



JONES LOWRY

2021 Split-Dollar Life Insurance Review



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Overview

To be discussed:

- A Brief History of Split Dollar Plans
- The Two Split Dollar Regimes blessed by the IRS
- The “Rule of 72” to illustrate Grantor Loans and Split Dollar Loans
- The Expected Benefits (and options) with a One-Time Private Split Dollar Loan



Split Dollar Arrangements- A Brief History

- **1904:** The Armstrong Investigation. The modern era of properly reserved (“safe”) life insurance policies begins.
- **1958:** Split-Dollar Plans: a tax-free Executive Benefit.
- **1964:** The IRS issues its taxable “Economic Benefit” ruling.

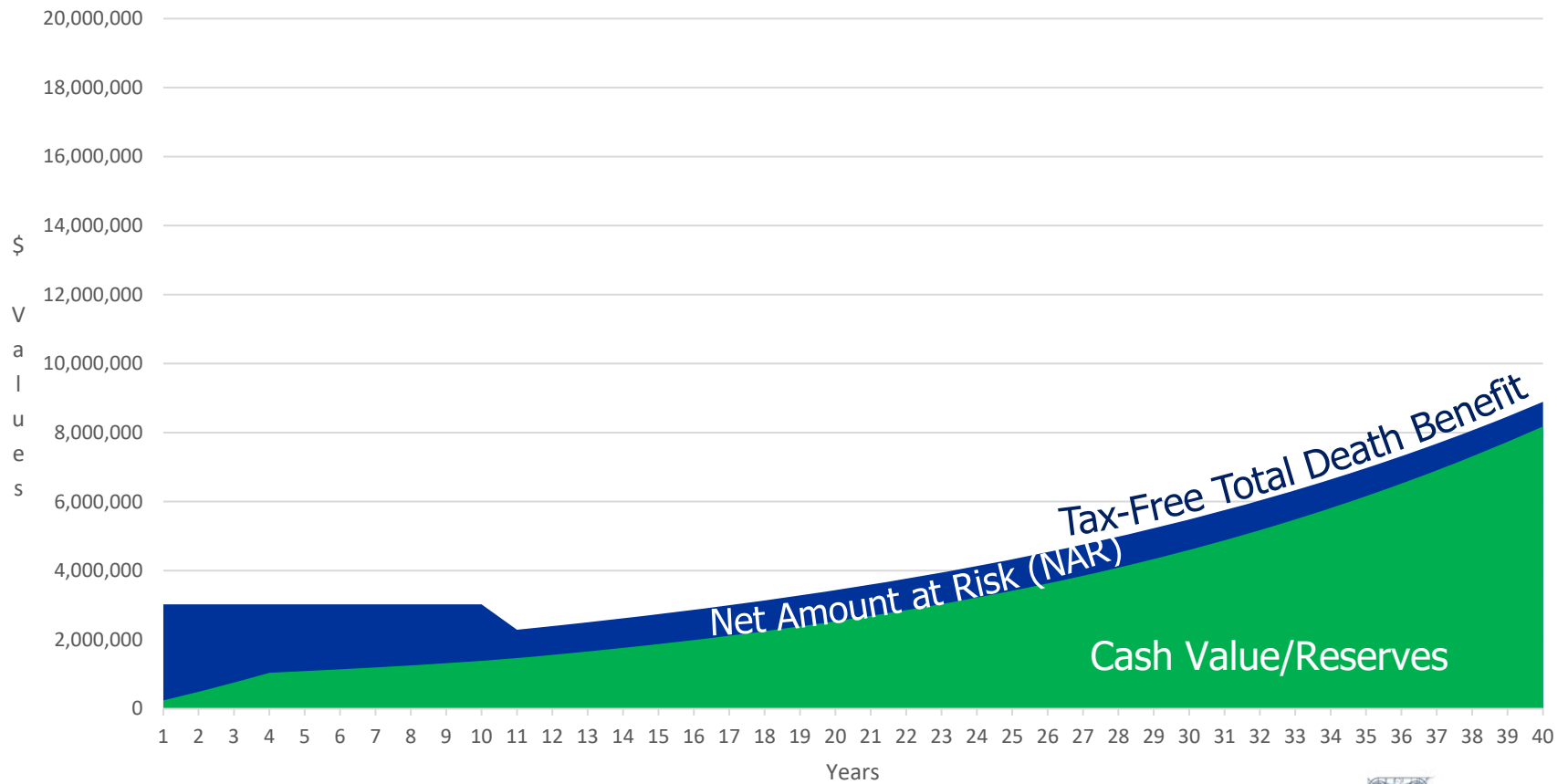


Split Dollar Arrangements- A Brief History

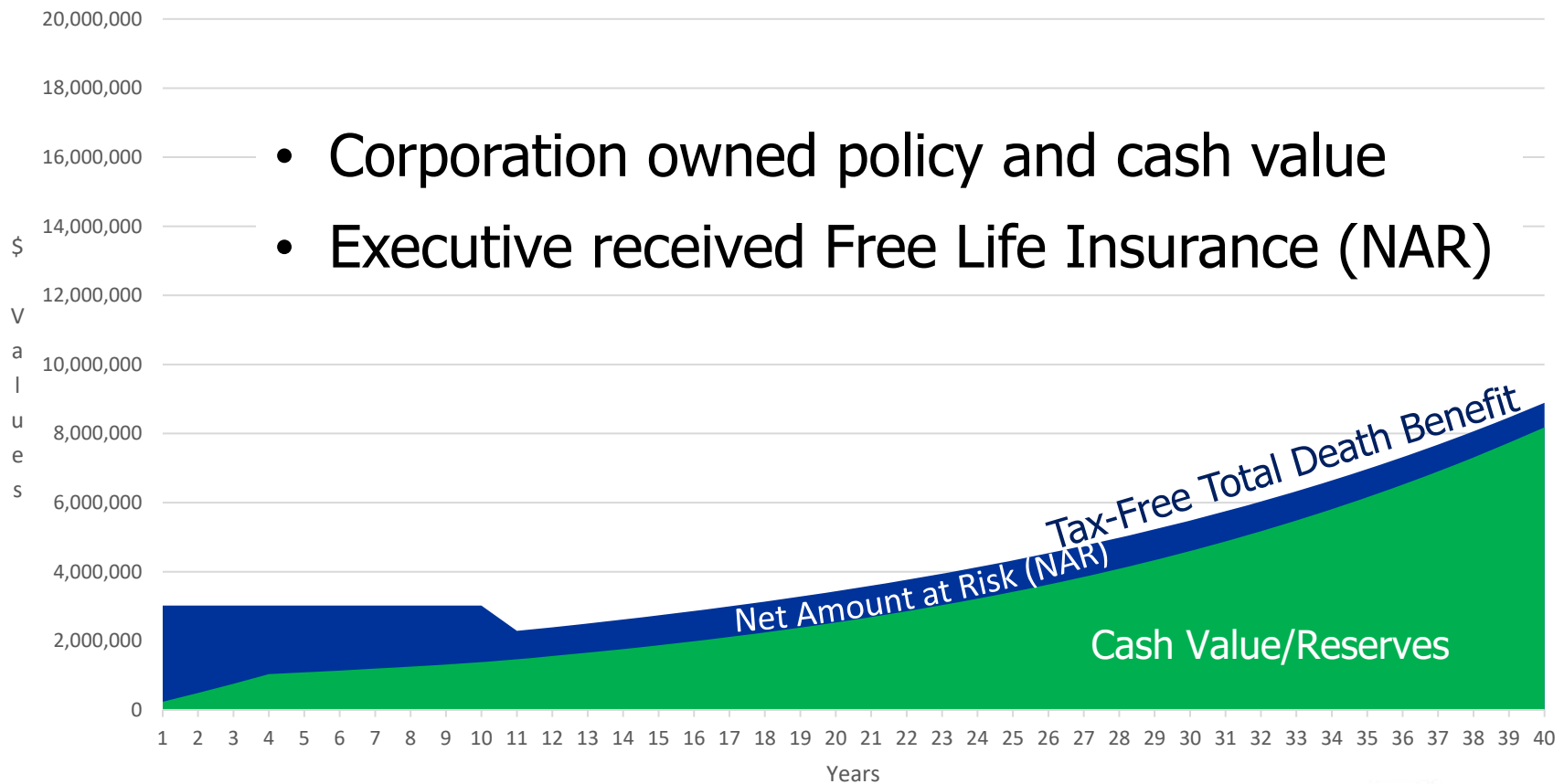
- **1976:** Favorable Rev. Ruling for Trust-Owned Split \$ Policies
- **1976-2002:** Multiple TOLI Split Dollar Plans avoid adverse tax results. No tax on trust cash values funded by the Grantor.
- **2003:** Final Regulations Issued for Split-Dollar Arrangements.



The “Term Insurance” in Permanent Policies



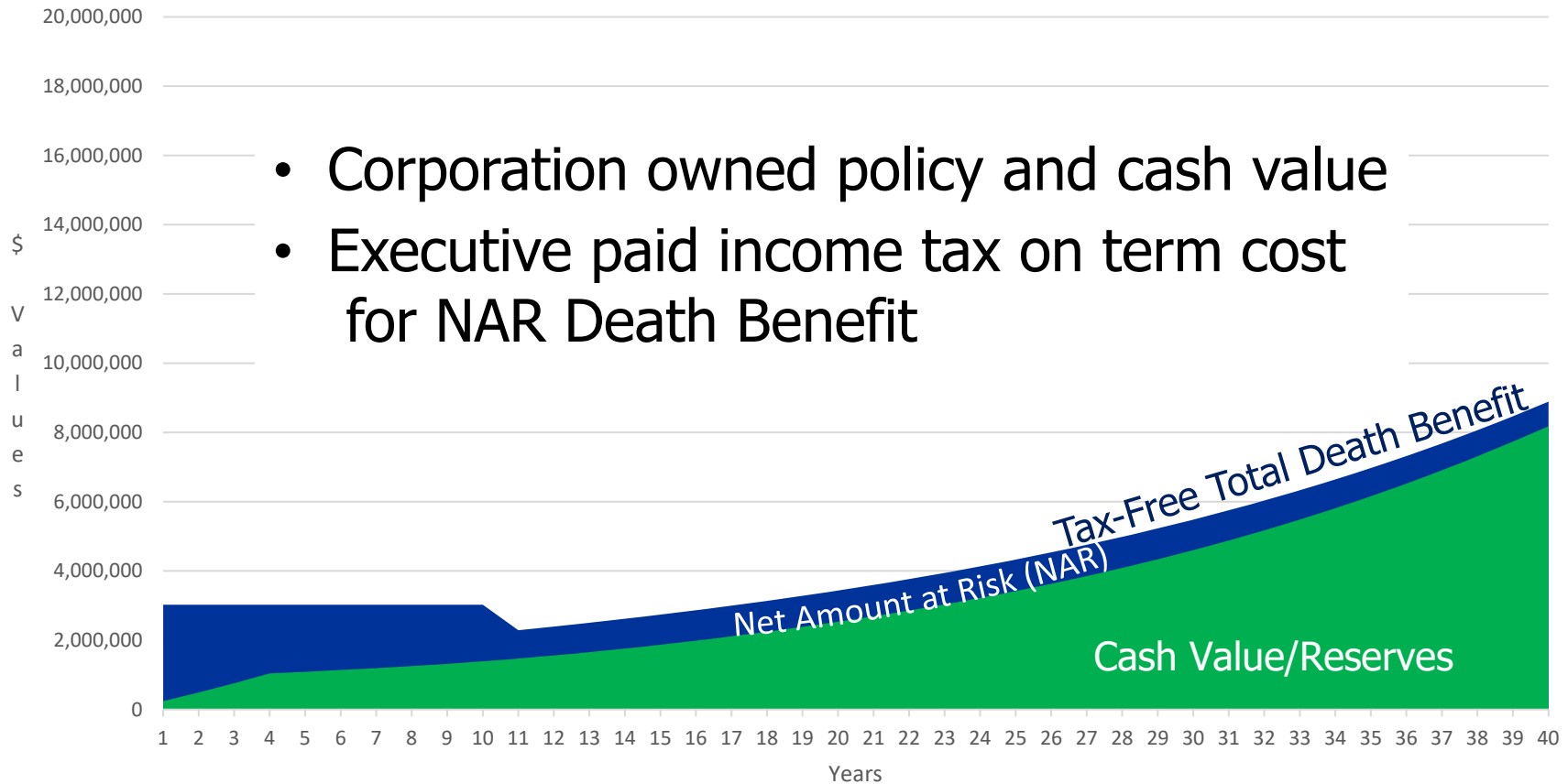
Corporate Split Dollar for Executives-1958



- Corporation owned policy and cash value
- Executive received Free Life Insurance (NAR)



COLI Split Dollar for Executives-1964



TOLI Private Split Dollar: 1976 – Sept. 2003

- Grantor Advanced Premiums
 - Collateral Assignment of insurance policy
 - Equated to an “interest-free” loan of net advances
- Trustee Reimbursed Grantor for Economic Benefit portion (one-year term cost)
 - Trust owned policy and cash value from inception
 - No taxable transfer when agreement is terminated



09-17-2003: Final Regulations on Split Dollar

- Economic Benefit Regime

- Grantor is “Deemed Owner” with Private Split \$ Plans
- Trust is actual owner for estate tax purposes
- Trust has taxable gain on any net equity “owned”
- Used when cash value is less than premium advances



09-17-2003: Final Regulations on Split Dollar

- Loan Regime
 - Trust is actual and “Deemed Owner” from inception
 - Grantor loans premiums at the long-term AFR
 - Split \$ Agreement defines repayment terms



Tax-Free Compounding: The “Rule of 72”

- The Formula:

72 divided by the expected interest rate equals the number of years required for an investment to double in value.

- $72/6=12$ years with a 6% annual return.
- $72/4=18$ years with a 4% annual return.
- $72/2=36$ years with a 2% annual return.



Tax-Free Compounding: The “Rule of 72”

- **Assumptions for a Grantor Loan**

- Grantor: Age 75
- 18-year Life Expectancy
- \$1,000,000 Loan
- 6% Net Earnings
- 2% Interest Annually
- Interest only; Balloon Note(s)



Traditional Grantor Loans: Rev. Rul. 85-13

- **Results after 18 Years with a \$1,000,000 Unit**
 - Gross 6% annual growth
 - Minus 2% tax-free interest payments
 - Equal 4% Net Annual Growth
 - **\$1,000,000 grows to \$2,000,000 after 18 years of estate tax-free compounding at 4%.**



Tax-Free Compounding: The “Rule of 72”

- **Assumptions for a Split Dollar Loan**
 - Insured: Age 50
 - 36-year Life Expectancy
 - **\$1,000,000 Split Dollar Loan**
 - 6% Crediting Rate
 - 2% Interest Accrual (fixed for life)
 - Repayment at death of insured



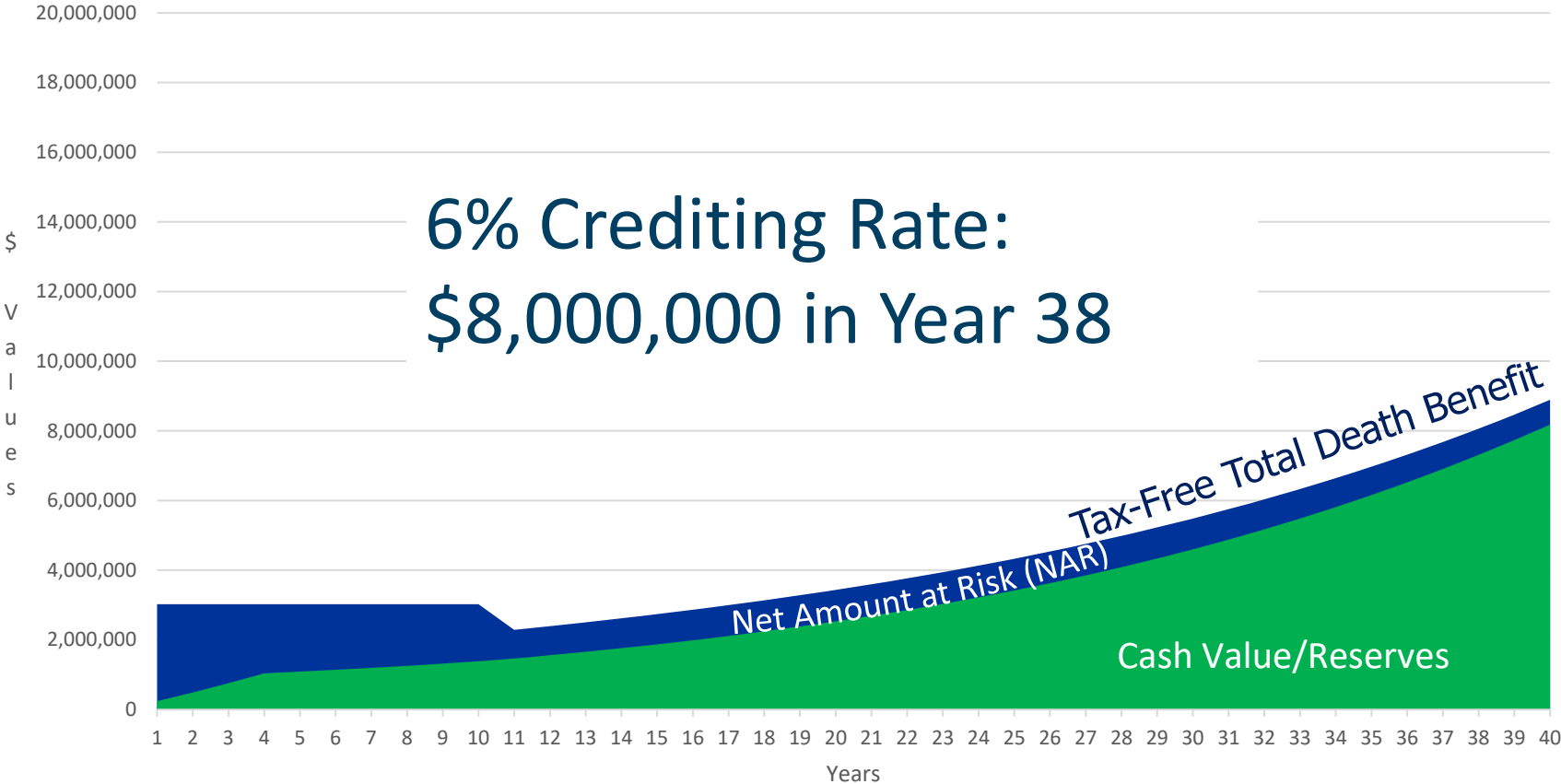
Private Split Dollar Loans: T.R. Sec. 1.7872-15

- **Results after 36 Years with a \$1,000,000 Loan**
 - 6% Policy Crediting Rate
 - 2% Accrual of loan interest
 - **\$8,000,000 Death Benefit after 36 years**
 - \$1,430,000 Loan Balance after 18 years
 - \$2,120,000 Loan Balance after 36 years.



Private Split Dollar Loans: T.R. Sec. 1.7872-15

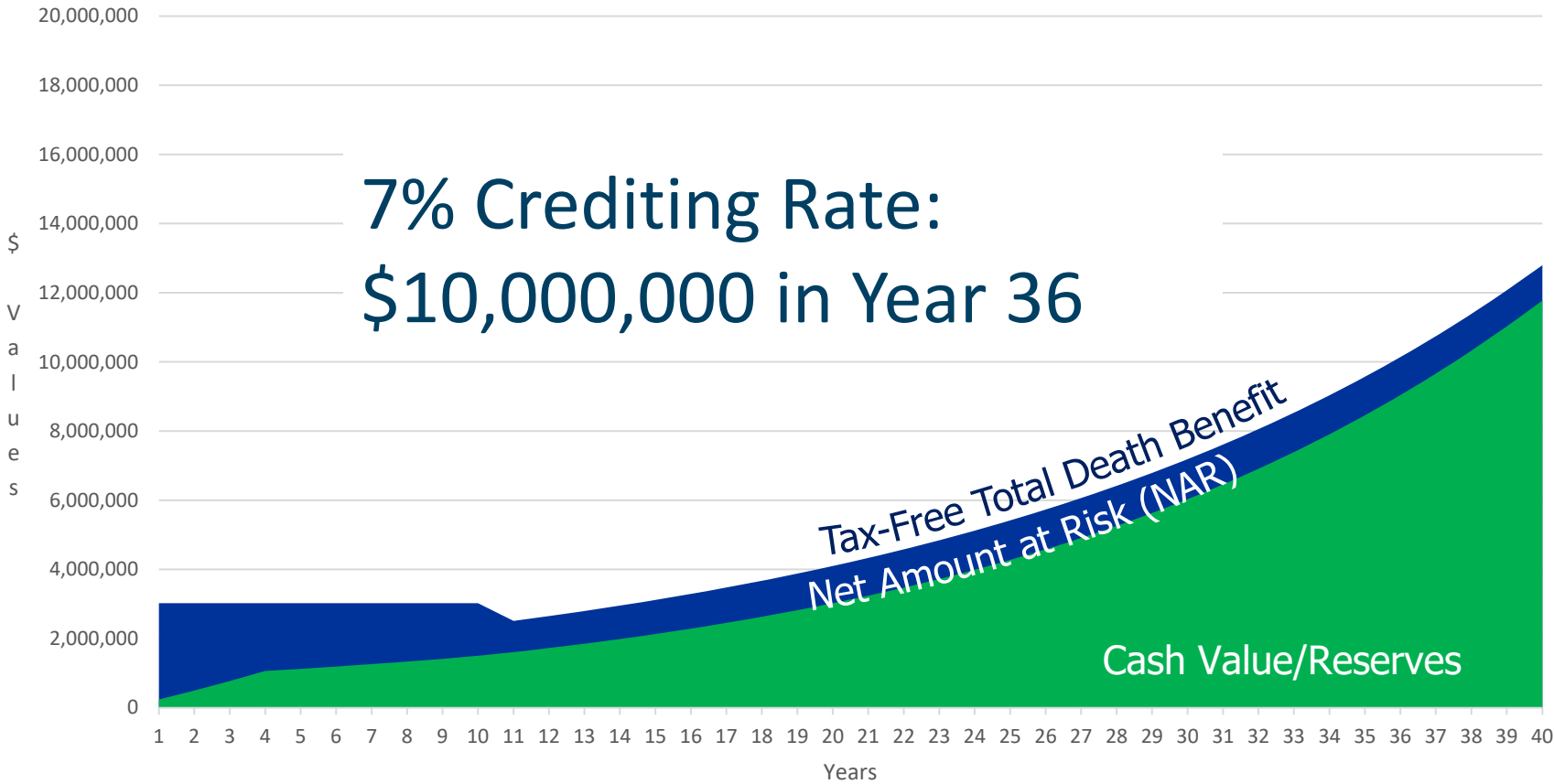
Results after 36 Years with a \$1,000,000 Loan





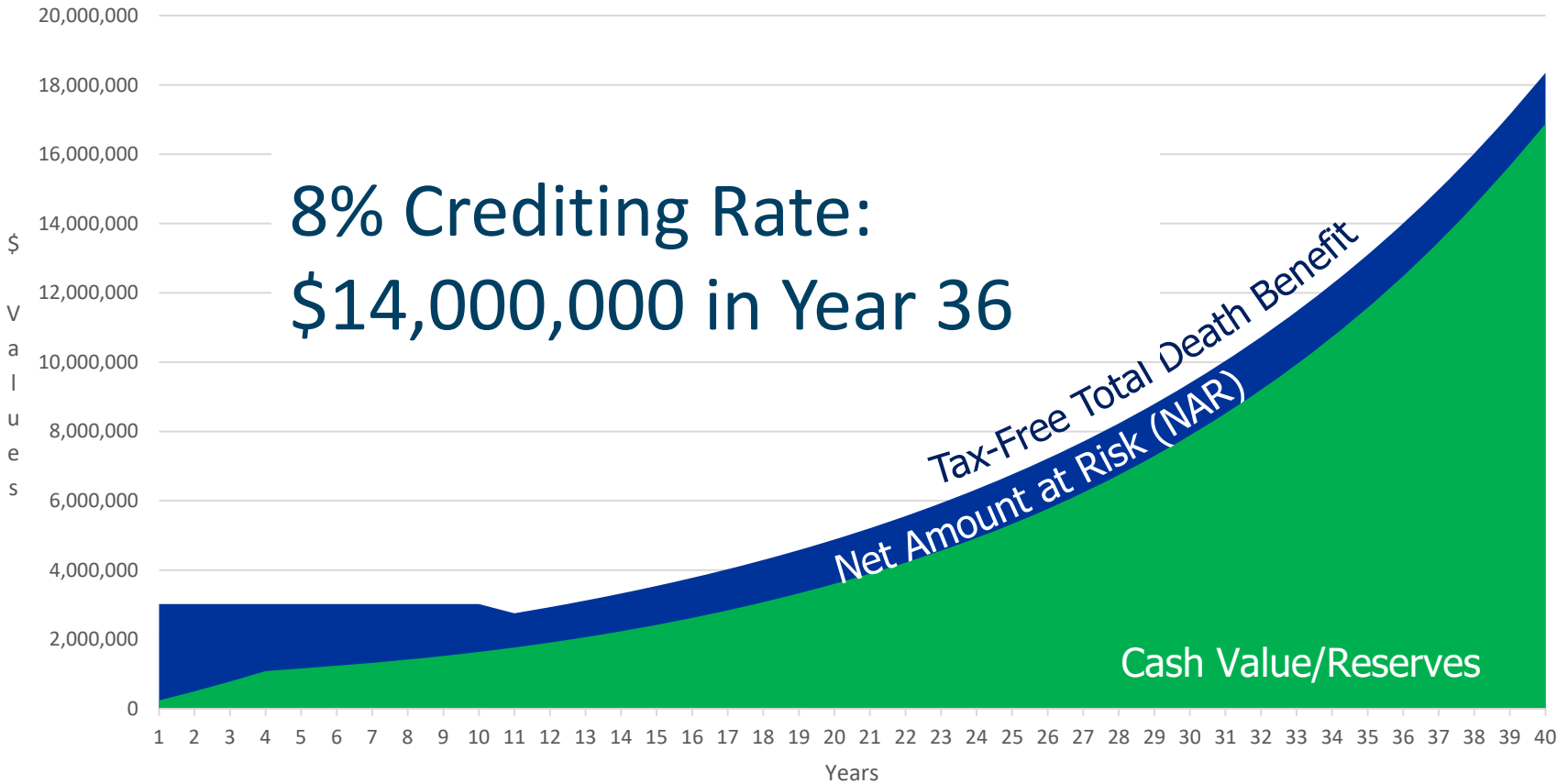
Private Split Dollar Loans: T.R. Sec. 1.7872-15

Results after 36 Years with a \$1,000,000 Loan

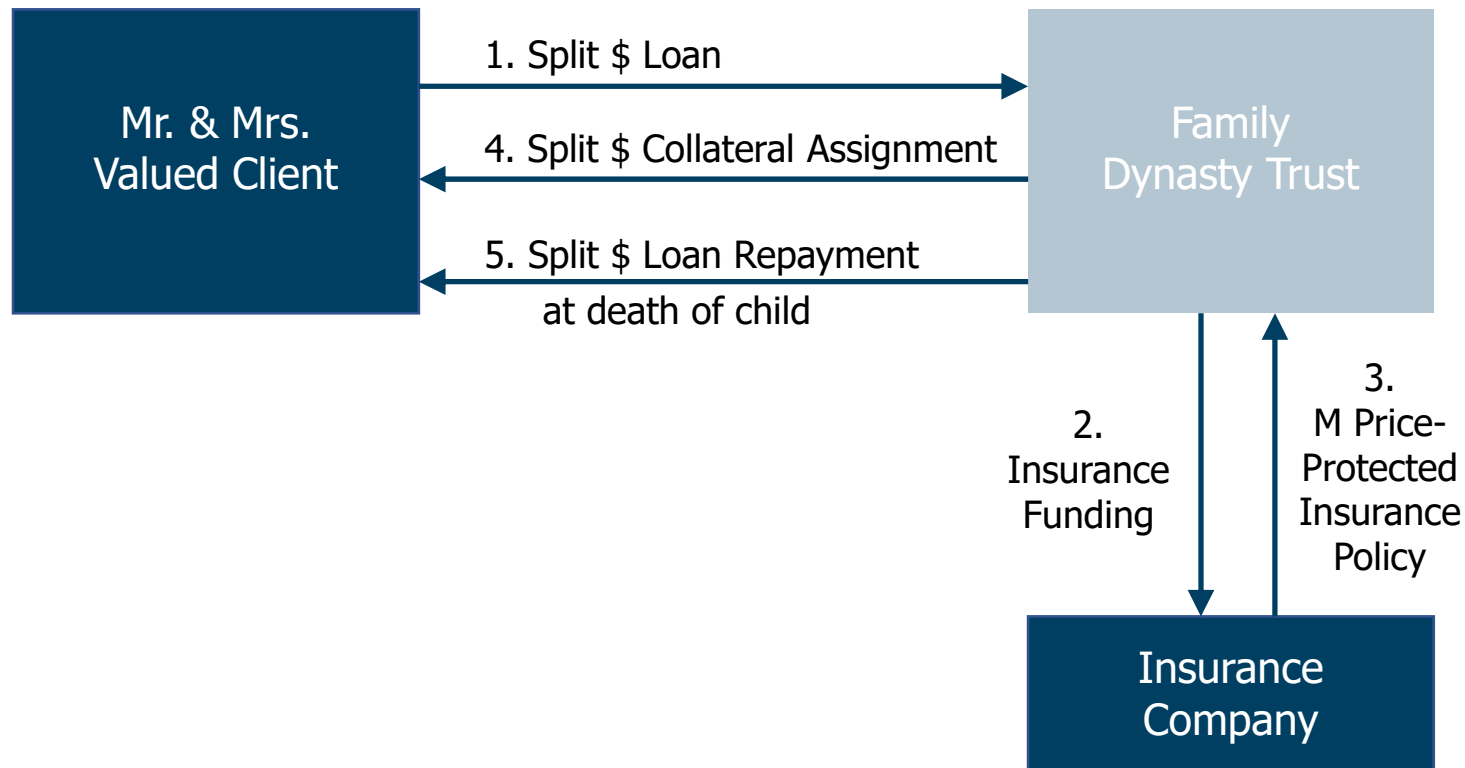


Private Split Dollar Loans: T.R. Sec. 1.7872-15

Results after 36 Years with a \$1,000,000 Loan



The Private Split-Dollar Loan Concept Chart



Please consult your legal and tax advisors for details.

Expected Benefits – Private Split \$ Loan

- No Gift Tax and No Loan Interest Payments
- No Principal Payments (until Insured's death)
- No Income Tax
- Tax Efficient Exit Strategies
- Non-Recourse; No "Seed Money" Required
- Options: Tax-Free Income/Family Bank
- Specially Designed M Price-Protected Policy



Summary

- Every contractual life insurance death benefit has been paid for more than 100 years
- LIAC: Life Insurance as an Asset Class can be particularly effective with Variable Universal Life policies
- Private Split Dollar Loans to Grantor Trusts have significant planning benefits





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Questions?



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