Allianz Life Pro+ Survivor® Fixed Index Universal Life Insurance Policy

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Allianz Life Insurance Company of North America

A **private split-dollar** arrangement with a survivorship life insurance policy

Life insurance is a time-tested way to provide financial reassurance for your family and the next generation. And if your estate has grown, there may be another reason to consider purchasing a life insurance policy. Life insurance, if owned in an irrevocable trust, can help protect your estate from the estate taxes that will potentially occur upon your death.

With an **irrevocable life insurance trust (ILIT)**, the trust is the owner of the insurance policy; in this way, the life insurance policy (including its proceeds) is not part of your taxable estate.

One strategy that can help you or a family member with the purchase of life insurance is a **private split-dollar life insurance arrangement**. A private split-dollar arrangement, when set up properly, can reduce the current gift-tax impact of the policy. And if the policy is owned by an irrevocable trust, premiums and the death benefit can be excluded from the taxable estate.

What is a private split-dollar arrangement?

Private split-dollar is an arrangement with a life insurance policy where one individual – usually a parent or grandparent – pays the premium on a life insurance policy. This policy is owned by another family member (such as an adult child) or, as we'll cover here, an irrevocable life insurance trust.

The life insurance policy is collaterally assigned back to the parent or grandparent who paid the premium. This way, the parent or grandparent will be repaid, at a minimum, the premium they paid upon the insured's death or earlier.

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Must be accompanied by the Allianz Life Pro+ Survivor consumer brochure (M-5638 and appropriate state variations).

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There are a number of variations of split-dollar arrangements.

Each of these variations raises a series of planning and drafting issues. **You should seek advice based on your particular circumstances from an independent tax advisor.** There is federal tax guidance, but no authority in using survivorship policies in split-dollar arrangements, and the potential income and gift tax consequences are not always clear.

Target client profile:

- Parent/grandparent whose net worth exceeds $5 million
- Parent/grandparent or child who needs a life insurance death benefit
- Parent/grandparent who wishes to reduce gift taxation of premiums
- Parent/grandparent who wants the death benefit to be excluded from the insured's estate taxation through ILIT ownership of the policy

Example: You provide the premiums on a joint policy for you and your spouse or partner.

Step 1

You talk to your attorney about using a private split-dollar arrangement for your own life insurance – in this example, a **life insurance survivorship policy**.

A **survivorship policy** insures two lives (typically spouses or partners) with one life insurance policy. The death benefit is paid on the passing of the last surviving insured.

If you and your attorney decide that a private split-dollar is appropriate for your financial situation, your attorney drafts the private split-dollar agreement. If you don't already have one, your attorney will help you set up an irrevocable life insurance trust.

Step 2

Your ILIT is named as the owner and beneficiary of the survivorship life insurance policy that insures you and your spouse or partner. (Remember, because the ILIT owns the policy, the death benefit would not be included in your taxable estate.) The policy is collaterally assigned back to you or your spouse or partner to recover, at a minimum, the premium you paid for the policy.

Step 3

After both you and your spouse or partner have died, the **income-tax-free** death benefit from the survivorship policy first pays your estate back for the premiums you advanced on the policy due to the collateral assignment. Then the balance of the death benefit is paid to your irrevocable life insurance trust.

Note: You also have the option to stop paying the premiums before one or both of you dies, and release the collateral assignment on the policy. This would be considered a gift of the assigned cash value from you to the irrevocable life insurance trust. You should consult with your tax advisor and/or attorney to discuss your specific situation.

What are the tax implications of a private split-dollar arrangement?

There are two potential taxation methods for this type of private split-dollar arrangement, depending on which party to the arrangement is treated as the owner of the life insurance policy – the economic benefit approach and the loan approach.[1] (Please note that the following information applies to private split-dollar arrangements entered into after September 17, 2003.)

With the economic benefit approach, you make a gift to the ILIT each year that's valued using the IRS Table 38 for a survivorship policy less the amount of premium paid by the trustee. In 2015, your annual gift tax exclusion is $14,000 per year per donee, or a lifetime gift tax exemption of $5.43 million. This may be available to offset any federal gift taxes due on the gift to the ILIT.

To use this approach, however, the entire cash value of the policy must be assigned back to you. But to avoid any incidents of ownership, your access to the cash value must be restricted so that you would not be able to access it.

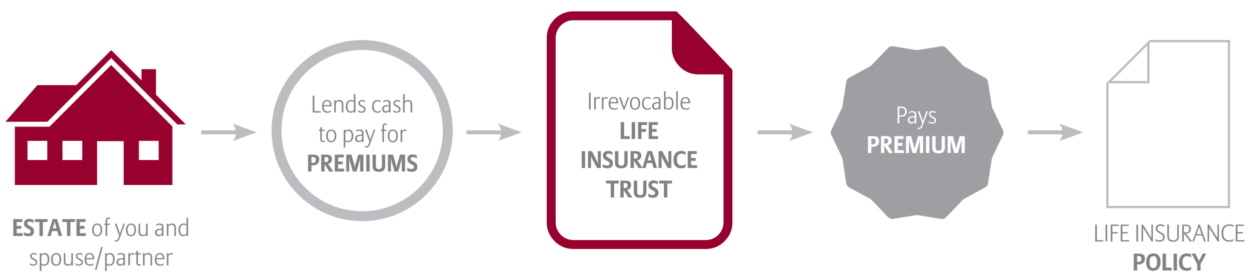
[1] Policy loans and withdrawals will reduce the available cash value and death benefit and may cause the policy to lapse, or affect guarantees against lapse. Additional premium payments may be required to keep the policy in force. In the event of a lapse, outstanding policy loans in excess of unrecovered cost basis will be subject to ordinary income tax. Tax laws are subject to change and you should consult a tax professional.

With the loan approach, your irrevocable life insurance trust technically owes you interest each year that's equal to the interest rates provided by the IRS. If your ILIT does not pay you that interest, the amount of that interest would count as a gift made by you to the ILIT in that year and valued at the IRS current interest rates. If your ILIT does pays you the interest, you would not have made a gift.

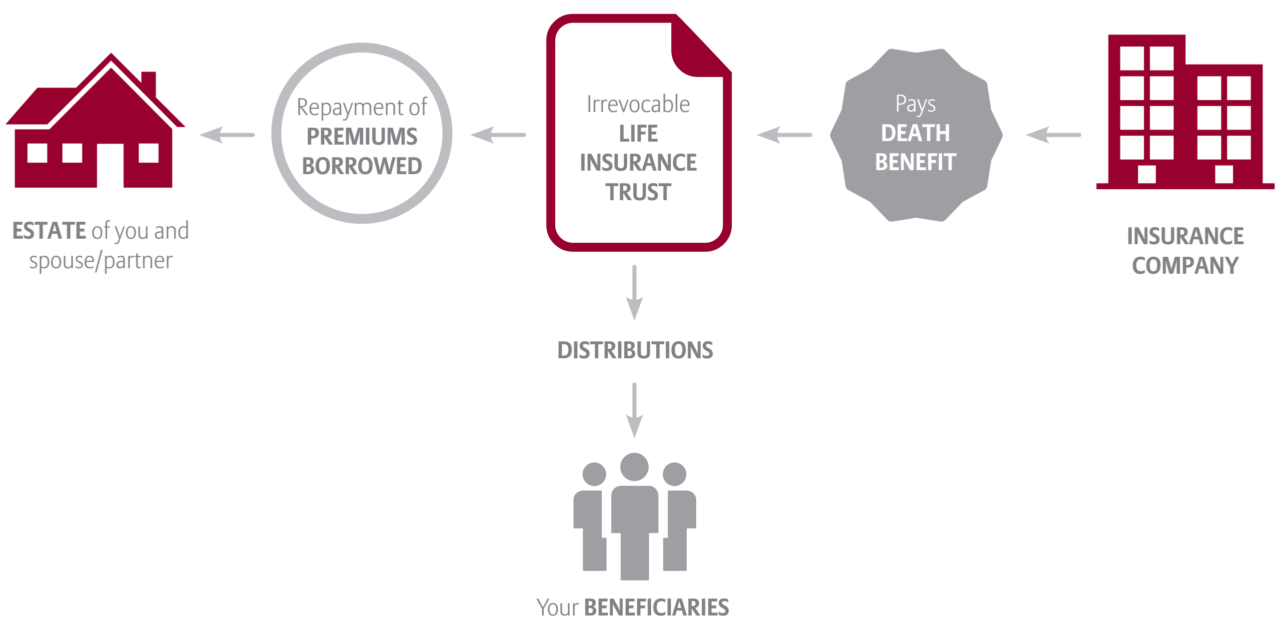
In some cases, you may wish to gift the interest amount to the ILIT, and then have the ILIT use that gift to pay you the interest owed to you. (Also, as mentioned above, if you release the collateral assignment and stop paying premiums on the policy, and the ILIT does not pay you back the outstanding premium loan, the portion of the cash value assigned to you is considered a gift from you to the ILIT.)

If you use the loan approach, only the cash value equal to the amount of the outstanding premium loan is assigned back to you. Also, to avoid any incidence of ownership, your access to the cash value must be restricted so that you are not able to access it.

The split-dollar loan approach **while the couple or surviving spouse/partner is alive:**



The split-dollar loan approach **after both insureds have died:**



The hypothetical examples here are for illustrative purposes only. They are not actual Allianz clients.

With either the economic benefit or the loan approach, it is important to plan ahead on how you will exit from a private split-dollar arrangement. Although the death benefit can be used to pay back the parent/grandparent after the insured passes away, it is good to determine a possible way to pay them back before death.

For example, if the cash value on the policy has grown, loans or withdrawals from the life insurance policy may be available to pay back the premium amounts paid. Or possibly the parent or grandparent could forgive the amounts owed, which would be a gift from the parent or grandparent to the policy owner. Another possibility could be transfers from other estate planning trusts that the client established previously. You should consult with your estate planning attorney to plan on ways to roll out from a private split-dollar.

Is a private split-dollar arrangement appropriate for you?

Private split-dollar can assist in the purchase of life insurance for you or another family member, while helping to reduce the current gift tax liability of paying the premium. Talk to your attorney to determine if a private split-dollar arrangement might be appropriate as an estate planning strategy for you.

Ask your financial professional to show you how life insurance can work in a private split-dollar arrangement.

Private split-dollar arrangement advantages:

- While you are paying the premium, the gift tax results are valued using either the IRS Table 38 rates for the economic benefit approach for a survivorship policy, or the current IRS interest rates for the loan approach. Either is generally less than the policy premiums.
- If the ILIT is properly drafted and administered, the death benefit should not be included in your or your spouse's taxable estate.

Special considerations

- Private split-dollar is an estate planning technique that is generally appropriate for high-net-worth families – i.e., minimum $5 million net worth.
- You should consult with an attorney about the feasibility of a private split-dollar for you.
- If you release the collateral assignment, you are making a gift of part or all of the cash value to your ILIT.
- You would incur attorney's fees to draft the private split-dollar arrangement.
- You and your spouse need to qualify for the life insurance policy. If one spouse is uninsurable, you might still qualify for the survivorship life insurance policy; this would be determined by underwriting.
- Generally, private split-dollar is appropriate when there is a need for a death benefit insuring an adult family member.

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