using Universal Life (UL)

Executive's Detail Page: 1
Date: [Current date appears here]

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

For: George Baker, MD/Virginia Baker
The Baker Corporation

M/F Age 45/40	Form of Transaction (Ltd. Coll. Ass.)	Executive's Tax Bracket 35.00%	UL Interest Rate 5.00%
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Year	Executive's Costs					Executive's Values
	(1) Split Dollar Premium Share	(2) Cum. Split Dollar Premium Share	(3) Additional Taxable Value of Benefit*	(4) Income Tax Due on Col (3)	(5) Net Payment (1) + (4)	(6) Executive's Share of Death Benefit
1	0	0	3	1	1	1,994,337
2	0	0	4	1	1	1,994,412
3	0	0	4	1	1	1,994,966
4	0	0	5	2	2	1,995,975
5	0	0	6	2	2	1,997,508
6	0	0	7	2	2	1,999,830
7	0	0	9	3	3	2,002,755
8	0	0	11	4	4	2,006,317
9	0	0	13	5	5	2,010,501
10	0	0	16	6	6	2,015,343
11	0	0	20	7	7	2,014,760
12	0	0	24	8	8	2,013,120
13	0	0	30	11	11	2,011,480
14	0	0	37	13	13	2,009,840
15	0	0	46	16	16	2,008,200
16	0	0	56	20	20	2,006,560
17	0	0	68	24	24	2,004,920
18	0	0	85	30	30	2,003,280
19	0	0	105	37	37	2,001,640
20	0	0	129	45	45	2,000,001
	0		678	238	238	

*Assuming column (1) offsets the economic benefit.

This illustration assumes the nonguaranteed values shown continue in all years. This is not likely, and actual results may be more or less favorable. This illustration is not valid unless accompanied by a proposal from SAMPLE LIFE.

Column (3) is the imputed economic benefit in compliance with IRS Notice 2002-8. (U.S. 38 rate calculation (Table 2001 based).)

Executive's Analysis

Limited Collateral Assignment Split Dollar Using Universal Life (UL)

Executive's Detail Page: 2
Date: [Current date appears here]

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

For: George Baker, MD/Virginia Baker
The Baker Corporation

M/F Age 45/40	Form of Transaction (Ltd. Coll. Ass.)	Executive's Tax Bracket 35.00%	UL Interest Rate 5.00%
---------------------	---	--------------------------------------	------------------------------

Year	Executive's Costs					Executive's Values
	(1) Split Dollar Premium Share	(2) Cum. Split Dollar Premium Share	(3) Additional Taxable Value of Benefit*	(4) Income Tax Due on Col (3)	(5) Net Payment (1) + (4)	(6) Executive's Share of Death Benefit
21	0	0	159	56	56	2,000,000
22	0	0	197	69	69	2,000,000
23	0	0	248	87	87	2,000,000
24	0	0	315	110	110	2,000,000
25	0	0	399	140	140	2,000,000
26	0	0	503	176	176	2,000,000
27	0	0	629	220	220	2,000,000
28	0	0	781	273	273	2,000,000
29	0	0	956	335	335	2,000,001
30	0	0	1,157	405	405	2,000,000
31	0	0	1,397	489	489	2,000,000
32	0	0	1,692	592	592	2,000,000
33	0	0	2,064	722	722	2,000,000
34	0	0	2,505	877	877	2,000,000
35	0	0	3,046	1,066	1,066	2,000,000
36	0	0	3,697	1,294	1,294	2,000,000
37	0	0	4,507	1,577	1,577	2,000,001
38	0	0	5,496	1,924	1,924	2,000,000
39	0	0	6,640	2,324	2,324	2,000,000
40	0	0	8,109	2,838	2,838	2,000,000
	0		45,175	15,812	15,812	

*Assuming column (1) offsets the economic benefit.

This illustration assumes the nonguaranteed values shown continue in all years. This is not likely, and actual results may be more or less favorable. This illustration is not valid unless accompanied by a proposal from SAMPLE LIFE.

Column (3) is the imputed economic benefit in compliance with IRS Notice 2002-8. (U.S. 38 rate calculation (Table 2001 based).)

Executive's Personal Report

Limited Collateral Assignment Split Dollar Using Universal Life (UL)

Executive's Personal Report Page: 1
Date: [Current date appears here]

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

For: George Baker, MD/Virginia Baker
The Baker Corporation

M/F Age 45/40	Form of Transaction (Ltd. Coll. Ass.)	Executive's Tax Bracket 35.00%	UL Interest Rate 5.00%
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	Executive's Costs	Executive's Values
Year	(1) Net Payment	(2) Executive's Share of Death Benefit
Year	Net Payment	Executive's Share of Death Benefit
1	1	1,994,337
2	1	1,994,412
3	1	1,994,966
4	2	1,995,975
5	2	1,997,508
6	2	1,999,830
7	3	2,002,755
8	4	2,006,317
9	5	2,010,501
10	6	2,015,343
11	7	2,014,760
12	8	2,013,120
13	11	2,011,480
14	13	2,009,840
15	16	2,008,200
16	20	2,006,560
17	24	2,004,920
18	30	2,003,280
19	37	2,001,640
20	45	2,000,001
	238	

*This illustration assumes the nonguaranteed values shown continue in all years. This is not likely, and actual results may be more or less favorable. This illustration is not valid unless accompanied by a proposal from SAMPLE LIFE.

Executive's Personal Report

Limited Collateral Assignment Split Dollar Using Universal Life (UL)

Executive's Personal Report Page: 2
Date: [Current date appears here]

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

For: George Baker, MD/Virginia Baker
The Baker Corporation

M/F Age 45/40	Form of Transaction (Ltd. Coll. Ass.)	Executive's Tax Bracket 35.00%	UL Interest Rate 5.00%
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	Executive's Costs	Executive's Values
Year	(1) Net Payment	(2) Executive's Share of Death Benefit
21	56	2,000,000
22	69	2,000,000
23	87	2,000,000
24	110	2,000,000
25	140	2,000,000
26	176	2,000,000
27	220	2,000,000
28	273	2,000,000
29	335	2,000,001
30	405	2,000,000
31	489	2,000,000
32	592	2,000,000
33	722	2,000,000
34	877	2,000,000
35	1,066	2,000,000
36	1,294	2,000,000
37	1,577	2,000,001
38	1,924	2,000,000
39	2,324	2,000,000
40	2,838	2,000,000
	15,812	

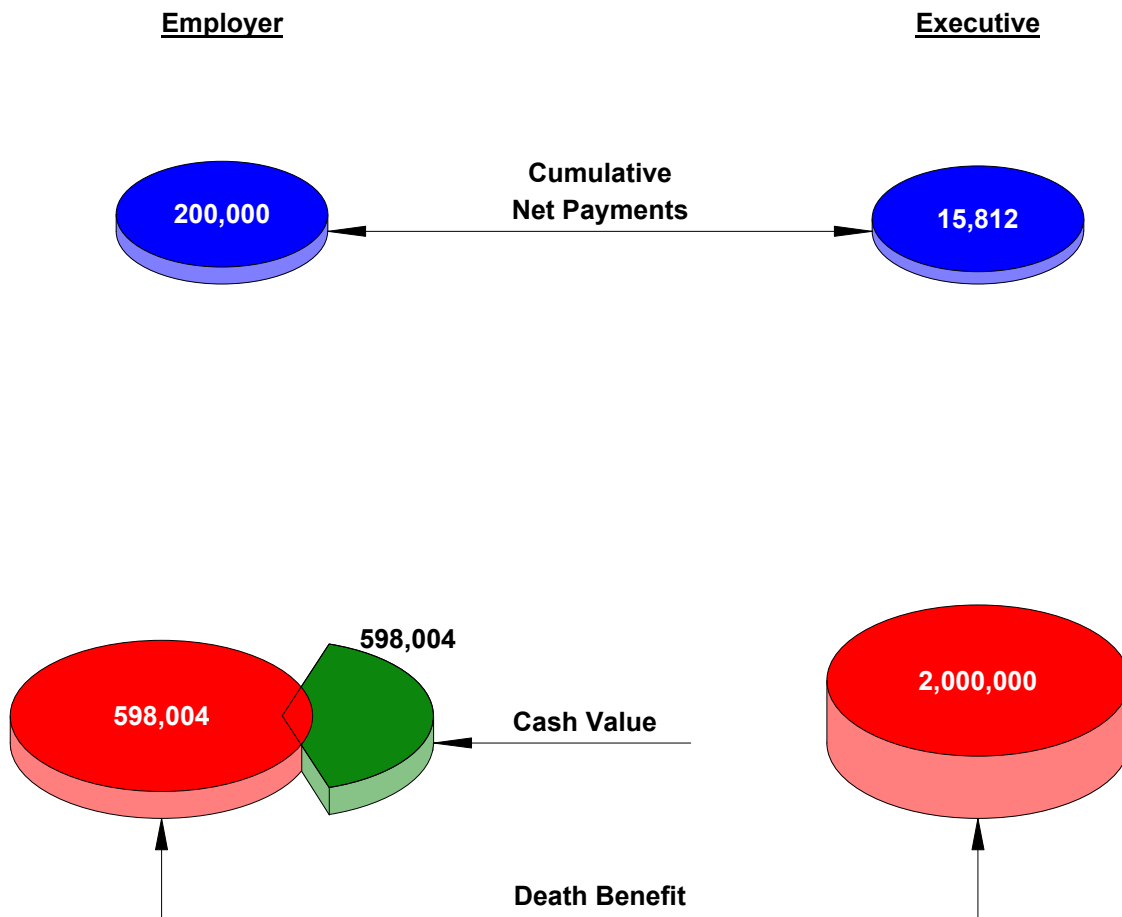
*This illustration assumes the nonguaranteed values shown continue in all years. This is not likely, and actual results may be more or less favorable. This illustration is not valid unless accompanied by a proposal from SAMPLE LIFE.

Limited Collateral Assignment Split Dollar Using Universal Life (UL)

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

For: George Baker, MD/Virginia Baker
The Baker Corporation

40th Year Summary Analysis



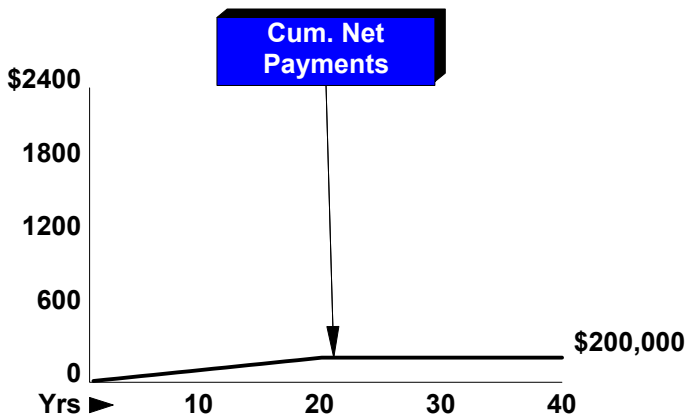
Limited Collateral Assignment Split Dollar Using Universal Life (UL)

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

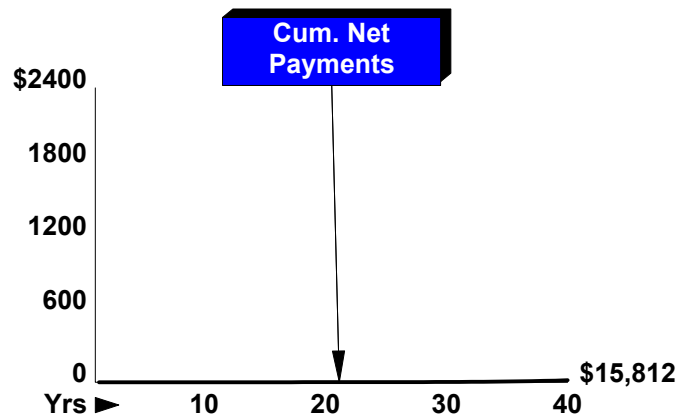
For: George Baker, MD/Virginia Baker
The Baker Corporation

40 Year Graphic Analysis

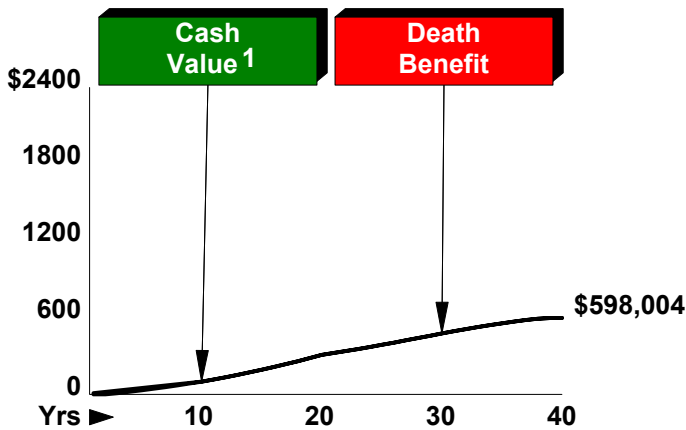
Employer's Payments



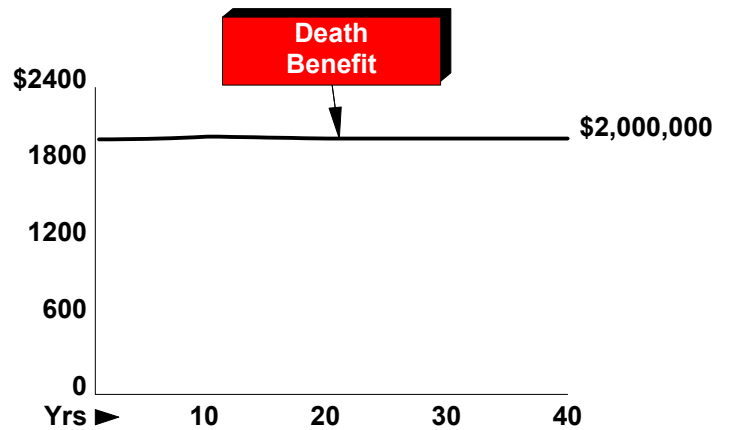
Executive's Payments



Employer's Values



Executive's Values



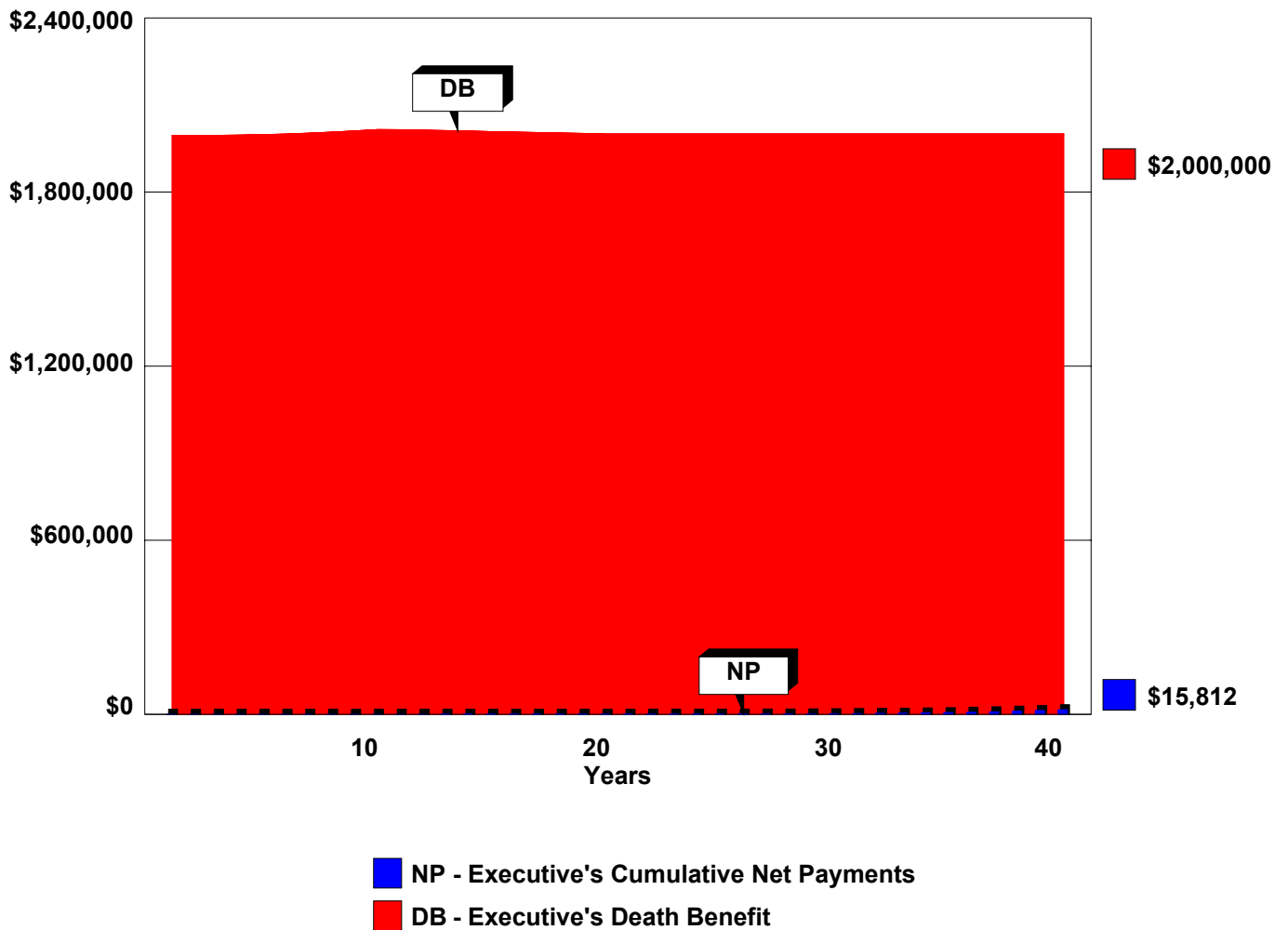
(1) Employer cash value equal to employer death benefit in year 11 and thereafter.

Limited Collateral Assignment Split Dollar Using Universal Life (UL)

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

For: George Baker, MD/Virginia Baker
The Baker Corporation

Executive's 40 Year Graphic Analysis



Limited Collateral Assignment Split Dollar Using Universal Life (UL)

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

For: George Baker, MD/Virginia Baker
The Baker Corporation

Employer's 40 Year Graphic Analysis

