CRESCENT WEALTH MANAGEMENT

Loan Rescue / Split Dollar Case Study

The Client:

Frank, age 78 and Teresa, age 77 are owners of a large manufacturing company. They currently have two trusts with $10 million that are made from three polices per trust. These trusts were funded through a split dollar arrangement with their company in 1995. The purpose of the trusts are to provide enough liquidity to pay estate taxes so that no shares of the company need to be liquidated by their successors.

The Concern:

Due to liquidity issues the company stopped paying the scheduled ten pay premiums after year three. They are still in need of coverage but have accumulated loans that are depleting the death benefits. The company is still having liquidity issues and cannot support paying the catch-up premiums.

Potential Problems:

- Maintaining the death benefit for estate planning purposes
- The desire to have the company paid back for split dollar loan
- No election made with new split dollar regulations
- Health Concerns that may prohibit obtaining new coverage
- The tax issue on forgiven loans. In the case above, the anticipated tax due at the lapsing of these policies totaled $2,473,000 per trust!

The Solution:

Through Crescent Wealth Management, Frank and Teresa were able to obtain favorable underwriting and were able to exchange their existing cash value to two new $8,900,000 policies that are guaranteed through their 90's.

The Benefit:

Utilizing the substantial debt to cash ratio on transfers, Frank and Teresa are able to obtain a new policy that maintains a higher guaranteed death benefit for a longer period of time with no more out of pocket premiums.

Due to it's design, they were also able to take a distribution from the policies prior to transfer of $1.5 million to pay back the company for the original policy funding.

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CURRENT PLAN

Present Values

DEATH BENEFIT
$20,000,000

↓

LOANS
$6,003,651

↓

NET TO HEIRS
$12,749,414

Year 10 Values

DEATH BENEFIT
$0 - Lapsed

↓

FORGIVEN LOAN
$12,365,718

↓

TAX ON FORGIVEN LOAN
assuming 40% tax rate
$4,946,287

→

ESTATE LIABILITY
($4,946,287)

PROPOSED PLAN

Present Values

DEATH BENEFIT
$17,800,000

↓

LOANS
$3,617,082

↓

NET TO HEIRS
$14,038,234

+

CASH WITHDRAWAL TO COMPANY
$1,500,000

Year 10 Values

DEATH BENEFIT
$6,600,000

↓

LOAN
$5,354,166
($0 forgiven)

↓

TAX ON FORGIVEN LOAN
$0

↓

NET TO HEIRS
$1,245,834

+

CASH WITHDRAWAL TO COMPANY
*$2,443,342**

*Assuming 5% rate of return

CRESCENT WEALTH MANAGEMENT

Loan Rescue / Split Dollar Case Study Disclosure

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