

Intergenerational Split Dollar

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Purpose: To transfer large amounts of wealth from Generation 1 to later generations by reducing the value of Generation 1's estate. Particularly effective where Generation 1 is uninsurable or lacks insurance capacity.

Intergenerational Split Dollar is designed as a method to reduce the value of the estate of the oldest generation through aggressive valuation discounting at the time of death. Although it does take advantage of the split dollar technique to the extent permitted under current IRS guidelines, it should not be confused with traditional split dollar.

In simplified form, Intergenerational Split Dollar works as follows:

1. A member of Generation 1 provides a large amount of cash to a trust for the benefit of the next generation or a subsequent generation. Ideally, the member of Generation 1 is someone whose life expectancy is dramatically shorter than that of the member of the family who will be the insured life.
2. The trust purchases a single premium life insurance policy on a select member of the family who is substantially younger than the funding member of Generation 1. This transaction is structured as a non-equity split dollar arrangement where the funding member of Generation 1 is entitled to the greater of premiums paid or cash value.
3. The insurance policy will be a Modified Endowment Contract meaning that the trust will be taxed on any gain in the policy in the event it accesses the cash values. Due to the size of the

policy, it can be written using Corporate Owned Life Insurance (COLI) products eliminating surrendering charges and allowing for quicker accumulation of cash.

4. Upon the death of the funding member of Generation 1, the value of the investment in the split-dollar contract will be included in the estate of the deceased. That investment, however, will be illiquid and will not generate any current cash flow. The rate of return will be very low and the investment cannot be redeemed until the death of a much younger person. For these reasons, the value of the investment in the split dollar contract should be subject to a significant discount. Currently appraisals provide for a discount of 80-90% of face value.
5. As a result, the trust has all the cash originally deposited (plus the earnings of the policy) and the value of the estate of Generation 1 has been diminished by the discount. No gift has been made to any heirs.

In a number of situations, Generation 1 will have the need and net worth for this technique but lack the liquidity. These transactions are often structured using premium finance so that Generation 1 can borrow the cash necessary to fund the transaction. We have access to a large number of lending institutions specializing in lending to fund life insurance for advanced estate planning techniques.

This technique has been designed by a number of national accounting firms and law firms. In structuring these transactions, we work with these firms to provide you with legal and appraisal

support for the technique and to customize a plan for your specific needs. This is an advanced planning technique that needs to be reviewed with your advisors.