



An insurance funding and tax-saving strategy

Discover the funding and tax-saving benefits of a Private Split Dollar Plan

You've worked hard to achieve all that you have. And if you're like most affluent individuals, you want to protect your loved ones financially, no matter what may lie ahead. Naturally, you want to do that in the most cost-efficient way possible.

A Split Dollar Plan is an arrangement that can help you fund the amount of life insurance you wish to purchase, while possibly saving money in taxes along the way.¹ While Split Dollar Plans are complex to design, this type of plan can be a useful wealth transfer tool in the right situations.

What is a Private Split Dollar Plan?

In a Private Split Dollar Plan, a donor creates an Irrevocable Life Insurance Trust (ILIT) for the benefit of his/her family. The ILIT purchases a life insurance policy on the donor's life, and perhaps on the life of his/her spouse as well. The ILIT owns the policy and the donor loans the ILIT money to pay the premium. Loan interest is charged at the Applicable Federal Rate (AFR). The loan interest is either paid by the ILIT or accrued. The trustee gives the donor a collateral assignment to ensure repayment of the loan to the donor, the donor's spouse, or the donor's estate. The donor receives an interest in the policy — collateralized by the policy's cash value and death benefit — equal to the loan, until it is repaid.

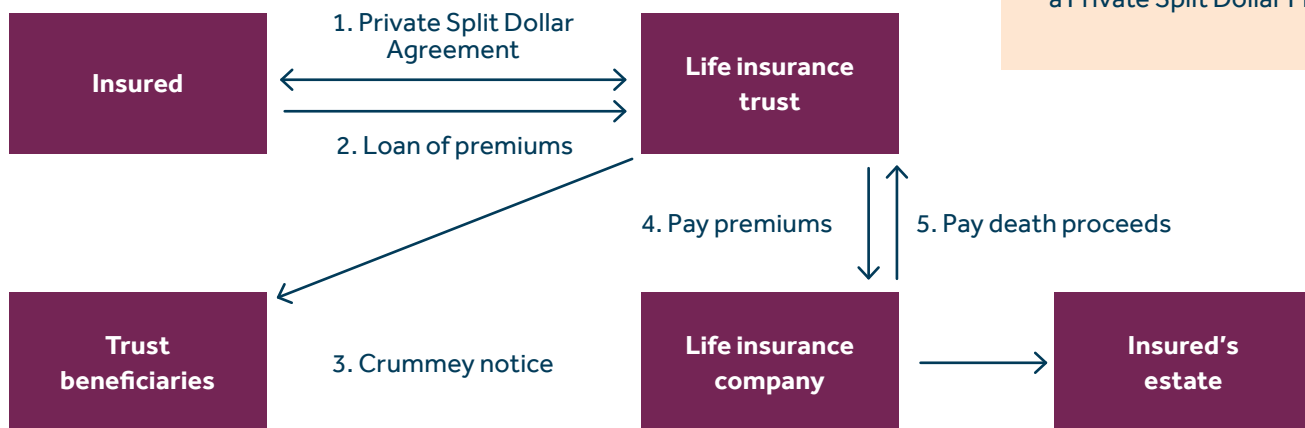
The plan is established through a Private Split Dollar Agreement, which is a written agreement between you (the "donor") and the trustee. The agreement defines the terms of the loan that you will give the trust to pay the policy premiums.

The challenges of purchasing life insurance through a trust

One common way that high net worth individuals purchase the life insurance they wish to own is through the use of an Irrevocable Life Insurance Trust (ILIT).

But getting a large insurance policy into a trust can present planning challenges. If the premium exceeds the individual's annual exclusion gifts,² he or she may have to use up part of their applicable exclusion amount,³ or, if they've already used that up, pay gift taxes.

One common way that these individuals address both of these problems is by creating a Private Split Dollar Plan.



Advantages

The Private Split Dollar Plan offers you numerous advantages:

- **It may help solve your life insurance funding and estate tax issues:** The insurance policy is in an ILIT and the policy proceeds may be received without being subject to estate taxes.
- **It's cost-effective:** Gift tax costs are reduced or eliminated. The value of the gift to the trust is not the premium, but the imputed interest on amounts that are not repaid to the donor by the trust. If loan interest is paid back, then there is no taxable gift.
- **It enables you to "gift" elsewhere:** The Private Split Dollar Plan eliminates the need for you to use most of your annual exclusion to fund the ILIT and enables you to redirect those gifts to other planning techniques.
- **It can be flexible:** Many ILITs provide for possible distributions during the lifetime of the insured, to his or her family members. In fact, some are "Spousal Limited Access Trusts" ("SLATs"), specially designed to give the insured-creator of the trust "indirect" access to trust-held funds (e.g., policy cash values) through rights enjoyed by the ILIT creator's spouse.^{4,5}

Why a Private Split Dollar Plan may be right for you

A Private Split Dollar Plan can help you put the right type of protection in place for your loved ones, using a funding strategy that can help you save money on taxes. In particular, this type of plan could be considered if you:

- need to find a way to provide your estate with liquidity to pay estate taxes upon your death
- are looking for a way to help reduce estate and gift taxes
- are having trouble fully funding your ILIT using just your available annual gift tax exclusion

Special considerations

The techniques discussed here can be complex, and there may be other considerations you should take into account. You should rely on the advice of your tax and legal advisors to help ensure that the planning solution you choose is best suited for your circumstances. Your Guardian Financial Professional can work with your trusted legal and tax advisors every step of the way.

Learn more today — contact a Guardian Financial Professional to begin exploring the benefits of the Private Split Dollar Plan — and to learn more about how individuals like you have leveraged the advantages of this type of strategy.

The Guardian Life Insurance Company of America

[guardianlife.com](https://www.guardianlife.com)

New York, NY

Pub9341 (10/22) 2022-145907 (Exp. 10/24)

¹ Guardian, its subsidiaries, agents, and employees do not provide tax, legal, or accounting advice. Consult your tax, legal, or accounting professional regarding your individual situation.

² Every person can give away, gift tax-free, an amount of money or property equal to the annual exclusion amount to any number of people. The annual exclusion is \$16,000 in 2022, and is indexed annually for inflation; the person giving money away is called the donor. The annual exclusion amount is only available if the gift is of a "present interest," which means the gift has no strings attached so that the person receiving the gift (called the "donee") has control over the money or property received.

³ The applicable exclusion amount is the total amount you can give away over the course of your entire lifetime free from gift and estate taxation.

⁴ Some whole life policies do not have cash values in the first two years of the policy and don't pay a dividend until the policy's third year. Talk to your financial representative and refer to your individual whole life policy illustration for more information.

⁵ Policy benefits are reduced by any outstanding loan or loan interest and/or withdrawals. Dividends, if any, are affected by policy loans and loan interest. Withdrawals above the cost basis may result in taxable ordinary income. If the policy lapses, or is surrendered, any outstanding loans considered gain in the policy may be subject to ordinary income taxes. If the policy is a Modified Endowment Contract (MEC), loans are treated like withdrawals, but as gain first, subject to ordinary income taxes. If the policy owner is under age 59½, any taxable withdrawal may also be subject to a 10% federal tax penalty.

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