Allianz Life Insurance Company of North America

LIFE ADVANCED MARKETS

Flexible estate planning strategies

Private Split-Dollar

Planning for the eventual transfer of your estate presents a number of unique challenges.

It may also be prudent to consider strategies that offer a level of flexibility.

Primary among them is the fact that the estate planning strategy is triggered by an event that will occur at some unknown point of time in the future. During the time between implementing the estate-planning strategy and when the strategy goes into effect, a lot may happen.

Tax laws may be amended, your family dynamics may change, and your financial goals may shift. This makes estate planning a bit of a moving target. As families focus on developing a plan that minimizes taxes, protects their assets from creditors, and keeps wealth in the family, it may also be prudent to consider strategies that offer a level of flexibility.

By emphasizing flexibility, you can implement strategies that address your wealth-transfer goals while seeking to retain the ability to adapt to changing circumstances. These may include retaining the right to:

- continued use and enjoyment of assets/property
- continued access to income
- control and manage assets/property
- change future recipients of income, assets, and property

One such strategy for building a level of flexibility into your estate plan is a private split-dollar arrangement, which is an agreement that splits the rights and benefits of a life insurance policy between you (the insured) and a trust established to benefit members of your family.

FIUL requires qualification through health and financial underwriting.

Allianz Life Insurance Company of North America does not provide financial planning services.

Must be accompanied by the appropriate consumer product brochure.

The death benefit is generally income-tax-free when passed on to beneficiaries.

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Adding flexibility to a life insurance trust

Life insurance, such as a fixed index universal life (FIUL) insurance policy, may be a vital part of a family's overall estate planning strategy – providing funds to pay estate taxes, allowing family members to acquire the family business, or simply providing a flexible asset (the death benefit) that is easily allocated among beneficiaries.

A common strategy is for the life insurance to be owned by a trust that benefits children and grandchildren, with the insureds making gifts to the trust to pay for the premiums. This strategy keeps the death benefit out of the estate for estate tax purposes. It may also provide a level of creditor protection, and it provides a structured way to distribute death benefit proceeds when paid.

However, this strategy requires irrevocable gifts be made to the trust and often requires the insured to use a portion of their limited gift tax exclusions and/or exemptions. The insured is also required to irrevocably give up their rights to the policy, including policy cash values.

That's why a private split-dollar plan may be an attractive alternative – one that combines the advantages of a typical life insurance trust with a level of flexibility.

Private split-dollar plan basic design

The core elements of the split-dollar agreement include the following:

- The trust owns the life insurance policy.
- The insured pays the premiums.
- The insured retains the right to recover either **1)** their premiums paid (referred to as an equity split-dollar); or **2)** the greater of their premiums paid and the policy's cash value (referred to as nonequity split-dollar).
- To secure the insured's rights, the trust will assign the policy as collateral to the insured.
- If the split-dollar agreement is terminated, the trust is required to repay the premiums paid by the insured, or 100% of the cash value, depending on the terms of the agreement.
- Upon the death of the insured, if the split-dollar arrangement is still in place, the trust receives its share of the death proceeds. The proceeds are held, distributed, or otherwise used based on the terms of the trust.

Type	Allocation of Death Benefits and Cash Values	
	Trust	**Insured**
Equity Private Split-Dollar	Right to death benefits and policy cash values in excess of total premiums paid by insured	Right to recover total premiums paid upon death or termination of split-dollar agreement
Nonequity Private Split-Dollar	Right to death benefit in excess of whichever is GREATER: policy cash surrender values or total premiums paid	Right to recover an amount equal to the GREATER of the policy cash surrender value or total premiums paid upon death or termination of the split-dollar agreement

PRIVATE SPLIT-DOLLAR

Summary of strategy	
Advantages	• If the insured makes gifts to an irrevocable trust, the full amount is generally deemed to be a gift for gift tax purposes. Under both split-dollar designs discussed above, the measure of the annual gift will be substantially lower than the annual premium. • When properly designed, the death benefit paid to the trust will not be included in the insured's gross estate for estate tax purposes, and it may provide a level of creditor protection. • The insured retains the right to "forgive" repayment of premiums paid, and therefore the flexibility to delay the decision on making gifts to the trust. • The insured may terminate the split-dollar agreement (typically with 30-day notice) and recover their share of premiums (equity split-dollar) or the entire cash value (nonequity split-dollar), providing access to future cash flow should they need it in the future.
Considerations	• If the insured chooses to forgive the amount of money they have a right to recover under the split-dollar agreement, it will be considered a gift to the trust for federal gift tax purposes. • In general, the nonequity split-dollar design results in a lower initial value for gift tax purposes than the equity regime. In later years, there may be a crossover point where that is reversed. • If a nonequity split-dollar arrangement is terminated prior to the death of the insured, the trust will need to pay the insured the entire cash value. If cash values are used to make the payment, the policy will need to be surrendered, resulting in no death benefit for the trust. • It is important to develop a repayment strategy. When and how will the trust repay their obligation? If policy cash values will be used to repay the obligation, the policy should be properly funded and monitored. The obligation may also be repaid at the death of the insured. In this case, the repayment would be paid to the insured's estate. There are also a number of ways the insured may contribute their own funds to the trust to repay the obligation instead of using policy cash values, while minimizing their exposure to gift taxes or use of their gift/estate tax exemption.

TO LEARN MORE ABOUT HOW FIUL CAN BE A POTENTIAL SOLUTION IN YOUR FLEXIBLE ESTATE PLANNING STRATEGIES, talk to your financial professional today.

True to our promises so you can be true to yours®

A leading provider of annuities and life insurance, Allianz Life Insurance Company of North America (Allianz) bases each decision on a philosophy of being true: **True to our strength** as a key part of a leading global financial organization. **True to our passion** for making wise investment decisions. **True to building a culture** where everyone feels welcomed, included, and valued. And **true to the people we serve,** each and every day.

Through a line of innovative products and a network of trusted financial professionals, and with 3.7 million contracts issued, Allianz helps people as they seek to achieve their financial and retirement goals. Founded in 1896, Allianz is proud to play a vital role in the success of our global parent, Allianz SE, one of the world's largest financial services companies.

While we are proud of our financial strength, we are made of much more than our balance sheet. By being true to our commitments and keeping our promises, we believe we make a real difference for our clients. It's why so many people rely on Allianz today and count on us for tomorrow – when they need us most.

Products are issued by:

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