

**Capitalized Entity Sale to an
Intentionally Defective
Grantor Trust with Leveraged
Life Insurance Protection
owned by and controlled for
the Next Generation**

Approved for Continuing Legal Education (CLE) in WA state and California

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Immediate Living Benefits

PROBLEM:

- the Family assets are subject to estate transfer taxes at the death of Mom & Dad...
- Mom & Dad are currently living off of the earnings on their assets...
- Dad is reticent to relinquish the control of these assets...
- Mom & Dad aren't interested in changing the nature of their assets and/or portfolio...

What if there was a way to move your existing assets into a protected place, forever beyond the reach of estate tax exposure ?

WITHOUT:

- Giving up control,
- Reducing your current income,
- Or changing the nature of the assets themselves?

**Well, there is a way...
And the attorneys you work with
Use it every day
May I show you how it's done?**

BOTTOM LINE:

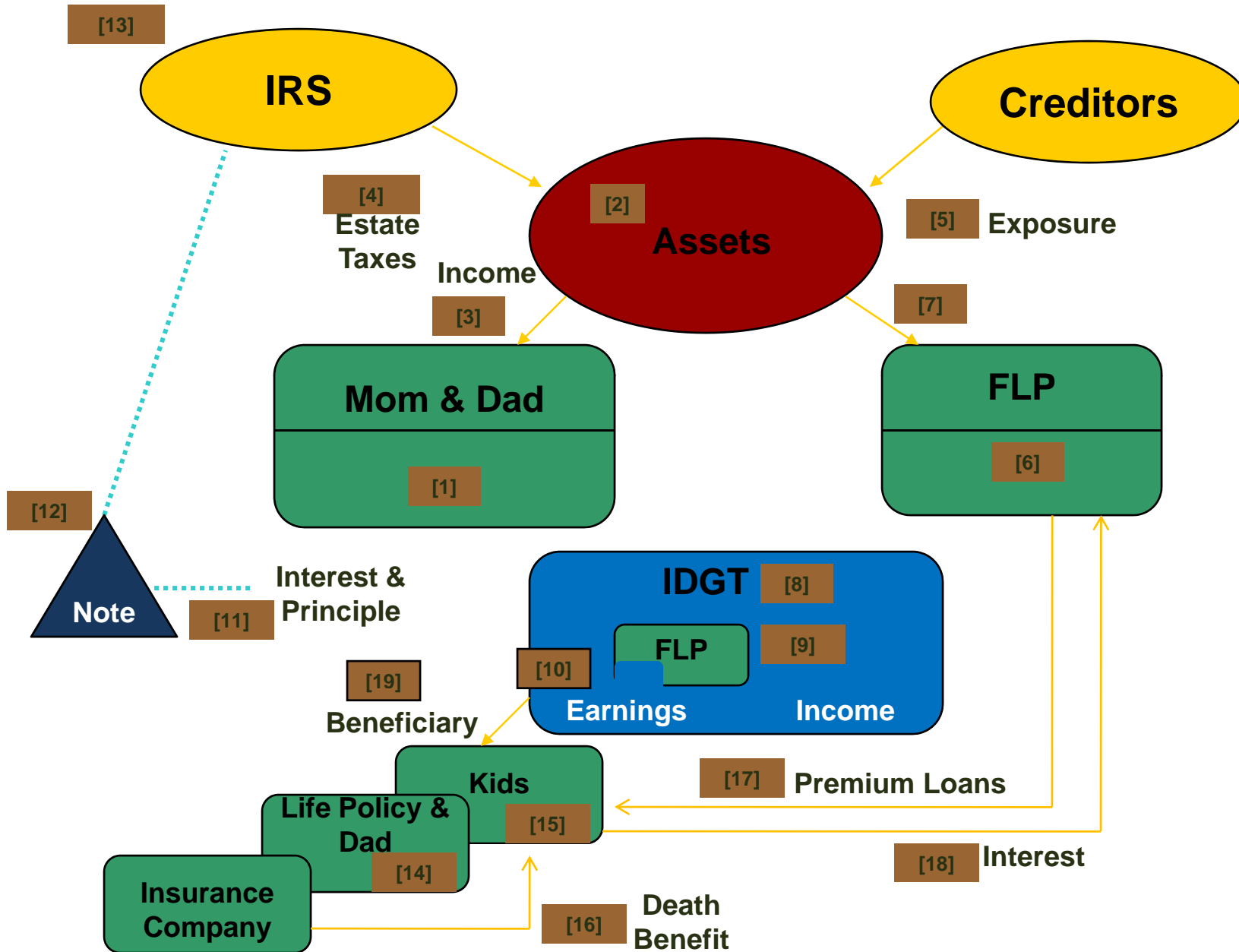
- the IRS gets nothing
- the Kids get everything
- and the Family Wealth remains securely guarded inside of the protection of a carefully drafted IDGT

And the Law Firm gets to:

- create an IDGT
- create an FLP
- create an installment note
- arrange for a life insurance policy
- memorialize the structure in the will(s)



Ultimate Wealth Transfer Plan - Overview



Narrative / Legend to Design Flow on previous page ...

1. Mom and Dad
2. have assets
3. that generate an income from which they live ...
4. these assets are exposed to estate transfer taxes at their death(s)
5. and are also exposed to creditors ...
6. Legal Counsel creates a Family Limited Partnership (or LLC)
7. the FLP is capitalized with carefully selected assets
8. Legal Counsel creates an Intentionally Defective Grantor Trust
9. member shares in the FLP are sold to the IDGT by note
 - a. in that very moment the client's assets are no longer exposed to estate transfer taxes or general claims of the family's creditors ...
10. income generated by the assets inure to the new owner (ie: the IDGT)
11. the IDGT uses this income to pay (to Mom and Dad) the interest due to them on the note (that was used to finance the purchase of the FLP from Dad by the IDGT)
 - a. the excess earnings is applied towards paying down on the principle
12. although the assets are no longer subject to estate taxes this note is !
13. important - should death occur before the note is paid off it's value is (estate) taxable
14. the answer is to insure Dad with life insurance
15. the policy would be owned by the Children
16. with the death benefits payable to the Children
17. the annual premiums would be borrowed from the FLP
18. the annual interest payments would be paid to the FLP
19. the death benefits would be used by the children to pay the estate taxes on the note
... so that the entire value of the FLP assets inside of the IDGT would be available to them (as the beneficiaries of the IDGT)

defining the NEED for life insurance

Prepared for : Dad as the Insured

Initial Asset Value = \$10,000,000 Growth Rate = 7.0% Income Rate = 7.0%
Initial Discount for Lack of Control & Marketability = 30.0%

Initial Note Balance = \$7,000,000; Note Interest Rate = 1.5%
Note Down Payment = \$0; Down Payment % = 0.0%

Year	ENTITY VALUES & CASH FLOWS							NOTE TRANSACTION			
	Beginning Entity Value	Annual Growth @ 7.0%	Income Earned @ 7.0%	Note Interest Payments	Principal Repayments	Re-Invested Income	Ending Entity Value	Beginning Note Balance	Principal Repayments	Note Interest Payments	Ending Note Balance
1	10,000,000	700,000	700,000	(105,000)	(595,000)	0	10,700,000	(7,000,000)	595,000	105,000	(6,405,000)
2	10,700,000	749,000	700,000	(96,075)	(603,925)	0	11,449,000	(6,405,000)	603,925	96,075	(5,801,075)
3	11,449,000	801,430	700,000	(87,016)	(612,984)	0	12,250,430	(5,801,075)	612,984	87,016	(5,188,091)
4	12,250,430	857,530	700,000	(77,821)	(622,179)	0	13,107,960	(5,188,091)	622,179	77,821	(4,565,912)
5	13,107,960	917,557	700,000	(68,489)	(631,511)	0	14,025,517	(4,565,912)	631,511	68,489	(3,934,401)
6	14,025,517	981,786	700,000	(59,016)	(640,984)	0	15,007,304	(3,934,401)	640,984	59,016	(3,293,417)
7	15,007,304	1,050,511	700,000	(49,401)	(650,599)	0	16,057,815	(3,293,417)	650,599	49,401	(2,642,818)
8	16,057,815	1,124,047	700,000	(39,642)	(660,358)	0	17,181,862	(2,642,818)	660,358	39,642	(1,982,461)
9	17,181,862	1,202,730	700,000	(29,737)	(670,263)	0	18,384,592	(1,982,461)	670,263	29,737	(1,312,198)
10	18,384,592	1,286,921	700,000	(19,683)	(680,317)	0	19,671,514	(1,312,198)	680,317	19,683	(631,881)
11	19,671,514	1,377,006	700,000	(9,478)	(631,881)	58,641	21,107,161	(631,881)	631,881	9,478	0
12	21,107,161	1,477,501	700,000	0	0	700,000	23,284,662	0	0	0	0
13	23,284,662	1,629,926	700,000	0	0	700,000	25,614,588	0	0	0	0
14	25,614,588	1,793,021	700,000	0	0	700,000	28,107,609	0	0	0	0
15	28,107,609	1,967,533	700,000	0	0	700,000	30,775,142	0	0	0	0
16	30,775,142	2,154,260	700,000	0	0	700,000	33,629,402	0	0	0	0
17	33,629,402	2,354,058	700,000	0	0	700,000	36,683,460	0	0	0	0
18	36,683,460	2,567,842	700,000	0	0	700,000	39,951,302	0	0	0	0
19	39,951,302	2,796,591	700,000	0	0	700,000	43,447,894	0	0	0	0
20	43,447,894	3,041,353	700,000	0	0	700,000	47,189,246	0	0	0	0
21	47,189,246	3,303,247	700,000	0	0	700,000	51,192,493	0	0	0	0
22	51,192,493	3,583,475	700,000	0	0	700,000	55,475,968	0	0	0	0
23	55,475,968	3,883,318	700,000	0	0	700,000	60,059,286	0	0	0	0
24	60,059,286	4,204,150	700,000	0	0	700,000	64,963,436	0	0	0	0
25	64,963,436	4,547,440	700,000	0	0	700,000	70,210,876	0	0	0	0

Detail of Private Financing Cash Flows

Prepared for: the 2nd generation
 Face Amount: \$ 7,000,000
 Carrier: Banner Life Insurance Company - 15YT
 Age: 72
 Rate class: Std NS

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Year	Policy Face Amount	Annual Premium	Premiums Borrowed Annually	Additional Loan Costs	Annual Interest Rate	Annual Interest Cost	Annual Interest Cost (out of pocket)	Cum. Premium Loan	Net Policy Death Benefit	IRR	Total Policy Death Benefit	IRR (Premiums paid out of pocket)
1	7,000,000	267,202	267,202	-	4.32%	11,543	11,543	267,202	6,732,798	58227.41%	7,000,000	2519.74%
2	7,000,000	267,202	267,202	-	4.32%	23,086	23,086	534,403	6,465,597	2168.81%	7,000,000	364.27%
3	7,000,000	267,202	267,202	-	4.32%	34,629	34,629	801,605	6,198,395	640.02%	7,000,000	157.18%
4	7,000,000	267,202	267,202	-	4.32%	46,172	46,172	1,068,807	5,931,193	316.43%	7,000,000	91.83%
5	7,000,000	267,202	267,202	-	4.32%	57,716	57,716	1,336,008	5,663,992	193.43%	7,000,000	61.46%
6	7,000,000	267,202	267,202	-	4.32%	69,259	69,259	1,603,210	5,396,790	131.95%	7,000,000	44.36%
7	7,000,000	267,202	267,202	-	4.32%	80,802	80,802	1,870,412	5,129,588	95.97%	7,000,000	33.57%
8	7,000,000	267,202	267,202	-	4.32%	92,345	92,345	2,137,613	4,862,387	72.65%	7,000,000	26.22%
9	7,000,000	267,202	267,202	-	4.32%	103,888	103,888	2,404,815	4,595,185	56.41%	7,000,000	20.94%
10	7,000,000	267,202	267,202	-	4.32%	115,431	115,431	2,672,017	4,327,983	44.47%	7,000,000	17.00%
11	7,000,000	267,202	267,202	-	4.32%	126,974	126,974	2,939,218	4,060,782	35.30%	7,000,000	13.96%
12	7,000,000	267,202	267,202	-	4.32%	138,517	138,517	3,206,420	3,793,580	28.01%	7,000,000	11.55%
13	7,000,000	267,202	267,202	-	4.32%	150,060	150,060	3,473,622	3,526,378	22.02%	7,000,000	9.61%
14	7,000,000	267,202	267,202	-	4.32%	161,604	161,604	3,740,823	3,259,177	16.97%	7,000,000	8.02%
15	7,000,000	267,202	267,202	-	4.32%	173,147	173,147	4,008,025	2,991,975	12.57%	7,000,000	6.70%
TOTAL		4,008,025	4,008,025									

PREMIUM FINANCED LIFE INSURANCE

A Comprehensive Overview

People who need substantial life insurance coverage for estate or business planning are often faced with a dilemma: Does it make sense to (or do they want to) use current cash flow or liquidate investments to pay the premiums? Financing offers high-net-worth individuals the ability to borrow the premiums to pay for an insurance policy, allowing them the use of funds they might have otherwise used to pay for the insurance.

Premium financing makes most sense when the individual has a definite need for insurance. Only when the need has been determined should premium financing be evaluated as an option that may allow the individual to retain his assets or income for use elsewhere. This should not be proposed as a “free” way to obtain life insurance.

Premium financing also makes sense when the interest rate on the loan is less than the insured could earn on assets liquidated to pay the premium. Additionally, it makes sense when the interest rate on the loan is less than the policy is expected to earn. An individual may want to enter into a premium financing arrangement to obtain a lower out-of-pocket cost for a policy, to minimize gift tax concerns, and to keep from using cash flow or liquidating assets to pay insurance premiums.

Minimums for most programs are \$2.5 million in net worth and \$200,000 a year income. The borrower must also be a bankrupt-remote entity (i.e., creditors cannot attach the individual’s assets for bankruptcy), such as an LLC or an irrevocable life insurance trust.

The goal of a well-structured premium financing program is to have the individual pay as little out-of-pocket as possible for life insurance, balanced against the risk that the interest rate of the loan will exceed the performance of the policy. In a typical premium financing arrangement, an individual applies for an insurance policy. At the same time, the individual applies for a loan from a lender.

While the individual is being medically underwritten for the insurance policy, he is also being financially underwritten for the loan. Assuming the individual passes both tests, the policy is put in force and the financing is put in place.

Premium Financing Due Diligence

An individual should consider the following questions before entering into any premium financing arrangement:

- **How is the loan interest calculated?**
- **What is the loan commitment fee?**
- **How long is the loan renewable for?**
- **Is it a term loan for a short period of time?** Or is it a loan that extends well past life expectancy?
- **Is a personal guarantee required for the loan, or is it backed by the insurance policy?**
- **Is the program designed to be based on life expectancy, or is it conventional?**
Life-expectancy programs assume that the insured dies at his calculated life expectancy, whereas conventional lending is more consistent with insurance carrier objectives.

Premium Financing Arrangements

The following are the basic types of financing arrangements.

Borrowing premium only.

The individual borrows only premiums, and the individual pays the interest. If the policy is owned by an irrevocable life insurance trust, then the interest is considered a gift.

Borrowing premium and interest.

The individual borrows premiums and the interest on the loan and has no annual outlay. Policy design is key, because the policy must earn more than the interest rate; otherwise it will either lapse or require a substantial payment by the policyholder.

Borrowing some premium and interest.

The individual borrows some premiums or some interest, usually for a period of time.

Premium Financing Exit Strategies

Premium loans can be repaid in three main ways:

1. During life, from the borrower's available assets.
2. During life, from policy cash values (this generally requires the lender's approval if the lender is the assignee).
3. At death, from policy proceeds (this usually happens automatically).

Income Tax and Gift Tax Considerations

Important considerations include:

- Interest on a loan to acquire a life policy is generally considered personal interest and is not deductible under IRC sections 163 and 264.
- Loans to a trust for premium payments are not taxable gifts. It is unlikely that the IRS would consider a personal guarantee on a loan-completed gift until a payment is made.

Estate Tax Considerations

Important considerations include:

- Life insurance proceeds will be included in the insured's estate if the insured owns the policy or has any incidents of ownership. Under Private Letter Ruling (PLR) 9809032, the IRS ruled that even though an irrevocable trust had borrowed funds from the insured to purchase a policy and the loan remained outstanding at death, the proceeds were not includable in the insured's estate. Providing a personal guarantee on a loan should not cause incidents of ownership in the policy.

Intake Questionnaire

Section 1- Insured Information

Insured's Name: _____
Last First Middle

Social Security Number: _____

Date of Birth: _____

Current Address: _____

City, State Zip Code

Current Income: _____ Current Net Worth: _____
(From Tax Return) (From Financial Statement)

Section 2 - Owner Information

Owner Structure: _____
i.e. Trust, Corporation, Partnership, etc

Tax ID Number : _____

Owner's Name: _____

Address: _____

City, State Zip Code

Contact Person: _____

Telephone: _____ Fax: _____

E-mail: _____

Comments: _____

Section 3 – Current Life insurance Policies

Policy Owner's Name: _____

Address: _____

City, State Zip Code

Insurance Agent: _____

Address: _____

City, State Zip Code

Telephone: _____ Fax: _____

E-mail: _____

Policy Beneficiary: _____

Relationship: _____

Carrier: _____

Policy Face Amount: _____

Scheduled Annual Premium: _____

Premium paid last year: _____

Policy Number: _____

(If submitting multiple policies, please complete additional pages for Section 3)

Section 4 – Submission requirements for Policy Review:

- 1) Sales Ledger
- 2) In Force Ledger at Current Premium Level
- 3) Copy of the Owner Documentation
 - a) Trust
 - b) Business Entity
- 4) hipaa authorization
- 5) broker of record letter

Insured's Signature _____ **Date** _____

MDRT guideline for revenue sharing

The Million Dollar Round Table, MDRT, is a sales organization of life insurance salesmen and saleswomen. Membership is attained by sales success and continues to source the in- crowd of the insurance industry. The influence and popularity of MDRT has survived all of the economic (and regulatory) cycles of decades past and is considered by most to be the industry standard for many sales concepts and team selling arrangements.

The following commission sharing suggestions have been used for many years by MDRT members to split the responsibility and the compensation between two or more life insurance agents:

- 20% for the Referral attendees @ client appreciation dinner
- 20% for the Data policy review intake + sales ledger + IFL + hipaa + POA/BOR letter
- 20% for the Case Design policy review: intake-process-output
- 20% for the Sale presentation of the policy review to the client in the advisor's conference room
- 20% for Future Servicing paid out at 5% annually in years 1-2-3-4 ...

This schedule can be adapted and applied to joint ventures (and/or shared revenue ventures) between the various disciplines. It provides a guide as to how professional centers of influence and life agents can work in tandem.

As a matter of practice, Counsel Resource (and the TKS companies) adhere to this guideline on all of the transactions that involve them. Absent of a specific agreement to the contrary it is understood that this ideology will drive future outcomes ...

Don Goode for the TKS companies

Chris Ramsey for Counsel Resource

800-652-2920

who are the TKS companies?

Motivational Speaking / Sales Training:

hear industry veteran Don Goode explain how to consistently and successfully IMPLEMENT time-tested strategies that are perfect for your best clients in unison with the insurance carriers, client's counsel, potential road blocks and gatekeepers.

Continuing Education (CLE):

Providing on-site *continuing legal education (CLE) workshops* centered around insurance based strategies and joint work to create Synergy between the legal community and financial service representatives nationwide.

OPM planning:

Gain access to every carrier approved and compliant premium finance program available in the country.

Life Insurance Underwriting:

Seamlessly work with Nationally recognized processing units to present your client to the carrier of your choice, for the best life offer possible, and all at the level of comp you've been looking for.

Policy Evaluation & Review Services:

Offering 3rd party due diligence reports opining on Financial Strength - Carrier Management - Market Share and Competitive Pricing Alternatives.

Case Development / Presentations / Joint Work:

Signature Presentation Systems always include a picture with boxes and arrows, a summary of all the key cash flows and a narrative that ties it all together

CONTACT INFORMATION

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