Below is an image of the Workbook Main Windows from the Loan-Based Split-Dollar System used for Blog #202 along with a description of the input for the split-dollar proposals.

Workbook file name: Current SD #202.!ii

Proposals 1 and 2 are loan-regime split-dollar proposals for Harry Stafford and Oliver Belmont, both age 45. They are 50/50 shareholders of SB Chemical Company, Inc. ("SBCC"), a C corporation with a combined federal and state income tax rate of 28.00%. Harry and Oliver are funding their buy-sell agreement with loan regime split-dollar cast between their C Corporation and a Limited Liability Company, Stafford & Belmont, LLC, they established for this purpose. SBCC, their underlying operating business, makes split-dollar loans directly to the LLC. Harry and Oliver pay income tax on the imputed economic benefit based on the long-term Applicable Federal Rate (AFR). Bonuses from SBCC offset the tax. Neither the LLC nor Harry and Oliver have any out-of-pocket cost.

At retirement, the LLC makes policy loans to repay the C Corporation for its loans. The LLC then transfers each policy to the insured on a tax-free basis via a K-1 distribution. Each insured can then access tax-free cash flow from the policy using guaranteed, non-callable, secured loans. No additional income tax is due by Roger and Tom (provided they do not surrender, lapse, or sell the policies or make withdrawals above cost basis). See Bob Ritter's Blog #202 for details: https://www.robert-b-ritter-jr.com/robert-b-ritter-jr-blog-archive/.

There are three considerations you should review before designing a loan regime split-dollar illustration covering an executive (as opposed to a trust-owned plan):

Premium structure: Can you use a shortened premium paying period? This is highly desirable due to the advantage of maximizing cash flow and retirement cash flow. For Blog #202, I used a five-pay.

Which Applicable Federal Rate (AFR) should be used for calculating loan interest? Here are the options:

I prefer using the long-term AFR, particularly with short-pay premiums (like five years) because once the five years are up, the interest rate is frozen for the balance of the split-dollar arrangement. What if the AFR increases during those five years? I selected the long-term AFR of 1.01% and scheduled it as follows: Yr. 1: 1.01%; Yr. 2: 1.13%; Yr. 3: 1.25%; Yr. 4: 1.38%; Yr. 5: 1.50%. By the end of year 5, this froze permanent loan interest at $30,000 on $2,000,000 of loans for both Harry and Oliver. This is an amazing rate for a long-term loan. It works like a suction pump on their C corporation's retained earnings.

When you measure $30,000 of loan interest starting in year six against their after-tax retirement cash flow of $18,000,000 plus a residual cash value of $7,600,000, it develops a benefit that even pre-2000 equity split-dollar couldn't match.

Is our five-year projection of the long-term AFR accurate? Of course not, only time will tell, but my clients and their attorneys are comfortable with it knowing it may have to be adjusted slightly in each of the following four years. According to The Wall Street Journal, Fed Chairman Jerome Powell, on Wednesday, June 10, 2020, committed the Fed "to do whatever we can for as long as it takes" to support the economy. Fed officials projected no plans to raise interest rates through 2022.

**Below is a view of the Workbook Main Windows from the InsMark Illustration System
used for Blog #202 along with a description of the input for the Dual Security Buy-Sell Plan the proposals.**

Workbook file name: Blog #202 DSBS Plan

Proposal 1 is a Composite of Proposals 2 & 3. (For a Table of Contents & Section Pages, click the prompt at the bottom of Report Selections in the Composite module.)

Proposals 2 & 3 are Dual Security Buy-Sell Plans for Harry Stafford and Oliver Belmont, both age 45.

Proposal 3 is a Composite of Proposals 1 and 2. When printing a Composite, a Table of Contents and Section Pages are available. To include them, check the following selection located at the bottom of the Report Selection tab:

The only serious data entry for a Dual Security Buy-Sell Plan involves the prompts on the Benefit Data tab.

| | | Portion of Death Benefit | |
| | | (2a) | (2b) |
Yr	Age	(1) Death Benefit of the Policy	Amount to Acquire Member's Interest in C coproration	Amount to Indemnify LLC for Loss of Member
1	45	9,847,057	8,347,057	1,500,000
2	46	10,222,070	8,722,070	1,500,000
3	47	10,627,293	9,127,293	1,500,000
4	48	11,065,158	9,565,158	1,500,000
5	49	11,538,295	10,038,295	1,500,000
6	50	11,651,902	10,151,902	1,500,000
7	51	11,774,660	10,274,660	1,500,000
8	52	11,907,306	10,407,306	1,500,000
9	53	12,050,638	10,550,638	1,500,000
10	54	12,205,516	10,705,516	1,500,000

Column (1) is the death benefit data you entered in InsMark Source Data Storage (see below). Columns (2a) and (2b) is how that death benefit data applies to the amount used for Buy-Sell and the amount used to indemnify the LLC against the premature loss of the Member. By entering data in one of the columns, the balance automatically appears in the other Column. (Col. (2b) is optional.)

At InsMark, our personal preference involves increasing death benefit until retirement (level after that) and scheduling a level amount in Column (2b) during pre-retirement years. This is so that Column (2a) increases at the highest possible rate reflecting an increasing value of the shares subject to the Buy-Sell. The reason the total death benefit in Year 1 (Column 2a + Column 2b = $9,847,057) exceeds the face amount of the policy ($9,500,000) is due to its increasing death benefit. The source of these numbers is exported data from Loan-Based Split-Dollar proposals discussed below.

Loan-Based Split-Dollar Source Data

The source of the original split-dollar illustration data is 1) via a link from the life insurance company whose basic illustration software you are using, or 2) from a Winflex connection that links with InsMark, or 3) from your hand-entered data in **InsMark Source Data Storage**. The first two are the most reliable because the source of the data is the insurance company's basic illustration.

There are, however, three ways to hand-enter illustration data in InsMark Source Data Storage:

1) Enter pertinent data along with year by year numerical values in the arrays in InsMark's Source Data Storage. This procedure is simple to do for most of the prompts, although entering several years of cash values and increasing death benefits can be tedious (unless you have staff who can do).

   Caution: Be very careful when you hand-enter data. Mistakes are easy to make, and you should have a second set of eyes evaluating your results.

2) Print a pdf of non-guaranteed values from the basic illustration. Convert that pdf to an Excel file (PDF Converter Elite can do this). Copy the columns of premiums, withdrawals, loans, cash values, and death benefits from Excel and paste them into the arrays in InsMark Source Data Storage (part of the InsMark Illustration System). You won't have company sponsored footnotes or disclaimers, so be careful.

3) View InsMark's video tutorial using Acrobat Reader. Click here to view that video.

Loan-Based Split-Dollar Data Exported to Dual Security Buy-Sell Plan in the InsMark Illustration System:

Assume you want to import data from Loan-Based Split-Dollar into the Dual Security Buy-Sell Plan in the InsMark Illustration System (IIS). When you finish entering your data in your Loan-Based Split Dollar System and are satisfied with the results, look for this icon on the lower right of your input screens while in Edit mode:
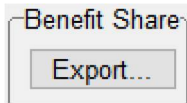
Clicking on Export will export the executive's portion of costs and values directly to the InsMark Source Data storage files, which are accessible by IIS. You will be asked for a source data notation – enter a phrase that will allow you to remember this version of source data.

In the Dual Security Buy-Sell Plan in IIS, import that stored data using the following prompt in Edit mode. It is located on the right side of the screen:

That takes you to Source Data Storage, where you should select your recently exported Loan-Based Split Dollar data. Click OK, and your split-dollar data transfer will automatically populate the illustration array in the Dual Security Buy-Sell Plan illustration module.

InsMark's Referral Resources
(Put Our Illustration Experts to Work for Your Practice)

We created Referral Resources to deliver a "do-it-for-me" illustration service in a way that makes sense for your practice. You can utilize your choice of insurance company, and there is no commission split. They are very familiar with running InsMark software.

Mention Bob Ritter (InsMark President) when you talk to our Referral Resource as they have promised to take special care of our readers. My only request is this: if a Referral Resource helps you get the sale, place at least that case through them; otherwise, you will be taking unfair advantage of their generous offer to InsMark licensees.

Save time and get results with any InsMark illustration (including the ones discussed above).

Contact: Ben Nevejans, President of LifePro Financial Services in San Diego, CA.

Important Note #1: The hypothetical life insurance illustrations and alternative investments 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 of life insurance are not valid unless accompanied by a basic illustration from the issuing life insurance company.

Important Note #2: 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.