Symetra Life Insurance Company

Private split-dollar strategies for wealth transfer

Private Split-Dollar Arrangements

Not a bank or credit union deposit, obligation or guarantee.	May lose value.
Not FDIC or NCUA/NCUSIF insured.	Not insured by any federal government agency.

A flexible planning solution for future generations

Life insurance can be an effective vehicle for asset protection and increasing the wealth that passes to your beneficiaries—in some cases, over several generations. And when properly structured outside of your estate in an irrevocable life insurance trust (ILIT), the policy's death benefit proceeds are received both estate—and income tax-free.

Many individuals and couples recognize the value of this estate planning strategy, however, they may have reached their lifetime gift tax exemption and/or gift tax annual exclusion limits, or they may prefer not to use these exemptions or exclusions to cover the life insurance premium. If your estate could benefit from an ILIT funded with life insurance, but you wish to fund the policy while reducing taxable gifts, consider a private split-dollar arrangement.

Is a private split-dollar arrangement right for you?

Consider a private split-dollar strategy if you:

- ✓ Want to minimize gift taxes.
- ✓ Want the flexibility to recover the funds supplied to pay premiums.
- ✓ Have used up or don't want to use your lifetime gift tax exemption(s) and/or gift tax annual exclusions.
- ✓ Want to leave a larger legacy to your beneficiaries.

Why a private split-dollar?

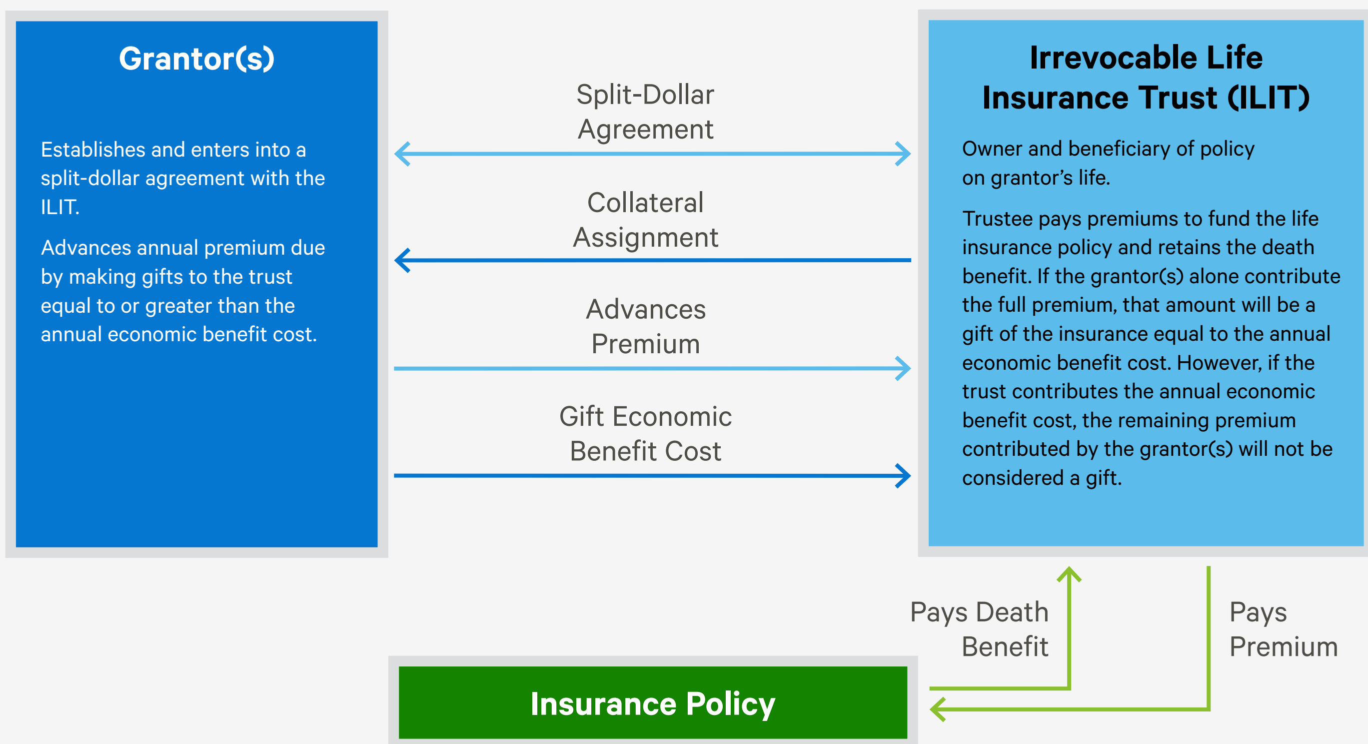
In a typical ILIT strategy, the "grantor(s)"—you or you and your spouse—establish the irrevocable trust and make cash gifts to the trust to fund the purchase of an insurance policy. The gifts are made in the form of annual gift tax exclusions and/or lifetime gift tax exemption(s). With the death benefit outside of your taxable estate, the proceeds are received by the trust free of federal estate and income tax. However, the gifts of potentially large life insurance premiums may result in the payment of gift taxes. By making gifts equal to the annual cost of life insurance protection (also known as the economic benefit cost) instead of the full premium, gift taxes may be reduced or eliminated.[1]

[1] The economic benefit or annual cost of life insurance protection is measured on each $1,000 of death benefit times a rate for the appropriate age(s) found in IRS Table 2001 or the life insurance company's lowest eligible term rates. Refer to IRS Notice 2002-8.

The private split-dollar solution

In a private split-dollar arrangement, you or you and your spouse enter into a non-equity collateral assignment split-dollar agreement with the ILIT, and the trustee purchases life insurance on your life or the lives of you and your spouse. As the grantor(s), you will advance the annual premium due to the trust. The gift tax value of the amount advanced is equal to the economic benefit cost. You can also make additional gifts to the trust to take full advantage of annual gift tax exclusions.[2] The trustee collaterally assigns back to you an interest in the policy equal to the greater of the policy's cash value or premiums paid as security for the repayment of premiums paid.[3] Upon death, the estate will receive a portion of the death benefit equal to the greater of premiums paid or the policy's cash surrender value, and the trust receives the remaining death benefit. The agreement may be terminated during the grantor(s) lifetime with a repayment of the collaterally assigned value from trust assets.

How the strategy works



[2] Any gift to an ILIT that is intended to be a present interest and completed gift must be made to an ILIT, which contains Crummey power language. The applicable federal estate tax exclusion amount (indexed for inflation) is $13.61 million per individual in 2024. The estate tax is unified with the federal gift tax and generation-skipping transfer such that in 2024 the lifetime gift tax exclusion and generation-skipping transfer tax is $13.61 million (indexed for inflation) and the maximum tax rate for both of these taxes will be 40%. Individuals can gift up to $18,000 per year per recipient free of federal income and estate taxes in 2024. The estate and gift tax exemptions are set to expire on 12/31/2025. (Source: "Frequently Asked Questions on Gift Taxes," IRS, accessed December 2023: https://www.irs.gov/businesses/small-businesses-self-employed/frequently-asked-questions-on-gift-taxes). For current rates and an assessment of your unique situation, please consult your tax professional.

[3] The collateral assignment should restrict the grantor's access to policy cash values in order to prevent incident of ownership and cause estate tax inclusion. Please consult your tax professional for an assessment of your current situation.

Collateral assignment private split-dollar arrangements: economic benefit or loan regime

Under the economic benefit regime, the measure of the benefit is based on a fraction of the premium paid—not the entire amount—which equates into a reduced income and gift tax for the grantor(s). When a trust is the owner of the life insurance policy, the greater of the policy's cash value or premiums paid are collaterally assigned to the insured(s) or grantor(s), and the measure of the economic benefit is based on a term insurance cost, or economic value, of the remaining death benefit. The economic benefit is measured using the lower of the IRS's 2001 table rates or the insurer's alternative one-year term rates, if available.[4]

All other collateral assignment private split-dollar arrangements are taxed under a loan regime—a series of loans (also referred to as private section 7872 loans) that use the published applicable federal rate (AFR) to measure taxation for income and gift tax purposes.[5]

Consult your professional tax advisor to determine which regime (economic or loan) is more advantageous for your particular situation.

Rollout /exit strategies

A termination or repayment plan is essential for reducing the overall risk of the private split-dollar arrangement. Several strategies are available:

Death benefit
Upon death, the proceeds can be used to repay the greater of the policy's cash value or premiums paid.

Other ILIT resources
The trustee may terminate the agreement and repay the greater of the policy's cash value or premiums paid from other trust assets.

Policy cash values
If the policy has sufficient value, the trustee has the option to withdraw and/or borrow policy cash values to repay the assigned value. Removing policy cash values will reduce the death benefit and may cause the policy to lapse.[6]

Additional gifts
Over time, it may make sense to forgive all or part of the ILIT's repayment obligation. The amount forgiven is a taxable gift and may reduce the grantor's lifetime gift tax exemption, if available.

[4] Refer to footnote 1 on page 2 for more information.

[5] A Private Section 7872 loan is governed by IRS Section 7872 split-dollar regime plans and will use the applicable federal tax rate (AFR) to measure taxation for income and gift tax purposes. The AFR is published monthly by the IRS.

[6] Loans and withdrawals are only available prior to the death of the grantor(s) and will reduce the policy death benefit and cash surrender value. This may cause the policy to lapse and may be taxable. Withdrawals or loans on modified endowment contracts (MECs) may be subject to federal income tax and a 10% IRS penalty on amounts taken prior to age 59½.

The benefits of a private split-dollar arrangement

A private split-dollar arrangement with a life insurance trust has several advantages:

Minimized gift taxes
Gift taxes can be significantly reduced or avoided as the gift is equal to the economic benefit costs. Gifting can be limited to annual exclusions or the amount of economic benefit paid by the ILIT on the pure cost of insurance.

Leveraged gifts
Annual exclusion gifts and generation-skipping transfer tax exemptions can be leveraged using life insurance in a private split-dollar arrangement.

Liquidity
If structured properly, the death benefit proceeds provide liquidity outside the taxable estate.

No income tax
The economic benefit payment from the trustee is not subject to income tax if your ILIT is a grantor trust for income tax purposes.[7]

Reduced taxable estate
Making tax-free gifts to an ILIT can help reduce the size of your taxable estate. Currently, individuals may gift up to $18,000 annually (per beneficiary) and married couples may gift double the annual amount to $36,000 (per beneficiary). Plus, as long as you stay under the $18,000 limit, these annual gifts do not count against your $13.61 million lifetime cumulative federal estate tax and gift tax exclusion.[8]

Making tax-free gifts to an ILIT can help reduce the size of your taxable estate.

[7] The economic benefit payment paid to you from the ILIT will not be treated as taxable income if the ILIT is established as a “grantor trust” for income tax purposes. Refer to revenue ruling 85-13. If an existing partnership or “non-grantor” trust is the premium payor, the economic benefit paid by the ILIT will be taxable.

[8] Refer to footnote 2 on page 3 for more information.

Key considerations for private split-dollar arrangements

- **Economic benefit costs**
  A termination plan or rollout strategy should be considered during your lifetime, as the economic benefit costs increase with age. If a survivorship policy is used, the economic benefit costs will increase on the first death.

- **Gift treatment of premiums**
  If the insured(s)/grantor(s) alone contribute the full premium, that amount will be a gift equal to the value of the economic benefit cost. However, if the trust contributes the economic benefit costs, the remaining portion of premium contributed by the grantor(s) will not be considered a gift.[9]

- **Estate tax**
  The repayment of the collaterally assigned amount from the trust will be paid to your estate and will be subject to estate tax, if applicable.

- **Cash flow**
  The grantor(s) must have the available cash flow to fund the annual premiums.

Is private split-dollar right for you?

If you wish to advance annual premiums to your trust, retain the ability to get them back and minimize or eliminate gift taxes, a private split-dollar arrangement may be appropriate for you.

Private split-dollar arrangements are complex and should be entered into only after consulting your own tax and legal professionals.

Contact your insurance professional for more information.

[9] Refer to IRS Notice 2002-8.

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