TAXATION

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presents

2024 Estate and Gift Tax Conference

Panel 8: And the Saga of Life Insurance Continues

Thursday, March 21, 2024

3:00pm - 4:00pm

Speakers: Brian Gartner and Lalat Pattanaik

Conference Reference Materials

Advanced Planning With Life Insurance

Private Placement Life Insurance | Private Split Dollar

Presented By

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California Lawyers Association Gift & Estate Tax Conference
University of California, College of the Law, San Francisco

March 21, 2024

DISCLOSURES

Private Placement Life Insurance (PPLI) is an unregistered securities product and is not subject to the same regulatory requirements as registered products. As such, PPLI should only be presented to accredited investors or qualified purchasers as described by the Securities Act of 1933. This material may be delivered only by an individual licensed to present PPLI. The tax and legal references attached herein are designed to provide accurate and authoritative information with regard to the subject matter covered and are provided with the understanding that Winged Keel Group is not engaged in rendering tax, legal, or actuarial services. If tax, legal, or actuarial advice is required, you should consult your accountant, attorney, or actuary. Winged Keel Group does not replace those advisors.

PPLI combines the protection and tax advantages of life insurance with the investment potential of a comprehensive selection of variable investment options. The insurance component provides death benefit coverage and the variable investment component provides you the flexibility to potentially increase the PPLI policy's surrender and loan value. The "Account Value" is equivalent to the PPLI cash value. The "Liquidity Value" is the greater of after-tax surrender proceeds or the maximum one-time distribution after which the PPLI policy is illustrated to remain inforce through maturity. The "Insurance Benefit" is the benefit that would be payable at the death of the insured. The IRR on the Account Value, Liquidity Value, or Insurance Benefit is equivalent to an interest rate (after taxes) at which an amount equal to the illustrated premium payments could have been invested outside the policy to arrive at the Account Value, Liquidity Value, or Insurance Benefit of the policy.

These calculations make assumptions as to future investment returns, mortality costs, and administrative expenses and are not guaranteed. Actual results may be higher or lower than illustrated. Loans and partial withdrawals will decrease the death benefit and cash value and may be subject to PPLI limitations and income tax. The tax rates and tax treatment of earnings may impact comparative results. Lower maximum tax rates on capital gains and dividends would make the investment return for the Taxable Account more favorable, thereby reducing the difference in performance between the accounts shown. Investments in securities involve risks, including the possible loss of principal. When redeemed, units may be worth more or less than their original value.

The information, financial data, and policy values are hypothetical for illustration purposes only and may not be used to project or predict investment results. Policy values will vary based on the actual performance of subaccount investments selected, actual charges over the life of the plan, and the timing of premium payments. Any illustration is intended solely for discussion purposes and is not representative of any actual investment results or performance. Actual investment results and performance will vary and are not guaranteed. This information is not intended to constitute any future performance figures and no specific securities are identified. The financial illustrations and other statements within this report, as well as comments made by any individuals, are not guaranteed and do not constitute a contract. Any contract entered into is between the PPLI owner and the insurance company, through its PPLI policy. You should read the PPLI contract and offering documents thoroughly. Investors should consider the investment objectives and horizons, income tax brackets, risks, charges, and expenses of any variable product carefully before investing. This and other important information about the investment company is contained in each fund's offering memorandum, which can be obtained by calling 212.527.8000. Please read it carefully before you invest.

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NOTES

1. Assumes a net level annual rate of return of 7.00%, unless otherwise noted, after a 1.50% investment management fee in a Taxable Account.
2. Assumes that 75% of realized gains are taxed at the Short Term Capital Gains (STCG) / Ordinary Income rate and 25% of realized gains are taxed at the Long Term Capital Gains (LTCG) rate.
3. Assumes that investment management fees are not tax-deductible in the Taxable Account.
4. Assumes a STCG / Ordinary Income tax rate of 54.10% and LTCG tax rate of 37.10%, unless otherwise noted. Assumes the tax rates shown will be applicable for all years.
5. Assumes a net level annual rate of return of 7.00%, unless otherwise noted, before insurance-related charges in PPVA and PPLI Accounts.
6. Assumes Insured is a male age 50 classified as a Standard non-smoker life insurance risk, unless noted otherwise.
7. The life expectancy of a male age 50 classified as a Standard non-smoker life insurance risk is 40 years. Life expectancy is defined herein as the year in which the probability of the insured still being alive is 50%, based on Society of Actuaries' 2008 VBT Select mortality table.
8. The PPLI policy is designed to qualify as a non-Modified Endowment Contract (non-MEC) under current tax law.
9. Assumes the PPLI policy is issued in the state of South Dakota and will be owned by a Single Member LLC (or Trust) established in South Dakota with a Directed Administrative Member (or Trustee). The incremental expense, estimated to be $4,000 upfront and up to $10,000 annually, depending on the number of policies acquired, is not included in the analysis herein.
10. Please refer to the accompanying illustrations for illustrated values assuming maximum policy charges and a 0.00% return.
11. The illustrated funding arrangement is an AFR Loan Regime Split Dollar Agreement as outlined in the final split dollar regulations effective September 17, 2003 and based on Treasury Regulations Sections 1.61-22 and 1.7872-15 and Revenue Ruling 2003-105.
12. Assumes a long-term AFR rate of 4.00%. Assumes rate is constant over the life of the arrangement, which is a simplifying assumption for illustrative purposes. Each unique advance will be assessed the AFR loan interest in effect at the time of such loan. The annual AFR loan interest is assumed to be accrued to the loan principal in accordance with Example 1 in Treasury Regulation Section 1.7872-(15)(a)(4)(ii). Note that interest may be either paid or accrued and can be reevaluated on an annual basis.
13. Cumulative Split Dollar Loan Balance equals the premiums advanced plus accrued AFR loan interest, if any.
14. Assumes a 40% estate tax rate.
15. Under current tax law, if the PPLI policy lapses or is surrendered, all investment gains in excess of the policyowner's cost basis are taxed to the policyowner as Ordinary Income in the year the policy lapses or is surrendered.
16. The analysis herein does not include any fees charged by professional advisors engaged by the client for tax and/or legal advice.

ABOUT WINGED KEEL GROUP

WINGED KEEL GROUP®

An independent life insurance brokerage firm that specializes in intergenerational **wealth transfer, risk protection,** and **wealth accumulation** strategies

Our Expertise

- Traditional Life Insurance
- Business Continuation Insurance
- Private Placement Life Insurance and Annuities
- Corporate-Owned Life Insurance

100+ *person team*	Supports a Multi-Generational Partnership
$100+ *billion*	of Life Insurance Acquired by Our Clients
$10.1 *billion*	in Committed Assets to Separate Account Life Insurance and Annuities
8 *offices*	and Offshore Brokerage Firm

Data as of January 2024

For more than 35 years, we have structured and administered **customized life insurance and annuity portfolios** that help ultra high net worth families, business owners, private investors, and executives **optimize their estate and income tax planning.**

AGENDA TOPICS

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INTRODUCTION

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- ✓ **PPLI follows the same rules as all life insurance**
  - Underwriting and insurable interest requirements are identical
  - The same structuring techniques for optimizing the economics of traditional variable life insurance hold true for private placement life insurance

- ✓ **The only qualifying difference is the requirement to be a Qualified Purchaser (QP) / Accredited Investor (AI)**
  - We are seeing an evolution in the market that meaningfully reduces the threshold for access

- ✓ **PPLI pricing is completely transparent**
  - Pricing is fee-based; there are no commissions
  - Not a black box

PPLI OVERVIEW

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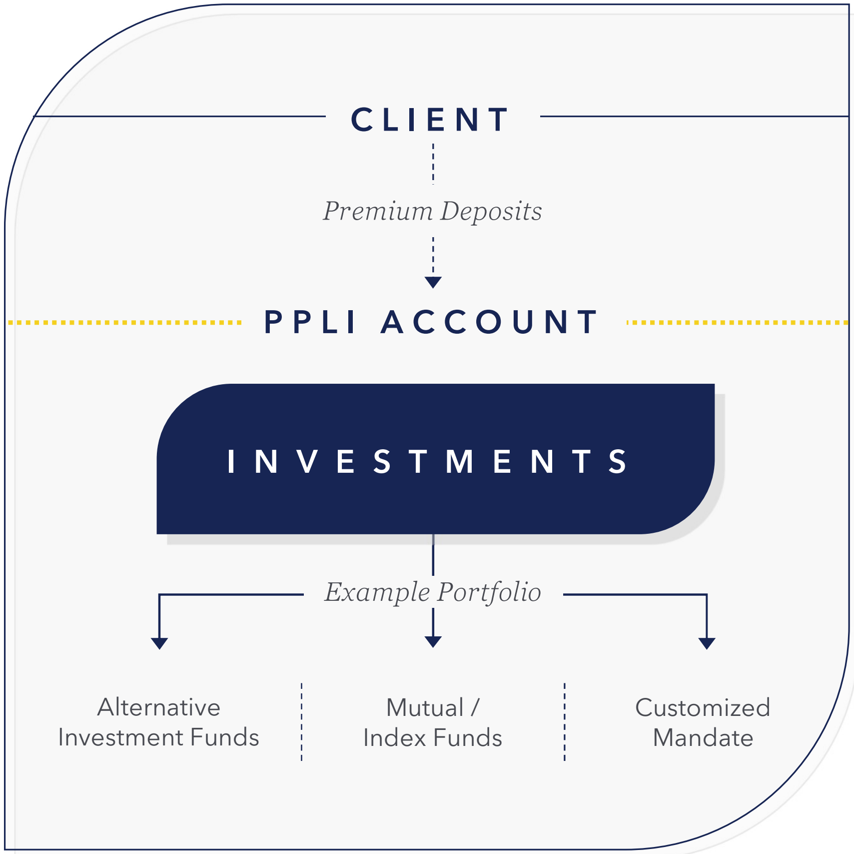
Tax Characteristics

- Investment returns accumulate on an income tax-deferred basis *IRC Section 7702(g)(1)(A)*
- Assets within a PPLI Account may be reallocated without income tax *Rev. Rul. 81-225 and Rev. Rul. 82-54*
- Withdrawals up to cost basis and properly structured loans may be taken on an income tax-free basis; approximately 80% – 85% of PPLI Account values can be accessed income tax-free during the insured's lifetime *IRC Section 72(e)(3) and 72(e)(5)*
- If a PPLI Account is fully surrendered, deferred investment gains are subject to income tax at ordinary rates *IRC Section 72(e)(3)*
- Beneficiaries receive the life insurance proceeds on an income tax-free basis upon the death of the insured *IRC Section 101(a)(1)*



- Assets held in Separate Accounts are protected from life insurance company credit risk
- PPLI Accounts allow flexibility in amount and timing of deposits
- Can be syndicated among insurance companies to optimize funding capacity and pricing
- Fees and charges are transparent and institutional

IMPACT OF TAXES ON INVESTMENT INCOME

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Ultra high net worth residents who allocate to alternative asset class investments face a heavy tax burden.

In many jurisdictions, ultra high net worth residents **realize less than half their returns after taxes**.

Assumes:

75% STCG / Ordinary Income

25% LTCG

TAX RATES

	Federal Tax	*California*
Return After Investment Management Fees	7.00%	7.00%
Federal Tax Rate at 36.55%	-3.11%	-3.11%
State and Local Tax	0.00%	-1.13%
Deduction for State and Local Tax	0.00%	0.00%
NET AFTER-TAX RETURN	3.89%	2.76%

Assumes 1.50% non-deductible investment management fee; see notes for additional information.

PPLI

Return After Investment Management Fees	7.00%
Federal, State, and Local Tax	0.00%
Impact of PPLI Fees and Charges at Life Expectancy	-0.52%
NET AFTER-TAX RETURN	6.48%

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Tax-Efficient Investment of Trust Assets

The ongoing tax liability for **grantor trusts** can become onerous to the grantor and often results in nearly all of their earned income being used to fund income taxes on assets to which they no longer have access. This can create cash flow challenges and frustration.

For **non-grantor trusts**, the trust is responsible for any income tax liabilities that arise. The top tax bracket is in effect once taxable income exceeds $15,200.

PPLI Accounts *are utilized to:*

- **Enhance the after-tax yield** on traditional and alternative asset class investments
- **Mitigate a trust's income tax liability**, while not inhibiting the trust's ability to access the money while the insured individuals are still alive

	GRANTOR TRUST	NON-GRANTOR TRUST
Mitigates the income tax burden generated by investment gains	✓	✓
Lessens ongoing tax liability to grantor *	✓	--
Ability to make tax-free distributions to trust beneficiaries	✓	✓
Provides de facto step up in basis for trust assets upon death of insured	✓	✓

* Grantor trusts are taxed at the same rate as the grantor.

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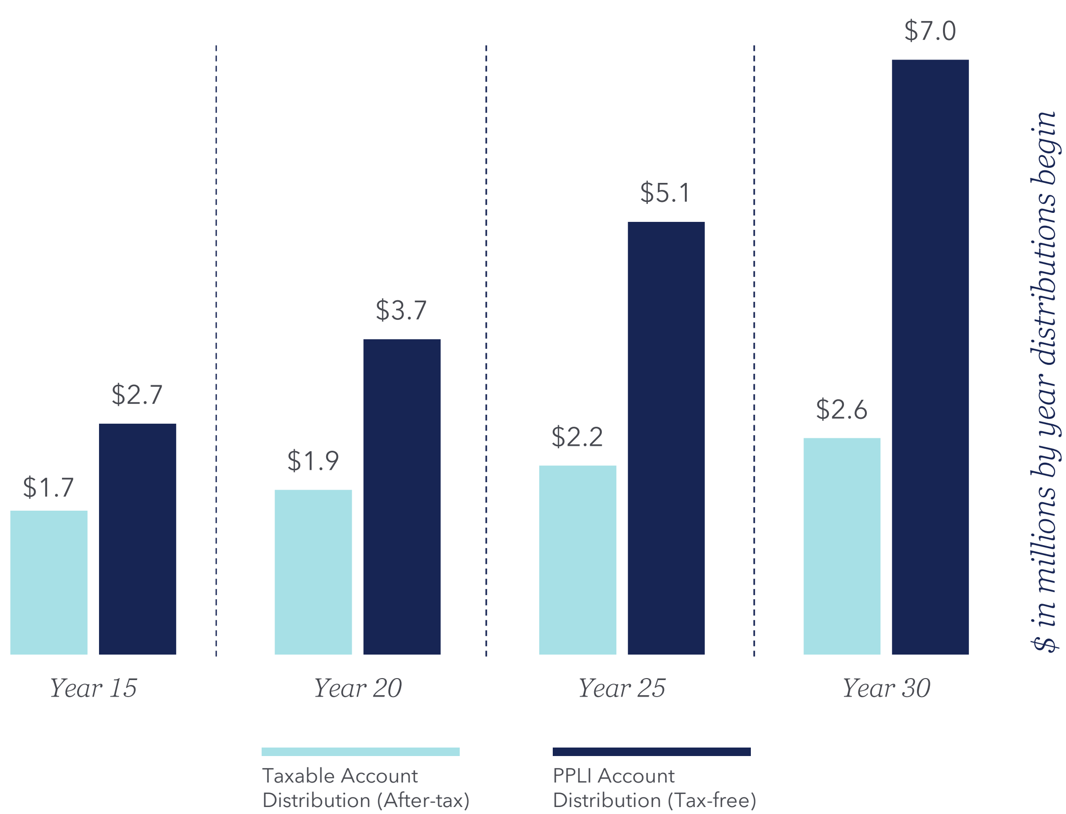
Enhancing Retirement Income

The after-tax returns of retirement investments can be improved by locating the tax-inefficient strategies within a PPLI Account

- Assets **grow on a tax-deferred basis** within the PPLI Account
- 80-85% of the PPLI Account value **can be accessed income tax-free** during the insured's lifetime through a combination of withdrawals of cost basis and policy loans
- This allows for **greater distributions** in retirement

Level Annual Distribution Over 10 Years

Insured Age 50, $10 Million Investment; 7.00% Net Rate of Return



Hypothetical example for illustrative purposes only

HOW DOES PPLI COMPARE TO A TAXABLE INVESTMENT?

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Multi-Generational Wealth Accumulation

Hypothetical PPLI Account vs. Hypothetical Taxable Account

Insured Age 50: $10 Million Investment **See Notes*

	TAXABLE ACCOUNT			VS. PPLI ACCOUNT			
Assumed Rate of Return Net of Investment Management Fees	*Account Value at Life Expectancy*	*IRR at Life Expectancy*	*Impact of Taxes at Life Expectancy*	*Insurance Benefit at Life Expectancy*	*IRR at Life Expectancy*	*Impact of PPLI Fees and Charges at Life Expectancy*	***PPLI vs. Taxable***
5.00%	$20,092,837	1.76%	3.24%	$54,286,001	4.49%	0.51%	2.7x
7.00%	**$29,746,009**	**2.76%**	**4.24%**	**$112,536,367**	**6.48%**	**0.52%**	3.8x
9.00%	$43,869,348	3.77%	5.23%	$230,241,169	8.48%	0.52%	5.2x

75% STCG / Ordinary Income; 25% LTCG

Assumes 1.50% Non-Deductible Investment Management Fee

THREE BASIC ELEMENTS OF TAX-COMPLIANT IDFs

Structure

The Insurance-Dedicated Fund (IDF) must be structured as a separate legal entity attached to, but distinct from, the life insurance company's segregated asset account

Diversification (Section 817(h))

The IDF must be broadly diversified with:

- No more than 55% of its assets allocated to any 1 investment,
- No more than 70% of its assets allocated to any 2 investments,
- No more than 80% of its assets allocated to any 3 investments, and
- No more than 90% of its assets allocated to any 4 investments

Investor Control

No PPLI Account owner can directly or indirectly influence the IDF manager with respect to the selection of funds or securities to fulfill the IDF's investment mandate

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The environment for understanding the characteristics of the underlying investments is **significantly more robust** than just a few years ago.

Key Factors *include:*

Private Letter Rulings (PLRs) regarding the ability to improve transparency into underlying positions

- PLR 201323003: "The Contract Holders do not have, and will not have, any current knowledge of Insurance Fund's specific assets or Insurance Fund's specific allocation. Insurance Fund's portfolio holdings, however, are made available on a delayed basis in monthly postings on the manager's website, in quarterly filings with the SEC, and in annual and semi-annual reports to shareholders."
- PLR 201417007: "The asset holding of (the IDF)…will be publicly available on ADVISER's website only on a delayed basis (about five days after the end of each month)."

PLR regarding the ability to create IDFs similar to taxable hedge funds

- PLR 201417007: "Each of the [IDFs] will have investment objectives and strategies identical to [the Manager's publicly available] portfolios and will therefore invest in the same [underlying investments]. As [the Manager] manages the [IDFs] and [the Manager's publicly available] portfolios, it will adjust their positions in the [underlying investments]. To the extent that [an IDF] and [the Manager's publicly available] portfolio have the same investment objectives, the adjustments for each will be the same"

Reaffirmation of Investor Control Doctrine through Webber v. Commissioner, Wegbreit v. Commissioner, and U.S.A. v. Blandi

INVESTOR CONTROL: TAKEAWAY

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- ✓ **We lose support if this segment of the industry is seen as abusive**
  - PPLI benefits from the exact same tax attributes of all life insurance and is governed by Sections 101(a), 7702, and 72
  - Growth & popularity has put insurance planning strategies in the eyes of Congress

- ✓ **Government Accountability Office (GAO) report requested by United States Senate Committee on Finance in July 2020**
  - Focus on abuse of offshore insurance tax shelters, offshore micro-captive insurance and offshore variable life insurance

- ✓ **With very favorable rules and a wide fairway to play in, there is no reason to push the envelope**

COMMON MYTHS

X Clients must invest a minimum of $5 million

- PPLI is becoming increasingly democratized, available at deposit sizes of $100,000 per year for 10 years
- The client must still meet AI / QP requirements

X Only young and healthy clients can access PPLI

- Young and healthy clients often utilize PPLI, as with regular insurance, but PPLI can also be more accessible for older or less healthy clients due to its efficiency in max-funded designs
- As with all life insurance, any family member or trust that has insurable interest can benefit from the proceeds of the policy

X Transactions must be done offshore

- The domestic market has become the place where most transactions are happening, with large name-brand insurance companies as the counterparty

COMMON MYTHS (CONTINUED)

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X The client is locking up their money for long periods of time

- There are no surrender charges or lock up periods
- Clients can access the account value in the same manner as they access value through traditional life insurance: withdrawal of cost basis and policy loans

X Clients can put closely-held business interests, cars, or other assets into PPLI

- Clients are solely allowed to allocate to third-party managers that manage an investment vehicle with complete discretion
- Putting closely-held business interests or assets other than cash is a clear violation of the Investor Control doctrine

X Using a trust changes Investor Control rules

- The control test looks through entities and pulls all family entities back into the analysis
- PPLI can only be used for allocating to independent third-party managers with complete discretion

WHY CLIENTS LIKE PPLI

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✓ Product Attributes

- Fully transparent pricing
- Simplified tax reporting with the elimination of K1s
- Alignment of broker's service obligation and revenue stream

✓ Investment Options

- Wider array of investment options
- Access to alternative funds managed by the top investment firms
- Allows clients to select the investment manager to whom they will give full investment discretion

✓ Planning Applications

- Opportunity to optimize existing assets in grantor and non-grantor trusts
- Create a supplemental retirement plan
- Establish a meaningful charitable bucket
- Help in funding estate tax and liquidity liabilities

Key Fact Patterns

- Subject to U.S. Income Tax
- Allocating to third-party managers
- Has existing trust assets

WHEN PPLI ISN'T A GOOD FIT

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X Estate Tax Focus

- Client lacks liquidity and needs life insurance to help pay a portion of federal estate taxes
- Traditional life insurance, which is focused on providing a maximum insurance benefit for a minimal premium, is a better solution for these clients

X Preference for Direct Investments

- Hedge fund manager who wants to put his or her GP interest inside of policy to shield it from income tax
- Investors who do not invest in third-party managers, who prefer to make direct investments in companies or real estate deals, or who enjoy playing a significant role in the investment selection process
- These clients are likely to be frustrated by Investor Control limitations

X Short Time Horizon

- Investors with an investment time horizon less than 10 or 15 years
- The liquidity of an insurance policy is provided through return of cost basis or loans of the policy account value, similar to taking a loan from a 401(k)
- PPLI account values need time to mature, which makes PPLI an ineffective solution for clients who need to access the funds in the short-term

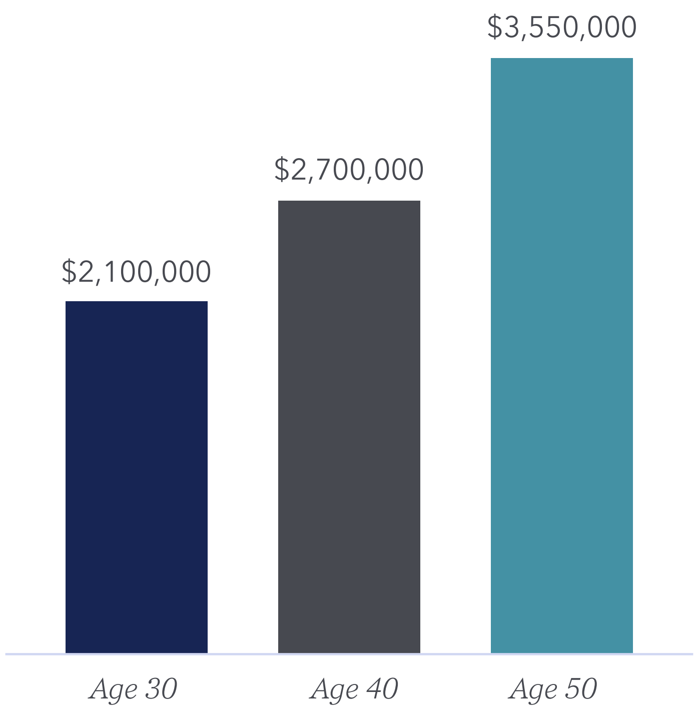
DEMOCRATIZATION OF PPLI

There is a growing availability of programs that provide **access to PPLI at smaller bite sizes**. The maximum deposit depends on the specific profile of each insured but is generally between $2 - $4 million. Many managers waive their minimum so clients can concentrate on one manager or diversify across multiple strategies.

- Available up to age 60 for policyowners with **invested assets of at least $5 million**
- **No insurance physical**
- **Accelerated underwriting** timeline; pricing is consistent with a fully underwritten policy
- **$1 million minimum** cumulative deposit
- **$10 million maximum face amount** limitation, with deposit capacity determined by age and underwriting results

Estimated Deposit Capacity

Over Five Years



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Wyden Investigation

- Life Insurance and PPLI is just one of many areas that Senators Wyden and Warren would like to tax rich people
- There is currently no path to pass this type of legislation, and they have a consistent history of failing when they try and implement a "billionaire's tax"
- The tax attributes of PPLI are identical to the tax attributes of all life insurance policies.
- The retail variable annuity and life insurance market is in excess of $4 Trillion and the life insurance industry is 100% aligned behind the concept that a tax on one is a tax on all
- The life insurance industry pays $2.2 Billion a day in benefits to Americans, second only to social security
- Life insurers also own over 20% of US corporate bonds issued and a significant amount of Treasuries
- While we see no path currently for any legislation, no one can guarantee tax policy for the next 10, 20 or 30 years, and based on strong precedent, most tax advisors, lawyers, and lobbyists feel strongly that if there was a change to PPLI taxation in the future, there would be grandfathering of existing policies/investments
- We have spoken with the staffers for the ranking Republican on senate Finance, and they see this report as filled with political rhetoric and lacking any viable tax theory

INSIGHTS INTO THE INTERGENERATIONAL SPLIT DOLLAR TAX LANDSCAPE

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Cahill v. Commissioner

- **Taxpayer loss on all counts** and published settlement
- Son, acting under POA for his incompetent father as trustee of a revocable trust, entered into a split dollar arrangement with an ILIT
- ILIT **trustee was a cousin and son's business partner**
- Son, as POA, and ILIT trustee had joint power to terminate the agreement
- **Borrowed $10M premium from third-party lender** with loan term of five years
- Mr. Cahill died within a year and insurance policies cash value were $9.6M+
- Estate took a **98% discount** on the receivable
- Tax Court rules that 2036, 2038, and 2703 apply to valuation of receivable
- Estate and IRS conceded valuation of receivable was $8M plus penalties

Morrissette v. Commissioner

- **Taxpayer victory on 2036, 2038, and 2703 but loss on valuation**
- **Clear non-tax purpose for establishing the insurance** to fund a buy-sell arrangement between children for a family business
- The split dollar receivable was transferred via testamentary device to the insurance trust owning the policies
- Advanced $30M in premium and estate contended value as $7.5M
- Tax Court sided with IRS and determined the fair market value was $27.9M plus gross valuation misstatement penalty
- Factors influencing the fair market value included the discovery of emails implying **tacit agreement to cancel the policies** three years following the estate closing, **family's unilateral control to terminate the arrangement**, and one of the advisors touted the **significant discounts** and suggested changes to increase the discounts

Levine v. Commissioner

- **Taxpayer victory on all counts** including valuation
- Estate prevailed in a **65% discount** on the valuation of the split dollar receivable
- **Borrowed $6.5M premium from third-party lender** with loan term of five years or less
- Trustees on both sides of the arrangement were **independent non-family member trustees** and **only the insurance trust could terminate the arrangement**

Successful Fact Patterns

- ✓ Clear non-tax purpose for establishing the insurance
- ✓ Reasonable discount on valuation of the split dollar receivable
- ✓ Independent trustees

- 1960s Origination of Split Dollar Concept:

Split Dollar Plans used as a means to transfer supplemental benefits between a businesses and executives – essentially tax favorably using insurance structures. (General Dynamics, GM, etc.) Basically, the payment of premiums by a non-owner to an owner of a policy was not a gift or income to the owner so long as the premiums came back to the non-owner who made the payment. This allowed growth over time to accumulate to policyowner tax free.

- 2003: FORMAL GUIDANCE ON TREATMENT OF SPLIT DOLLAR PLANS:

Rev. Rul. 2003-105 Treasury Decision 9092 provides comprehensive final Regulations (under §§1.61-22, 1.83-3(e), 1.83-6(a)(5), 1.301-1(q), and 1.7872-15 of the Income Tax Regulations) regarding the federal income, gift, and employment taxation of split-dollar life insurance arrangements (as defined in §1.61-22(b)(1) or (2)).

SPLIT DOLLAR OVERVIEW

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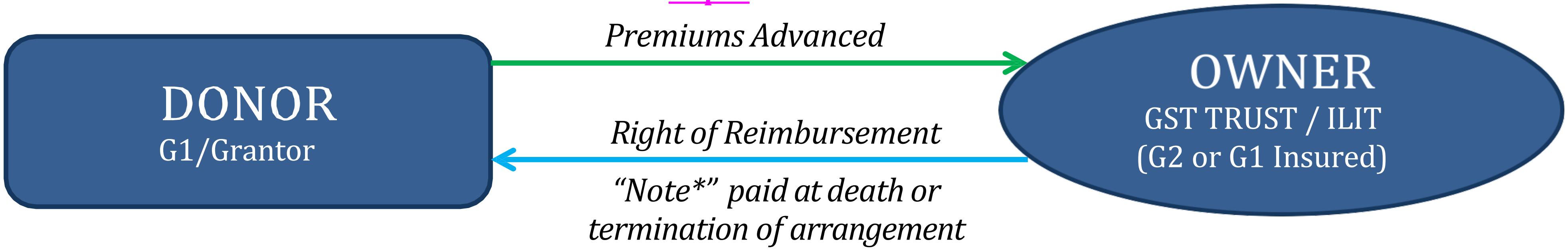
- Defined by Treasury Regulation Section 1.61-22(b) as an arrangement between an owner and a non-owner of a life insurance contract in which a third-party is a “donor” of the premium and is entitled to recover those premiums and such recovery is to be made from, or is secured by, the proceeds of the life insurance contract.

Step 1:



Step 2:

- Death benefit and the cash values are collaterally assigned to Donor (Grantor) to secure this contractual right but may have restrictions placed which prevent Donor from unilaterally collapsing the policy and obtaining the cash values.

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- G1 can lend premiums to a trust for the benefit of or to insure G2 and beyond. Sometimes G1 finances the premiums and turns around lends it to a trust. Low interest rates have made this popular.

- It is actuarially likely that the insured (G2/G3)—generally a child or grandchild of the donor—will live for many more years after the parties have entered into a private (intergenerational) split dollar agreement

- As a result, it is unlikely that the donor's estate will be paid back any time soon and the value of the receivable repayment is subject to appraisal at fair market value when calculating the taxable estate of the donor

- **This possibility to include the fair market value of the split dollar receivable in the estate of the donor rather than the full amount of the premiums advanced + interest makes intergenerational private split dollar even more attractive for efficient wealth transfer beyond the gift tax implications of the premiums and income tax implications of the insurance cash value build up and death benefit**

PREVIOUSLY UNANSWERED QUESTIONS (Resolved b/w 2016-2022)

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- Is the transfer between private or related parties a disguised gift or gift taxable event ?
  - **No**
- Is there an adjustment to FMV (i.e. potentially substantial discount)?
  - **Yes.** Expert testimony by an IRS expert recently indicated the appropriate *annual discount rate* for valuation of a split dollar receivable is 8.85% for a universal life policy and 6.4% for a whole life policy. That could change by insurer , ratings, yield environment, etc. e.g. Terminal value of $10M note @ 3.74% 30 years from now is $30M. Discounting at 8.85% =PV of $3M.
- Can 2036(a) & 2038(a) be avoided?
  - **Yes.** Grantor's rights to terminate, amend, modify, revoke the arrangement and recover the cash surrender value constitute rights to designate who would possess and enjoy the property under IRC § 2036(a)(2); so eliminating the Grantor's right to terminate the arrangement avoids this issue.
  - *In addition an exception to the bona fide sale rule needs to be met via a non-tax motivation.* Otherwise donor is giving something of greater current value than he/she is receiving. The Tax Court in Morrissette specifically said that full and adequate consideration requirement can be met through non-financial considerations such as desire to retain a business within the family; equalize estates of multiple beneficiaries, economic arbitrage, etc..
- Can the § 2703(a)(1) & § 2703(a)(2) be avoided and can the § 2703(b) exception be satisfied ?
  - **Yes.** By removing termination rights and access to cash values held by the ILIT and also not restricting the Grantors rights to use or transfer the split dollar receivable. Grantor is not transferring the property held in the ILIT. Cash values were never owned by him; they were from the beginning owned by the ILIT.
- *Morrisette I; Morrisette II; Cahill,* ***Levine***

PLANNING OVERVIEW

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- 84 Year Old Matriarch; $60M Estate; 35M Out; $25M Inside taxable estate mostly liquid; exemptions utilized
- 4 Children Age 60s; all involved in rental home business; Net worth $15- $20M each
- Need intra-family buy sell & insurance for future estate taxes
- Wealth concentrated in family business
- Goals:
  - Mom wants to transfer $10M to grandchildren ideally & reduce taxable estate
  - Fund insurance on G2 for benefit of G3 & fund intra-family buy-sell

*Nothing in this proposal represents a guarantee of performance. Values above are not guaranteed and are subject to change.

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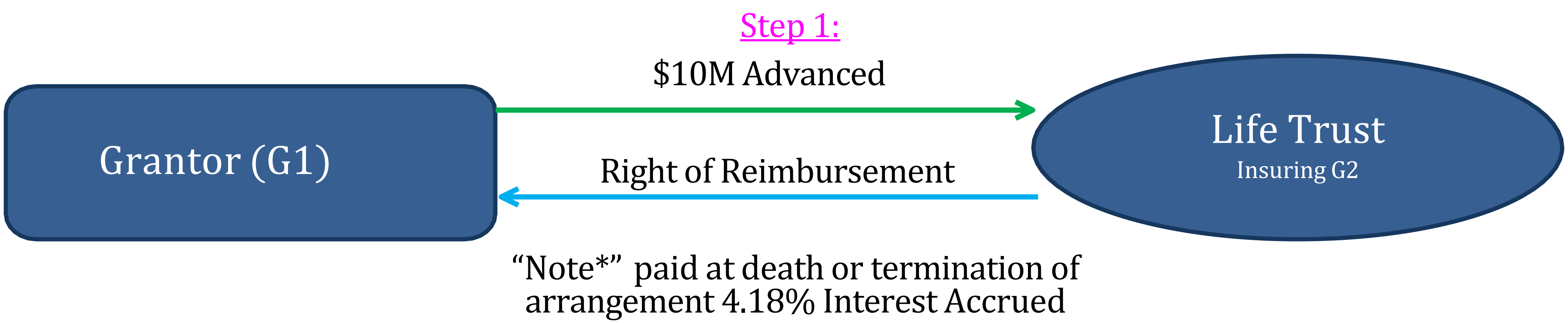

Step 2:

- Death benefit and the cash values are collaterally assigned to Donor (Grantor) to secure this contractual right but may have restrictions placed which prevent Donor from unilaterally collapsing the policy and obtaining the cash values.

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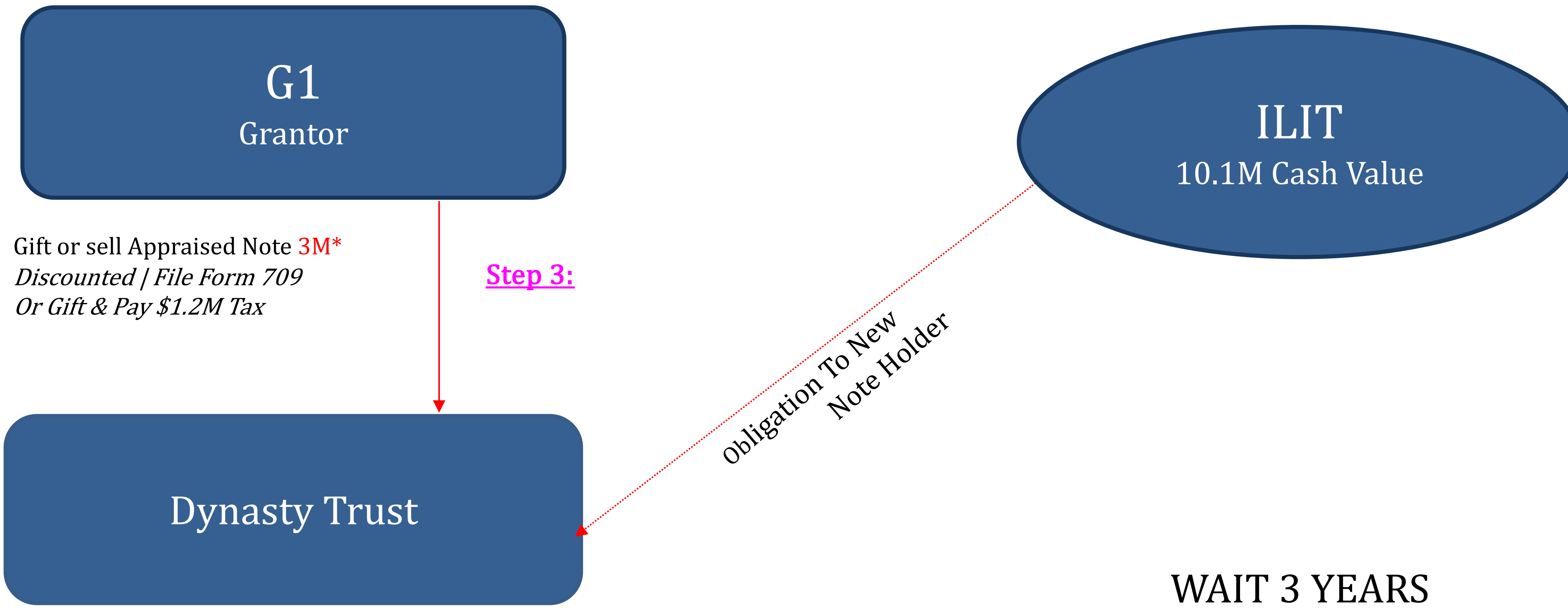

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G1
Grantor
($1.2M)

ILIT
$12M Cash Value

ILIT
Pays $12M to Exit SD

Step 4:

Dynasty Trust
$12M + Policies

G1 Grantor pays $1.2M gift tax or uses lifetime exemption
G2 has $12M of cash that can be accessed from insurance policies and/or substantial death benefit that is outside of the taxable estate.

Dynasty Trust :
No gift Tax
No estate taxes
No generation skipping taxes

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DO NOTHING:

G1
$12M

$10M Cash ($12M @ 5% Gross Growth Rate)

IRS
($5M)

Estate and Income Taxes

G2
$7M

SPLIT DOLLAR:

G1
$10M

$10M into life insurance policies, No gift taxes
Grows to $12M *(Tax savings of $5M)*

TRUST FOR
G2
$12M + Policies

$3M loan receivable
($1.2M Estate taxes due @ 40%)

IRS
($1.2M)

COMPOSITE DESIGN FOR DEATH BENEFIT

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a	b				c	d	e	f	g	h	i	j
Year	EOY Age				Collared Return	Death Benefit	Tax Free DB In Excess of FMV of SD Note	Premium (SD Loan From G1)	FMV of SD Note in Taxable Estate	Account Value	Cash Value	Net Migrated Out of Taxable Estate
	Danton	Andrew	Victoria	Marna								
0	65	63	62	60	6.30%	33,628,553	30,628,553	(10,000,000)	(3,000,000)	10,058,855	8,923,548	5,923,548
1	66	64	63	61	6.30%	34,014,750	31,014,750	-	-	10,445,052	9,397,443	6,397,443
2	67	65	64	62	6.30%	34,415,768	31,415,768	-	-	10,846,070	9,874,009	6,874,009
3	68	66	65	63	6.30%	34,831,689	31,831,689	-	-	11,261,991	10,370,559	7,370,559
4	69	67	66	64	6.30%	35,262,377	32,262,377	-	-	11,692,679	10,888,460	7,888,460
5	70	68	67	65	6.30%	35,831,774	32,831,774	-	-	12,262,076	11,538,486	8,538,486
6	71	69	68	66	6.30%	36,422,799	33,422,799	-	-	12,853,101	12,205,058	9,205,058
7	72	70	69	67	6.30%	37,034,760	34,034,760	-	-	13,465,062	12,904,234	9,904,234
8	73	71	70	68	6.30%	37,666,437	34,666,437	-	-	14,096,739	13,616,539	10,616,539
9	74	72	71	69	6.30%	38,316,101	35,316,101	-	-	14,746,403	14,346,834	11,346,834
10	75	73	72	70	6.30%	39,012,448	36,012,448	-	-	15,442,750	15,118,729	12,118,729
11	76	74	73	71	6.30%	39,723,800	36,723,800	-	-	16,154,102	15,917,292	12,917,292
12	77	75	74	72	6.30%	40,447,155	37,447,155	-	-	16,877,457	16,721,279	13,721,279
13	78	76	75	73	6.30%	41,179,087	38,179,087	-	-	17,609,389	17,533,841	14,533,841
14	79	77	76	74	6.30%	41,915,381	38,915,381	-	-	18,345,683	18,345,683	15,345,683
15	80	78	77	75	6.30%	42,650,552	39,650,552	-	-	19,080,854	19,080,854	16,080,854
16	81	79	78	76	6.30%	43,377,477	40,377,477	-	-	19,807,779	19,807,779	16,807,779
17	82	80	79	77	6.30%	44,087,322	41,087,322	-	-	20,517,624	20,517,624	17,517,624
18	83	81	80	78	6.30%	44,768,528	41,768,528	-	-	21,198,830	21,198,830	18,198,830
19	84	82	81	79	6.30%	45,407,324	42,407,324	-	-	21,837,626	21,837,626	18,837,626
20	85	83	82	80	6.30%	45,988,870	42,988,870	-	-	22,419,172	22,419,172	19,419,172
21	86	84	83	81	6.30%	46,496,356	43,496,356	-	-	22,926,658	22,926,658	19,926,658
22	87	85	84	82	6.30%	46,910,029	43,910,029	-	-	23,340,331	23,340,331	20,340,331
23	88	86	85	83	6.30%	47,202,043	44,202,043	-	-	23,632,345	23,632,345	20,632,345
24	89	87	86	84	6.30%	47,344,550	44,344,550	-	-	23,774,852	23,774,852	20,774,852
25	90	88	87	85	6.30%	47,307,082	44,307,082	-	-	23,737,384	23,737,384	20,737,384
26	91	89	88	86	6.30%	47,058,022	44,058,022	-	-	23,488,324	23,488,324	20,488,324
27	92	90	89	87	6.30%	46,572,585	43,572,585	-	-	23,002,887	23,002,887	20,002,887
28	93	91	90	88	6.30%	45,820,886	42,820,886	-	-	22,251,188	22,251,188	19,251,188
29	94	92	91	89	6.30%	44,774,982	41,774,982	-	-	21,205,284	21,205,284	18,205,284
30	95	93	92	90	6.30%	43,410,141	40,410,141	-	-	19,840,443	19,840,443	16,840,443
31	96	94	93	91	6.30%	41,695,280	38,695,280	-	-	18,125,582	18,125,582	15,125,582
32	97	95	94	92	6.30%	38,331,494	35,331,494	-	-	16,308,764	16,308,764	13,308,764
33	98	96	95	93	6.30%	33,551,278	30,551,278	-	-	14,689,282	14,689,282	11,689,282
34	99	97	96	94	6.30%	30,819,082	27,819,082	-	-	12,904,393	12,904,393	9,904,393
35	100	98	97	95	6.30%	30,098,143	27,098,143	-	-	10,428,234	10,428,234	7,428,234
By Oldest Age 90						Death Benefit 47,307,082	44,307,082					

ADVANCED PLANNING | SALE TO IDGT & FINANCED SPLIT DOLLAR INSURANCE

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CASE STUDY ASSUMPTIONS

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- HNW Family; Primarily Alternative Assets, Notes from Sales to IDGTS, Business Interests
- Age of Grantor : 53
- Insured Age : 53 (Grantor is Insured)
- Net Worth of Grantor After Existing Planning: 250M Current; $1.5B+ at Life Expectancy.
- Goals:
  - Protect $200-300M+ of future assets from erosion to estate, gift, and GST taxes via insurance planning
  - Move $130M+ of target taxable assets (notes from sales to IDGTS or Business Interests, Real Estate , etc.) out of estate w/o gift taxes; Mitigate $50M+ in gift, GST & estate taxes up front; and more the longer Grantor survives
  - Move target assets out to generation skipping "dynasty" trusts w/o generation skipping taxes to benefit future generations
  - Substantial death benefits to pay estate taxes and move assets to generation skipping taxes if death occurs prior to completion
- Assumed Design: $100M Financed Split Dollar Premiums
- Augment Installment Sales Which Moved Appreciation Out on 100M of Assets
- Valuable Planning Completed & Contemplated
- Lifetime Exemptions Utilized or Earmarked for Other Planning; Some May be Available for Current Planning

TRADITIONAL SALE TO IDGT PLANNING

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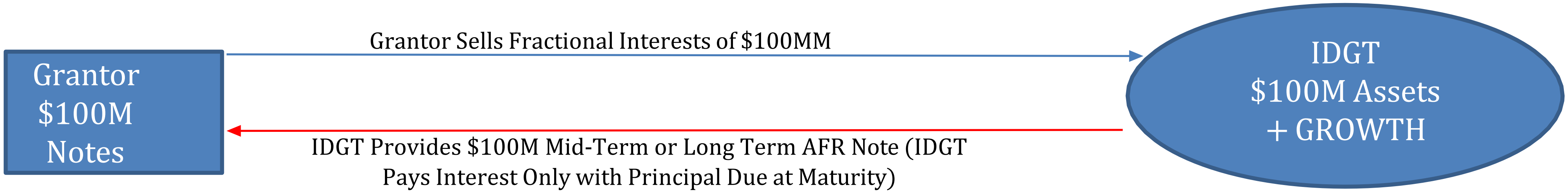

With Traditional Planning

- Value of assets sold are "frozen" at a specific appraised value ($100M)
- Interest is collected from the trust owned assets (no income tax consequences)
- All taxes due on income generated by trust assets can be paid by Grantor without gift taxes
- In 15 years, the value of assets in trust can be $250M-300M depending on reasonable growth rates 6-7%
- Unfortunately, the Notes –while frozen at $100M, are still an asset in the estate subject to estate taxes
- Augmenting traditional Sale to IDGT with premium financed life insurance & split dollar planning can allow us to move the $100M of notes

PLANNING OVERVIEW AND BENEFIT

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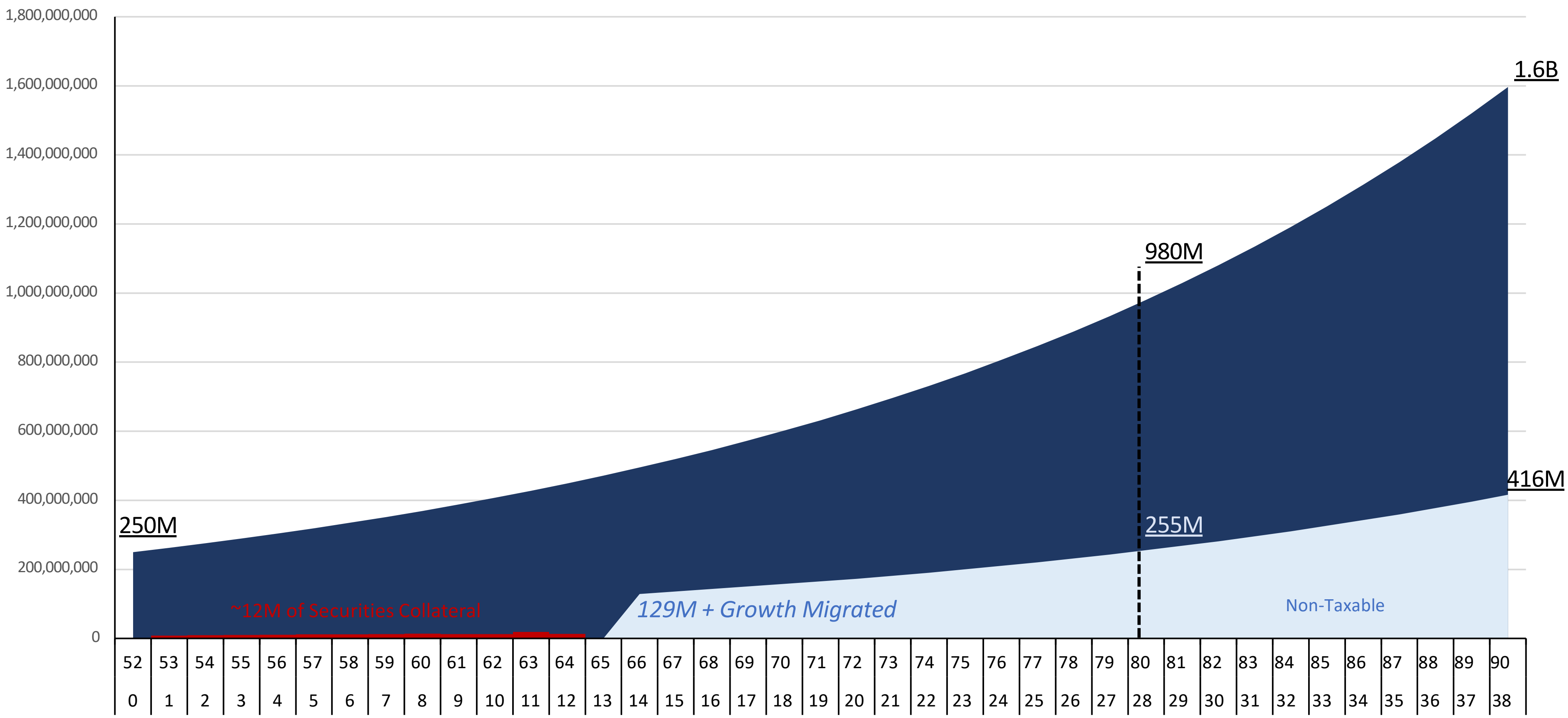

INSURANCE OVERVIEW AND BENEFIT

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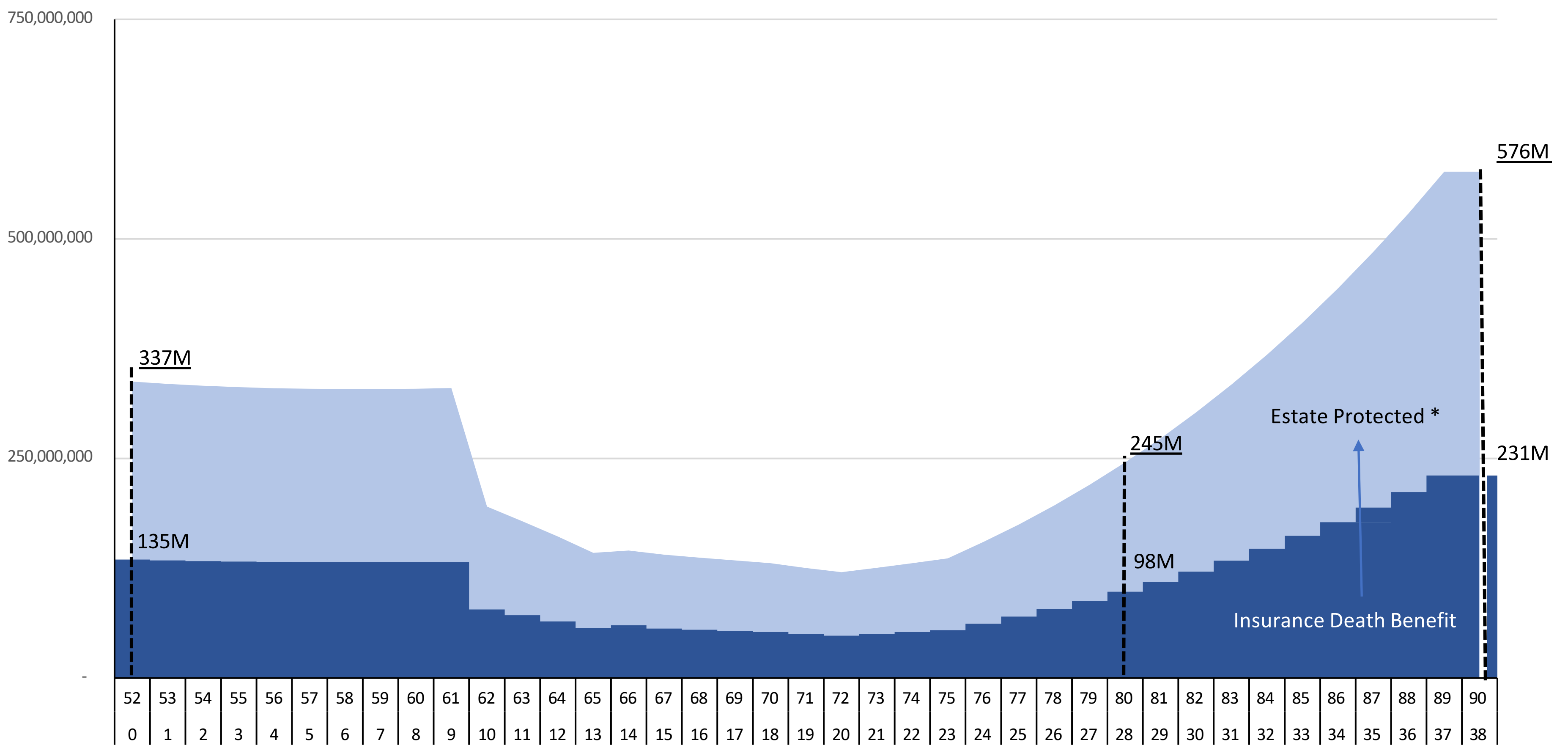
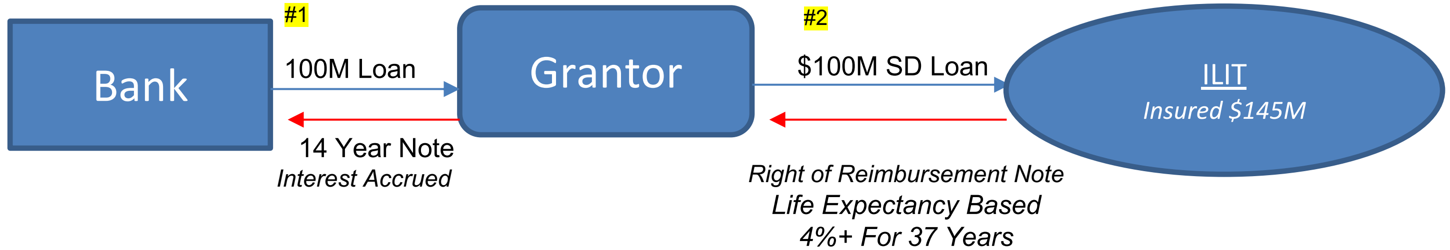


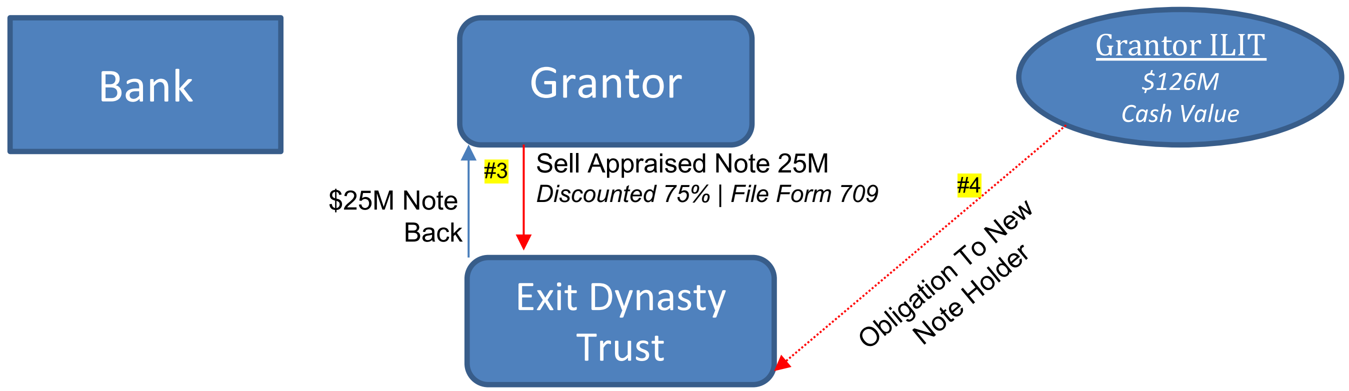
* Assumes assets valued at 25% discount; assumes estate tax rate of 40%

Phase 1: Funding
(Years 0-9)

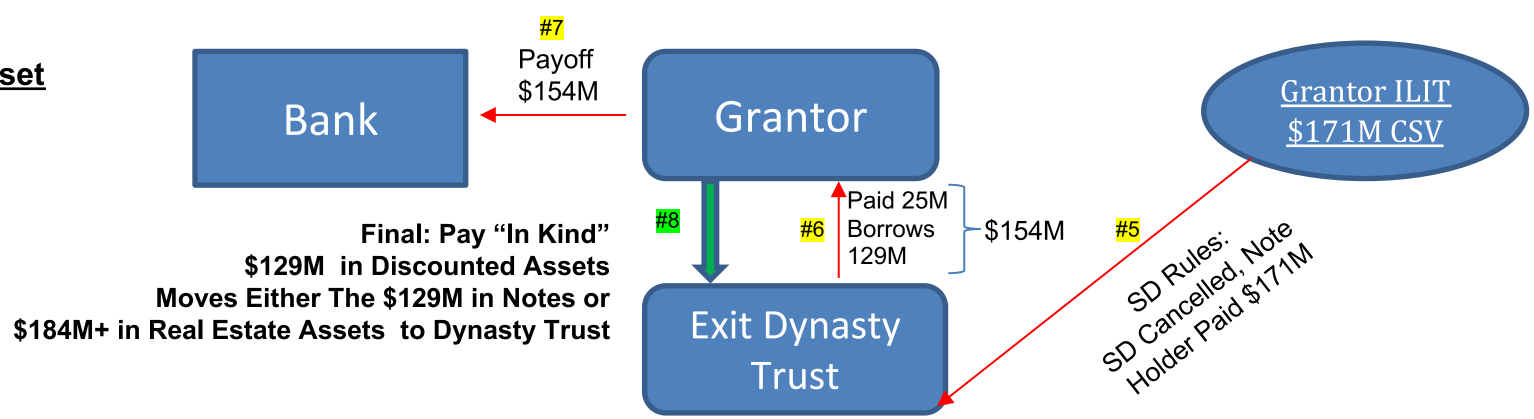


*Series of 3-4 year notes refinanced multiple times

Phase 2: Selling Note
(Year 10-13)



Phase 3: Removing Asset
(Year 14)



*Assume that the assets used to make "in kind" payment by Grantor
To Dyansty Trust are either IDGT notes or fractional LLC interests @ a 30% discount

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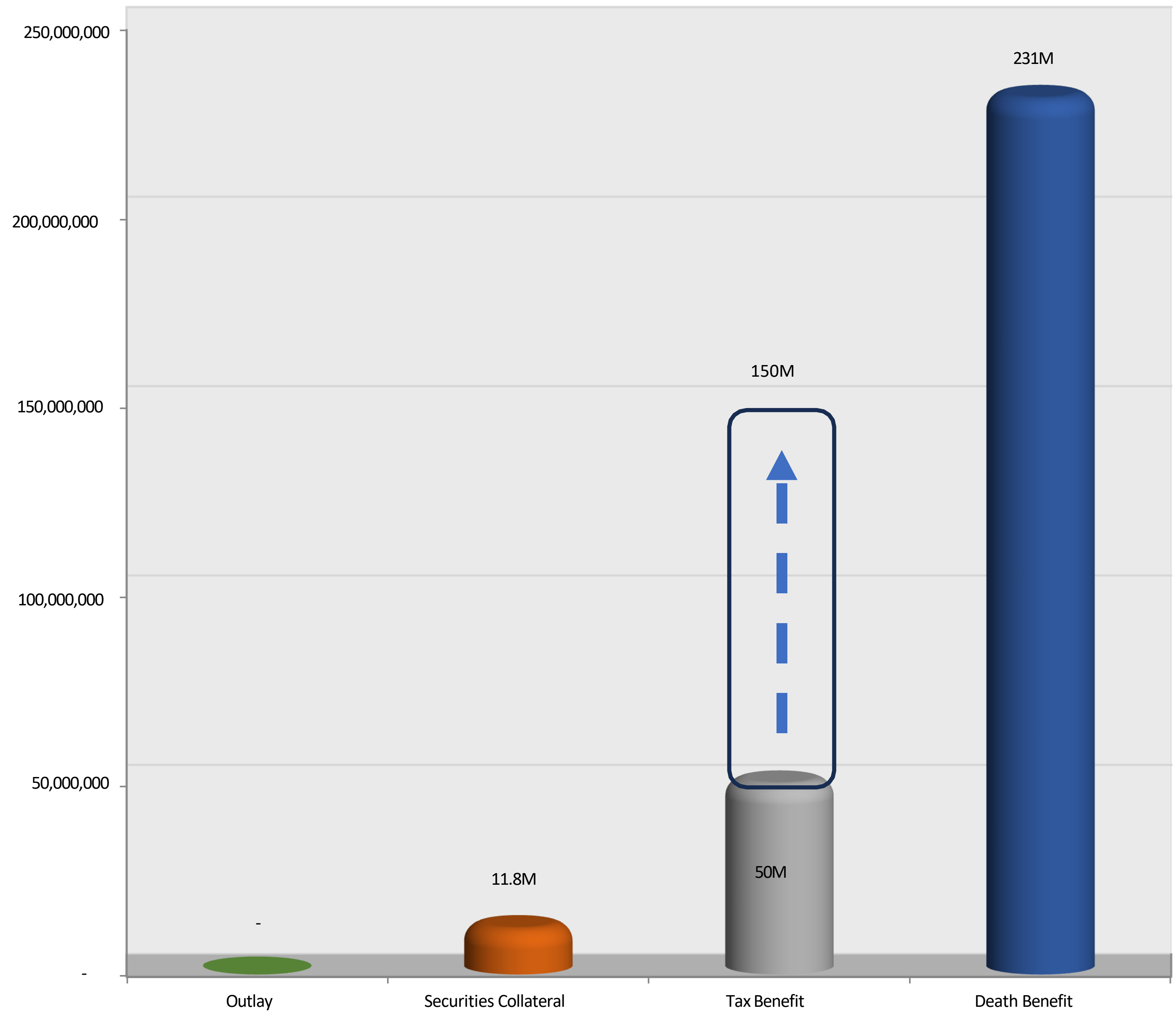
Program Economics

Cost, collateral exposure, and benefit summary based on custom developed proposal discussed herein



*Underlying assumptions, basic insurance illustrations, loan and legal documents should be reviewed in order to better understand these economics and program suitability.

CLIENT PROFILE | FINANCED SPLIT DOLLAR ARRANGEMENTS

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Strategy can mitigate estate, gift, & GST tax, and transfer assets inter-generationally for wealthy families/family businesses. It can produce significant double digit IRR to trust or for next generation, in addition to tax savings, and death benefits.

- $50M -$2B net-worth families; looking to migrate $20M to $500M in assets without gift taxes
- Genuine desire to benefit G2 and beyond & not just purely charitable intent
- Age 45-90; uninsurable is fine; Desired continued control of migrated assets possible
- Client wants to transfer income & non-income real estate, securities, private company stock, art, family business, fractional partnership or LLC interests, etc.
- Excellent solution to move out the notes resulting from Sales to IDGTs
- QTIP with assets in excess of lifetime need can transfer assets to future generations
- GRATS are not generation skipping and inflate G2 estate; appreciating assets in completed GRATS can be moved out.
- Genuine need and desire to have a life insurance benefit