



Planning in action

AN ADVANCED MARKETS SUCCESS STORY

Merging Techniques: Combining Private Split Dollar with Rolling GRATs

Case in Point: In a recent case, a producer called the Advanced Markets team and mentioned he was having difficulty convincing his clients (a couple) to move forward with their insurance funding. The clients were working with their attorneys on other wealth-transfer techniques and did not want to disrupt the process.

Client profile

- Husband and wife, both age 50, in excellent health
- Net worth in excess of \$100M
- Recently sold their business and their estate is extremely liquid
- Four children and one grandchild
- Objective is to minimize growth of taxable estate and transfer as much of their wealth as possible

Fact finding

- Clients' estate is 80% liquid and held in managed accounts
- Clients have made gifts to a Legacy/Dynasty Trust, exhausting their full lifetime exemption
- Clients have already started working with their attorneys to create rolling Grantor-Retained Annuity Trusts ("GRATs") to minimize the growth of their assets and transfer additional excess growth from their estate to an Irrevocable Life Insurance Trust (ILIT) for estate-liquidity purposes
- Clients are not using annual exclusions

Designing a case & creating a plan

During the fact-finding portion of the case, the producer shared the following three key points with our Advanced Markets team:

1. The clients had previously established an ILIT to create liquidity to pay future estate taxes.
2. The clients intended to purchase a \$50M survivorship life insurance policy inside the existing trust, with an annual 10-pay premium of \$465K. Since they had exhausted their gift exemption, there was a need to create a solution that would allow them to transfer this premium to the ILIT without incurring gift taxes.
3. The clients were already in the process of shifting \$10M of their investment portfolio to a two-year GRAT, with the ILIT being designated as the "remainder person" that would receive the excess growth on the GRAT every two years.



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TOOLS

Advanced Markets resources used:



Sample JH Solutions presentation – Private Split Dollar (For Client Use)



Sample JH Solutions presentation – Rolling GRAT (For Client Use)

With these facts in mind, our Advanced Markets team presented a Private Split Dollar plan, where the clients would make an annual “loan” of the life insurance premium to the ILIT. The only gift tax impact is the loan’s annual economic benefit cost, which is \$269 in year one — considerably lower than the premium. Because the client is required to be repaid the loan under the terms of the split dollar arrangement, our team suggested using the clients’ rolling GRATs to exit or “rollout” of the Private Split Dollar Plan.

Historically, illustrating a series of rolling GRATs has been cumbersome. To address this challenge, Advanced Markets developed an innovative way to illustrate rolling GRATs. In this case, we were able to use our new Rolling GRAT Calculator to show the rolling GRATs as an exit strategy for the private split dollar plan. In general, this design showed that each GRAT’s remainder interest would be transferred into the ILIT and used to repay the grantor for the premiums paid under the split dollar plan. (The proposal illustrated a series of five two-year GRATs with an initial transfer of \$10M, and illustrated each GRAT’s remainder interest going into the new ILIT.)

Why it works

This plan demonstrates how our Advanced Markets team can combine current planning into a life-insurance-funding technique for a very low gift-tax cost. This technique virtually eliminated gift taxes on the policy’s premium payments, as the economic benefit cost will be offset by the clients’ annual exclusions. (The total economic benefit cost for this \$50M policy over the 10-year premium-paying period is \$10,483.) The producer was able to convince the clients that they did not have to “upset” any of their current planning, just augment it with this Private Split Dollar program to purchase the insurance they wanted. What’s more, using our new Rolling GRAT Calculator presentation, the producer was able to show the clients how their current GRAT program can be incorporated into the split dollar insurance-funding program.

Conclusion

This case not only highlights the tax advantages of using rolling GRATs as a split dollar exit strategy — allowing the clients to enhance their wealth-transfer goals at a very low gift tax cost — but also exemplifies how the Advanced Markets team was able to take this case to the next level. Experience tells us that if we can incorporate the client’s existing planning into the life-insurance planning, we can minimize the out-of-pocket cost by not requiring “new money” to rollout of the plan. In addition, by building this design off the clients’ current planning, we helped ensure they would be more amenable to it. And finally, by using our unique Rolling GRAT Calculator, the producer was able to demonstrate the tax advantages of the strategy in a simple-to-understand manner.

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