



An educational guide for individuals



Preserve your legacy over multiple generations

With an Intergenerational Split Dollar Plan

If you have significant assets that you wish to protect over multiple generations, and would like to use a tax-efficient approach for transferring your wealth, there is a solution that has the potential to benefit your children, grandchildren, and future generations.

An Intergenerational Split Dollar (IGSD) Plan can help build a legacy for your heirs, while helping to reduce your gift and estate taxes. And the plan can be funded with life insurance.

We've designed this guide to help you learn more about the IGSD Plan — and to help you decide whether it might be a viable solution for you as you seek ways to protect your legacy for those you care the most about.

What is an IGSD Plan?

An IGSD Plan is a type of Split Dollar Plan. Split Dollar arrangements are commonly used to allow a party with more money to pay for the life insurance of a party with less money. The two parties agree to "split" the premium payments, cash value, and death benefit of a life insurance contract.¹ The parties to the agreement could be any two individuals, but the most common Split Dollar agreements are between employers/employees and donors/Irrevocable Life Insurance Trusts (ILITs).

IGSD is an arrangement where the parties to the Split Dollar agreement are the different generations of the same family. In its most common form, the parents (i.e., Generation 1) act as the donor of an ILIT for the benefit of the children (Generation 2) and grandchildren (Generation 3). The ILIT purchases life insurance on the children, and this insurance is subject to the Split Dollar agreement between the parents and the ILIT.

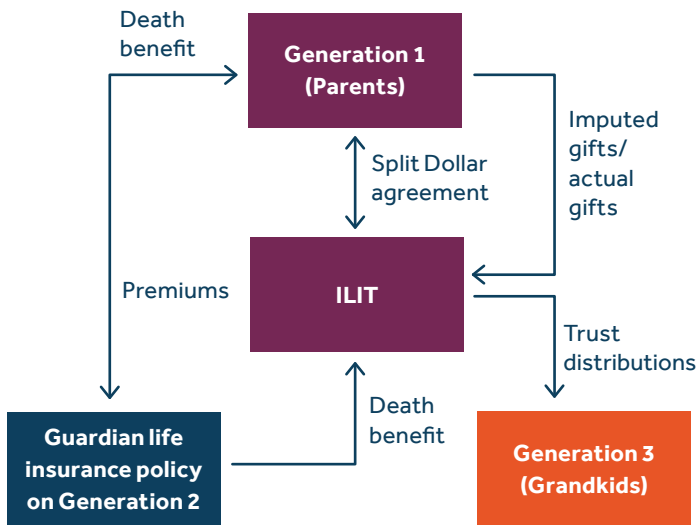
An Irrevocable Life Insurance Trust (ILIT) is a type of living trust that is generally set up as the owner and beneficiary of a life insurance policy for estate planning purposes. Having a policy owned by an ILIT results in the removal of the death benefit from the insured's gross estate.

How an IGSD Plan works

There are two main forms of IGSD: Loan Regime Split Dollar and Economic Benefit Split Dollar. The Economic Benefit version is much more commonly used than is the Loan Regime option, although below, we illustrate both types.

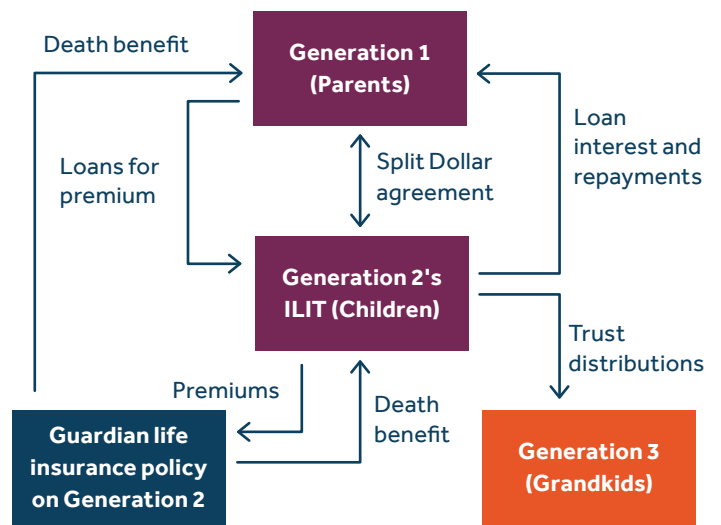
(Most common)

Economic Benefit IGSD



- 1 Generation 1 creates an ILIT that purchases a policy on the life of someone in Generation 2.
- 2 Generation 1 and the ILIT execute an Economic Benefit Split Dollar agreement.
- 3 Generation 1 pays the premiums and is entitled to get back the greater of the premiums paid or the policy cash value at the death of the Generation 2 insured. (This is called the "receivable.")
- 4 Economic benefit costs are paid by or gifted to the ILIT.
- 5 At the death of Generation 2, Generation 1 collects the receivable and Generation 3 is paid the remainder. Generation 1 does not have the right to obtain the receivable any earlier than the death of Generation 2.

Loan Regime IGSD



- 1 Generation 2 creates an ILIT, which purchases a policy on the life of someone in Generation 2.
- 2 Generation 1 and the ILIT execute a Private Split Dollar agreement. Generation 1 loans the ILIT premiums at the Applicable Federal Rate.
- 3 Loan interest is paid by the trust or can be accrued and added to the total loan.
- 4 Generation 2 can make annual exclusion gifts/lifetime exemption gifts to the trust.
- 5 At the death of Generation 2, the ILIT repays the loan to Generation 1 (or, most usually, be left to the trust) and Generation 3 receives the remainder. Generation 1 does not have the right to call for loan repayment any earlier than the death of Generation 2.

What is an IGSD agreement?

In an IGSD agreement, the parents and children spell out how they will "split" the main components of the life insurance policy that helps to fund the IGSD arrangement — the premium payments, the death benefit, and the cash value — and how the policy proceeds will be divided upon termination of the arrangement, which ordinarily occurs at the death of the insured child (Generation 2).

An IGSD Plan in action: A case study

Let's consider how an Economic Benefit IGSD arrangement, funded with a Guardian life insurance policy, can be a viable solution for a successful business owner who wants to preserve and enhance her legacy for her children and grandchildren.

Nora McCloud,² age 75, owns a boat tour company that provides scenic cruises, fishing trips, and other recreational activities in a popular seaside town. She inherited this business from her deceased husband. The business and the accompanying boats, slips, and shoreline property are worth about \$20M. She has additional assets of about \$10M, for a total estate of \$30M. Nora would like to make sure her two children, Frank and Gail, and her five grandchildren receive the most they can from her estate when she passes away. However, prior planning strategies have used up all of her estate tax exemption amount, and she already uses some of her annual exclusion gifts to help transfer business interests. She would like to build additional liquidity with life insurance, but is in poor health and would likely be adversely rated,³ or possibly uninsurable. She is looking for ways to further reduce the size of her estate and create liquidity for her children and the business.

Nora's Guardian financial professional suggests an IGSD Plan. Under this arrangement, Nora will create an ILIT with Frank, Gail, and the grandchildren as beneficiaries. She will allocate her Generation-Skipping Transfer Tax (GSTT) Exemption against any gifts to the ILIT. The ILIT will purchase a \$5M Guardian whole life policy on Frank, who is age 45 and falls into the Preferred Non-smoker underwriting category. Nora and the ILIT will enter into a Split Dollar agreement, under which Nora will pay the premiums and receive the greater of the premiums paid or cash value from the policy (which is known as the "receivable"), but only after Frank dies. Should Nora pre-decease Frank (the more likely scenario), at death, the receivable from the Split Dollar Plan will be transferred to the ILIT. This transfer may occur at a discount, as it will be many years before Frank is actuarially projected to die.

Questions for you to consider

Are you someone who is:

- Interested in building a greater legacy for your heirs, but want to avoid estate and gift taxes?
- Looking for ways to potentially reduce the size of your taxable estate?
- Considering how to provide for your descendants across several generations?
- Interested in helping your children obtain life insurance coverage that they might not be able to afford today, but that would provide your grandchildren with valuable financial protection?

If you answered "yes" to these questions, you may wish to consider implementing an IGSD Plan.

| Policy Year | Age at Start of Year | Nora McCloud | | | | | | Nora's ILIT | | | |
|-------------|----------------------|-----------------------|------------------|-------------------|------------------|-----------------------|--------------------------|---------------------------------|-----------------------|--------------------------|-----------------|
| | | Grantor Premium Share | Economic Benefit | Possible Gift Tax | After-Tax Outlay | Net Cash Value Share* | Net Death Benefit Share* | After-Tax Out-of-Pocket Expense | Net Cash Value Share* | Net Death Benefit Share* | ROI On Gift Tax |
| 1 | 45 | 106,750 | 7,487 | 2,995 | 109,745 | 1,875 | 104,050 | 0 | 0 | 4,895,950 | 163,303% |
| 2 | 46 | 106,750 | 7,994 | 3,197 | 109,947 | 57,688 | 208,100 | 0 | 0 | 4,799,138 | 3,849% |
| 3 | 47 | 106,750 | 8,606 | 3,443 | 110,193 | 144,797 | 312,150 | 0 | 0 | 4,717,116 | 1,026% |
| 4 | 48 | 106,750 | 9,155 | 3,662 | 110,412 | 237,324 | 416,200 | 0 | 0 | 4,639,595 | 497% |
| 5 | 49 | 106,750 | 9,688 | 3,875 | 110,625 | 334,159 | 520,250 | 0 | 0 | 4,566,643 | 308% |
| 10 | 54 | 106,750 | 15,527 | 6,211 | 112,961 | 907,871 | 1,040,500 | 0 | 0 | 4,290,211 | 91% |
| 15 | 59 | 106,750 | 24,833 | 9,933 | 116,683 | 1,624,798 | 1,624,798 | 0 | 0 | 4,166,464 | 49% |
| 20 | 64 | 0 | 35,392 | 14,157 | 14,157 | 2,030,427 | 2,030,427 | 0 | 0 | 3,506,693 | 31% |
| 25 | 69 | 0 | 52,896 | 21,159 | 21,159 | 2,573,218 | 2,573,218 | 0 | 0 | 2,959,816 | 21% |

The example shown here is based on a hypothetical policy not available for sale from Guardian. This hypothetical illustration is intended to show, in general terms, how a typical participating whole life insurance policy might work. This illustration reflects a Male/Female Age 45, Preferred Non-Tobacco, Whole Life 95 and Whole Life 99 Blend and Guardian's 2023 dividend scale. A full illustration, showing both guaranteed** and non-guaranteed values, must be provided by a Guardian financial professional to an individual applying for a Guardian whole life insurance policy. For any illustration of a Guardian whole life product, the values depending on dividends can be more or less than those shown.

As the above chart illustrates, the potential gift taxes from this arrangement are significantly lower than the policy premiums, and the rate of return on those taxes compared to the death benefit received by the trust is advantageous. Once Nora dies, the trust will fully own the policy, so the ILIT could also access the cash value via loans and withdrawals if money is needed before Frank dies.

The advantages for you and your loved ones

The IGSD Plan offers you and your family members several advantages:

- **It's far-reaching.** It can help you provide a lasting legacy over multiple generations.
- **It's cost-effective.** This strategy can help reduce or eliminate your gift taxes, and may potentially reduce your estate tax costs.⁴
- **It's tax-efficient.** Your gift/estate tax exemption and annual exclusion gifts can be used elsewhere.
- **The cash value may be accessible.** If the receivables are transferred to the ILIT at the death of the first generation/donor, the ILIT will be able to access the policy cash value via loans and withdrawals.⁵
- **It can enhance your legacy.** The death benefit from the life insurance can help you build a larger legacy for your grandchildren.

* Dividends are not guaranteed. They are declared annually by Guardian's Board of Directors.

**All whole life insurance policy guarantees are subject to the timely payment of all required premiums and the claims-paying ability of the issuing insurance company. Policy loans and withdrawals affect the guarantees by reducing the policy's death benefit and cash values.

Special considerations

When considering adopting an IGSD Plan, it's important for you to keep the following in mind:

- IGSD is a sophisticated planning technique that should be implemented under the guidance of an attorney with expertise in this area.
- One key difference between an IGSD Plan and a typical Split Dollar arrangement is that IGSD agreements usually have a provision that the parents cannot call for loan repayment/payment of the receivable any earlier than the death of the children.
- At the death of the first generation, the value of the receivable needs to be determined by professional tax advisors.
- As IGSD Plans usually include grandchildren as beneficiaries, the GSTT rules apply.

Valuation discounting

- The value of the receivable will be included in the decedent's estate.
 - However, the value included will not necessarily be the full amount of the receivable, as it is not payable until the death of the children, so it is not worth the full amount.
 - The receivable could be discounted based on the age/life expectancy of the insured. This valuation should be done at the time of death by professional tax advisors.
- The discounted receivable can then be transferred at death via Will. Usually, the plan is to transfer the receivable back to the ILIT, effectively "cancelling" the Split Dollar agreement.
- The final result is that the parents have been able to transfer the cost of the premiums to the ILIT at a discount.

Could an IGSD Plan be an option for you?

You are the only one who can decide. But, if after consulting your tax and legal advisors, you wish to implement this type of strategy, a Guardian financial professional will work with you and your trusted team members. They will help you acquire the life insurance policy that will fund your IGSD Plan.

Contact a Guardian financial professional to learn more.

¹ 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.

² The scenario and names mentioned herein are purely fictional and have been created solely for educational purposes. Any resemblance to existing situations, persons, or fictional characters is coincidental. The information presented should not be used as the basis for any specific investment advice.

³ This type of life insurance policy will have higher premiums than a standard policy.

⁴ 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.

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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