



Below is a view of the Workbook Main Window from the Loan-Based Split Dollar System used for Blog #177 along with a description of the two proposals.

Proposal Description	Sales Concept	Policy Data (if applicable)			
		Policy Notation	Initial Premium	Death Benefit	Name of Product
Proposal 1 (Tax Exempt Org.)	Loan-Based Split Dollar	Blog #177 (Split Dollar #1...	\$1,000,000	\$21,081,365	Indexed UL
Proposal 2 (C corporation)	Loan-Based Split Dollar	Blog #177 (Split Dollar #2...	\$1,000,000	\$21,081,365	Indexed UL

Workbook file name: Blog #177 Exceptional Split \$.!LS

Important Note: If you haven't studied Blog #177, you must do so to get the logic of Exceptional Split Dollar™.

Proposal 1:

Loan-Based Split Dollar is featured using a personally-owned, indexed universal life policy for a big-time college coach, Lee Sorensen, age 45. The plan is funded with a loan from his employer, a tax exempt University (like Coach Jim Harbaugh's plan with the University of Michigan). Unlike Harbaugh's plan, this is a discounted single loan directed to a coach-owned Premium Reserve Account (PRA) that is escrowed and used to pay all ten policy premiums as they occur. The advantage of the single loan is that the current long-term applicable federal rate (AFR) of 3.04% (June 2018) can be applied to all years of the split dollar arrangement. In a rising interest rate environment, this is a compelling interest rate.

The loan interest due to the University from the coach is added to the loan. A policy loan is illustrated at the coach's age 65 to repay the loan from the University (a rollout) plus providing additional, substantial, annual, tax free, retirement cash flow totaling \$45 million for the coach between ages 65 and 95.

The University ends up making a substantial profit on its loan.

The best way to duplicate the logic of this plan is to download a copy of the digital file named **Blog #177 Exceptional Split \$.!LS** from within Blog #177, import it into your Loan-Based Split Dollar Workbook, and review the prompts I used. (If you don't have that System, contact Julie Nayeri at julie@insmark.com or 888-InsMark (467-6275). Institutional inquiries should be directed to David Grant, Senior Vice President - Sales, at dag@insmark.com or (925) 543-0513.

The critical part of your life insurance illustration is establishing the premium pattern you want for, say, a 10-pay using increasing death benefit for ten years; level thereafter, with a reduction of coverage as much as possible in year 11. (Remember, you are designing a policy for retirement cash flow, not death benefit.)

Illustrate no policy loans and insert the resulting source data into InsMark Source Data Storage and download it into your Loan-Based Split Dollar System. Select a Premium Reserve Account and accrue loan interest at the current long-term AFR (which is a prompt selection). Preview the Summary report and check the amount of loan at the end of the year prior to the year you want to repay the loan.

For an insured age 45, this might be the end of year 20. Redo your source proposal with that amount of loan in year 21, in this example, which represents full repayment of the employer's loan at the beginning of year 21 (policy loan activity usually occurs at the beginning of a year). Check your illustration to see how much more level loan activity is available (it may take some "hunt and peck" activity). Make sure that whatever amount of additional loan that is available, it is also included in year 21.

Example: If your policy loan in year 21 to repay the employer is, say, \$500,000 and your subsequent loans are \$50,000, change the loan in year 21 to \$550,000 so that the retirement cash flow starts in year 21. The system will segment where it appears provided you utilize the fourth selection on the Cash Flow tab and designate the amount for each segment. Again, reviewing my digital workbook file named **Blog #177 Exceptional Split \$.!LS** will show you exactly how I did this.

I know all this looks complicated, but if you take the above directions one-at-a-time, it will work. Your first case will likely take a couple of hours to illustrate correctly, but the learning curve accelerates, and your subsequent illustrations can probably develop much more quickly.

Indexed universal life with a 7.00% interest assumption probably produces the most effective illustration. By all means, use participating policy loans; not fixed loans.

Note to InsMark Power Producers®, if you get stuck, use Ask Bob to email me, and I'll try to help. It would be helpful if you email your unfinished Workbook along with what has you stuck.

Note: If you are not an InsMark Power Producer, contact Julie Nayeri at julie@insmark.com or 888-InsMark (467-6275) to learn about either the Gold or Platinum level, either of which includes the Loan-Based Split Dollar System.

Proposal 2:

This is identical to Proposal 1 with only a couple of exceptions:

The employer is a C Corporation in a 21% tax bracket which increase the firms cost a little since each year's accrued loan interest is taxable to the company. The overall cost to the employer is still a credit to earnings in all years. The results for the insured executive are identical to the coach in Proposal 1.

The design suggestions in Proposal 1 are identical for Proposal 2.

Important Note #1: Special plan documentation is required to support Exceptional Split Dollar. InsMark's Cloud-Based Documents On A Disk™ (DOD) contains comprehensive sets of specimen documents for Loan-Based Split Dollar plans. If you are licensed for DOD, go to www.insmark.com and select "My InsMark" from the home page for access to the full version of DOD.

If you are not licensed for DOD, [this link](#) will take you to the DOD product site for more information or you can contact Julie Nayeri at julien@insmark.com or 888-InsMark (467-6275). Institutional inquiries should be directed to David Grant, Senior Vice President - Sales, at dag@insmark.com or (925) 543-0513.

Important Note #2: The hypothetical life insurance illustrations referred to in this report assume the nonguaranteed values shown continue in all years. This is not likely, and actual results may be more or less favorable. Actual illustrations are not valid unless accompanied by a basic illustration from the issuing life insurance company.

Important Note #3: The information in this report is for educational purposes only. In all cases, the approval of a client's legal and tax advisers must be secured regarding the implementation or modification of any planning technique as well as the applicability and consequences of new cases, rulings, or legislation upon existing or impending plans.

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