



Wealth Transfer Arbitrage

Increasing Wealth Transfer to Beneficiaries

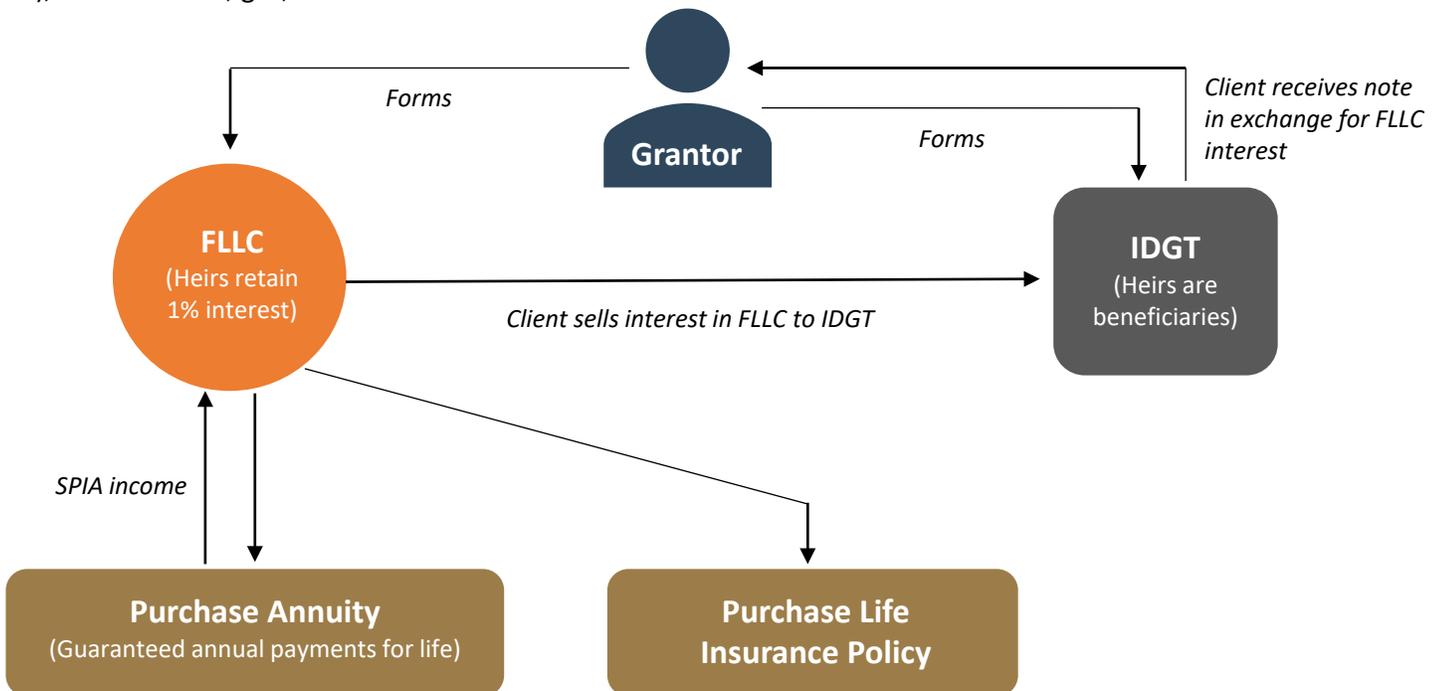
Wealth Transfer Arbitrage is a multi-step transaction that combines the use of a Family Limited Liability Company (“FLLC”), an Intentionally Defective Grantor Trust (“IDGT”), a Single Premium Immediate Annuity (“SPIA”), and life insurance, to create a low risk, income generating investment alternative, while providing multi-generational estate planning.

Wealth Transfer Arbitrage is applicable when a client wants to transfer assets to children and/or grandchildren, while minimizing tax consequences. This is a hedged transaction, where the life insurance carrier takes the risk of the insured dying before their life expectancy, while the annuity carrier takes the opposite risk that the annuitant will live beyond their life expectancy.

HOW DOES IT WORK?

A client forms a FLLC and an IDGT, and then purchases a SPIA and life insurance policy within the FLLC. After Year 1, annual SPIA income is used to pay the life insurance premiums.

The client sells his interest in the FLLC to the IDGT, in return for a Promissory Note. Upon the death of the client, the beneficiaries of the IDGT (i.e., the Client’s heirs) receive the insurance proceeds (net of the remaining Promissory Note balance), free of estate, gift, or income taxes.



IDEAL CANDIDATES ARE:

- Interested in transferring assets to their heirs free of estate and gift taxes;
- Interested in generating an expected 6-7% pre-tax return throughout their life*;
- Comfortable with their investments being relatively illiquid;
- Individuals or entities that have an insurable interest in a person aged 65-85.

ADVANTAGES:

- Allows the client to move assets to future generation(s) without using annual or lifetime gifting capacity;
- Will potentially reduce estate tax liability at death;
- Does not require annual cash flow from the client;
- Takes advantage of an arbitrage in fixed life insurance and fixed annuity markets;
- May potentially result in an income alternative that can possibly produce a return greater than the corporate bond market.

**Takes into consideration estate and gift tax savings. Source: Internal projections*

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