

## AIG High-Net-Worth Premium Financing<sup>SM</sup> with GRAT

Roger Brody is a 60-year-old business owner, preferred non-smoker, with a net worth of \$50 million. Brody has three children and six grandchildren. Brody owns two companies: High Rise Construction, Inc., a commercial construction company; and Black Rock Investments, LLC, a real estate holding company.

- Brody is the sole shareholder of High Rise Construction, Inc., a closely held "C" corporation, that has a market value of \$25 million.
- Brody is the sole managing member of Black Rock Investments, LLC, which owns various properties such as raw land, commercial real estate, and apartment buildings, with a market value of \$20 million.
- Brody's personal assets consist of a \$2 million residence, \$1 million in certificates of deposit, \$1.5 million in municipal bonds, and \$500,000 of other personal property.
- Brody is currently covered by a universal life insurance policy with a \$5 million death benefit. The existing policy is held in an irrevocable life insurance trust (ILIT). His estate planning attorney recommends that he purchase an additional \$15 million life insurance policy to provide sufficient death benefits to pay for potential estate tax liability at his death.
- Brody's existing ILIT purchases a \$15 million AIG Elite Global IUL LT<sup>SM</sup>, 7-pay index universal life insurance policy. The ILIT obtains a loan with Concord Capital<sup>1</sup> for the premiums due on the insurance policy. Loan interest will be capitalized during the term of the loan. Brody's attorney also recommends the creation of a Grantor Retained Annuity Trust (GRAT) to facilitate the payoff of the loan in year 10.
- The cumulative loan and interest owed to Concord Capital will be repaid at the earlier of: 1) Brody's death, with the difference between the cumulative loan and the death benefit of the policy being paid to the ILIT, as beneficiary, or; 2) the transfer of the GRAT remainder to the ILIT. The ILIT will pay any and all estate taxes due upon the death of Roger Brody.<sup>2</sup>
- The AIG Elite Global IUL LT insurance policy serves as primary collateral for the loan. Brody will also post a letter of credit (LOC) as secondary collateral with Concord Capital on behalf of the ILIT to cover the difference between the borrowed premium and the cash value of the policy. This LOC will be renewed according to its terms. Brody will pay for all LOC costs.<sup>3</sup>
- For this case study, the AIG Elite Global IUL LT's assumed interest crediting rate is 9.00 percent.
- At all times, the loan must be 100 percent collateralized through the use of the life insurance policy cash value and the LOC.
- Brody's attorney will create a GRAT. The value of the gift of the property to the GRAT will be the discounted value of the remainder interest at the end of the 10-year annuity term.<sup>4</sup>
- Brody will transfer an apartment complex worth \$9 million to the GRAT. The GRAT property will incur annual growth of 2 percent and generate annual income of 8 percent over the 10-year term.<sup>5</sup> The GRAT will pay Brody an annual annuity of \$540,000 a year for the 10-year term.<sup>6</sup> The market value of the remainder interest at the end of year 10 is \$14,874,718. The policy loan amount at the end of year 10 is \$14,740,380. Transferring the apartment building to the GRAT results in a taxable gift of \$4,663,260 (present value of remaining interest in gift).<sup>7</sup>
- The remainder interest of the GRAT at the end of the 10-year term will be transferred to the ILIT containing the AIG Elite Global IUL LT policy. The trustee of the ILIT will leverage the property to borrow sufficient funds to pay off the existing loan held by Concord Capital. The income generated from the property in subsequent years will be used to service the debt secured by the apartment building.<sup>8</sup>

<sup>1</sup> Concord Capital Funding, LLC is not affiliated with American General Life Insurance Company nor any other American International Group, Inc. subsidiary company.

<sup>2</sup> Generally, the proceeds of an insurance policy held by an ILIT will not be includible in the insured's estate. *Est. of Crosley v. Comm.*, 47 TC 310 (1966), acq. 1967-2 CB 2.

<sup>3</sup> The LOC fees paid by the insured may be subject to gift tax liability as an indirect gift to the ILIT. I.R.C. §2511; Treas. Reg. §25.2511-1(c)(1); interest paid and other fees relating to the financing of life insurance are personal in nature and generally not deductible. I.R.C. §163(h); I.R.C. §264(a).

<sup>4</sup> I.R.C. §2702, §7520, & Treas. Reg. §25.2702-3(f). The value of the qualified remainder interest will be determined using the valuation tables prescribed by I.R.C. § 7520.

<sup>5</sup> Income produced by the property will be subject to income tax. I.R.C. §61(3).

<sup>6</sup> Distributions of trust income may offset a portion of taxable income produced by property. I.R.C. §661.

<sup>7</sup> I.R.C. §2512(a).

<sup>8</sup> Income produced by the property will be subject to income tax. I.R.C. §61(3).

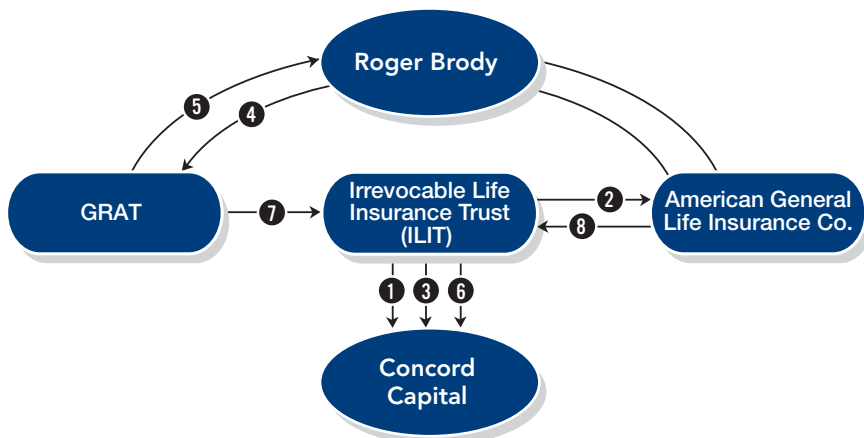
## AIG High-Net-Worth Premium Financing<sup>SM</sup> with GRAT

EOY AGE	Cumulative LOC Costs @ 1%	EOY Cash Value @ 9%*	EOY Total Death benefit	EOY Cumulative Loan**	EOY Death Benefit Net of Loans
61	\$7,658	\$759,354	\$15,759,353	\$1,525,140	\$14,234,213
65	\$89,806	\$5,913,759	\$20,913,790	\$8,255,540	\$12,658,250
75	\$224,246	\$18,013,948	\$33,013,948	\$0	\$33,013,948
85	\$224,246	\$36,887,508	\$51,887,508	\$0	\$51,887,508
95	\$224,246	\$67,503,400	\$82,503,400	\$0	\$82,503,400

\* Policy values based upon illustration for AIG Elite Global IUL LT illustrated on 02/08/08 for the state of Texas using a projected interest crediting rate of 9.00 percent.

\*\* Loan interest rate is assumed to be 6.26 percent for all years.

**IMPORTANT NOTE:** Policy's actual rate of return (a.k.a. index interest credited) may vary widely from case study's Illustrated Rate of Return (9.00 percent) depending on policy's performance. Further, interest rates from loan program reset annually based on then-current LIBOR rates (though loan spread is locked, see AIG High-Net-Worth Premium Financing materials for additional information). Combination of lower than illustrated policy performance and higher than illustrated loan interest rates may adversely affect anticipated results. As such, it is highly recommended that your client and the client's tax and financial advisors develop an exit strategy prior to entering into a transaction using AIG High-Net-Worth Premium Financing.



1. ILIT borrows first premium from Concord Capital and provides LOC.
2. ILIT purchases AIG Elite Global IUL LT policy from American General Life Insurance Company.
3. ILIT gives collateral assignment in policy to Concord Capital.
4. Brody transfers the real estate property to the GRAT.
5. GRAT makes annuity income payments to Brody for the 10-year term.
6. ILIT borrows subsequent premium payments from Concord Capital for the remaining six years.
7. At the end of year 10, the GRAT transfers the real estate property to ILIT, which leverages the asset to pay off the Concord Capital loan.
8. All death benefit proceeds are paid to the ILIT.

Policies issued by: American General Life Insurance Company, a subsidiary of American International Group, Inc. (AIG), 2727-A Allen Parkway, Houston, TX 77019. AIG Elite Global IUL LT Policy Form Number 07444. Maturity Extension Rider (Accumulation Value) Policy Form Number 99110. Maturity Extension Rider (Death Benefit) Policy Form Number 99111. Terminal Illness Rider Policy Form Number 91401. Waiver of Monthly Deduction Rider Policy Form Number 82001. Overloan Protection Rider Policy Form Number 07620. Monthly Guaranteed Premium Rider Policy Form Number 07010. The underwriting risks, financial obligations and support functions associated with the policies issued by American General Life Insurance Company (American General Life) are its responsibility. AIG does not underwrite any insurance policy referenced herein. A change in the status of the insurance product under federal securities laws could adversely affect the availability of premium financing. American General Life is responsible for its own financial condition and contractual obligations. American General Life is not authorized to conduct an insurance business in the state of New York. Policies and riders not available in all states. This case study and its accompanying documents are for discussion purposes only. The case study presents significant tax, legal, and financial issues which may face a similarly situated client. This case study does not provide a full discussion of these issues. Any person who is interested in obtaining a premium finance loan should consult his or her own professional advisors as to the potential tax, accounting, estate, regulatory, or other legal considerations that may arise in connection with entering into a premium finance transaction. Please note that American General Life is solely a provider of the insurance product. The company, its employees, its agents, representatives and affiliates do not provide tax, legal, or financial advice. American General Life, its employees, agents, representatives, and its affiliates disclaim any duty, liability, or responsibility for any such advice. No representation or warranty, express or implied, is made by American General Life and its affiliates as to the completeness of the information in this presentation. This presentation does not constitute, and may not be relied upon, as a commitment to lend or promise of any kind by American General Life and its affiliates. Further, AIG High-Net-Worth Premium Financing is funded by Concord Capital, LLC, and all terms and conditions of the loan program should be verified with Concord Capital to ensure the accuracy of such information. **Important:** Prior to soliciting business, be certain that you are appropriately licensed and appointed with the insurer and that the product has been approved for sale by the insurer in that state. If uncertain, contact your profit center for assistance.

AGLC103011