CHICAGO ESTATE PLANNING COUNCIL

LIFE INSURANCE AS A FUNDING VEHICLE FOR MULTI-GENERATIONAL WEALTH TRANSFER AND GIFT/VALUATION ISSUES

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AGENDA

- Overview of Commercial Premium Financing
- General Guidelines for Split Dollar & Financing
- Multi-Generational Wealth Transfer Case Law
- Valuation Issues
- Where Premium Finance is Indicated (and where it is not)
- A Case Study

Why Do People Buy Insurance?

- Protection – (death benefit)
  - Replacing Income
  - Repaying mortgage
  - Protecting Estate from tax erosion
  - Business – provide funds for continuity or transfer at death of founder
  - Providing income to offset loss of key executive.

WHY DO PEOPLE BUY INSURANCE?

- Accumulation
  - Balance Sheet Asset
  - Tax Efficiency – as a tax deferred investment wrapper on tax inefficient assets.

WHY FINANCE?

- Tax Efficiency
- Temporary cash flow Shortfall
- Opportunity Cost
- Opportunity to retain illiquid or treasured assets
  - Real estate
  - Art
  - Oil and gas

Fundamental Positioning

- Balance sheet management/optimization
  - There is no one right way to pay for a policy
  - There are no good or bad policies – different policies do different things. People who sell insurance have very strong opinions.
  - BNY Mellon does not have an opinion on a specific strategy or policy – our job is to assist clients in evaluating what they are shown
- Part of a team approach to client representation
- Designed to take a long term view and provide:
  - Oversight
  - Benchmarking

Client Profile

- Ideal Profile:
  - Net Worth $25MM exclusive of private company
  - Can pay for the insurance but prefers not to utilize personal cash flow
  - Opportunity Cost of liquidating current holdings to purchase insurance
  - Has liquidity to meet projected collateral for life of transaction without impairing standard of living
  - Has the ability to unwind in an interest/arbitrage inversion scenario
  - Represented by an experienced team of professional advisors
  - Willing to meet regularly to review

Standard Loan Structure

Lender

- Financing for annual premiums
- Fully secured at all times by marketable securities and CSV at 95% advance
- Interest may or may not be capitalized

Lends Funds
(May be wired directly to Insurance Carrier)

Assigns cash surrender value and death benefit

Irrevocable Trust or Non-Personal Entity

- Borrower, owner and beneficiary of life insurance policy

Requests Loan

Acquires Life Insurance

Client (including family)

- Insured family member
- May provide guaranty
- Pledges marketable securities at Lender for any Borrowing Base deficit

Insurance Carriers

- Minimum financial strength rating for example AM Best A, and either Moody's A3 or S&P A-
- Lender has first position collateral assignment on CSV and DB

INSURANCE FINANCING DOCUMENTS

1. Bank Loan documents
2. Split-dollar agreement
3. Collateral assignment
4. Promissory note

- Investor provides funds, invests in receivable
- Receives investment + return at maturity
    - Economic Benefit:
        - Greater of CSV at time of death, or premium paid
    - Note (loan regime):
        - Principal + interest
- Secured by policy
- Agreement binds both Owner and Investor (premium funder)

Split-Dollar Insurance § 1.61-22

- *§1.61-22(a)(b) and (c)* provides the definition of split-dollar for both (1) economic benefit and (2) loan arrangements

- "… an arrangement between owner and non-owner of a policy where either party pays directly or indirectly, all or any portion of the premiums on the life insurance contract…" §1.61-22(b)(1)(i)

- Premium payor gets back greater of premiums paid or cash surrender value either when agreement terminates or at death of the insured

- "At least one of the parties to the arrangement paying premiums… is entitled to recover (either conditionally or unconditionally) all or any portion of those premiums and such recovery is to be made from, or is secured by, the proceeds of the life insurance contract" §1.61-22(b)(1)(ii)

SPLIT-DOLLAR INSURANCE: GIFTS

- Giving situations specifically recognized as a gift §1.61-22(c)(1)(A)(2); see also §1.7872-15(e)(5)(iv)

- An advance is NOT a loan

- Annual renewable term rates based on amount the party who names the beneficiary
  - TABLE 2001 or insurance company rates for annual renewable term that is regularly sold – *Notice 2002-8*
  - Addressed "gaming" transaction created for circumstances

Split-Dollar Insurance: Loans

To achieve loan treatment with split dollar, certain requirements must be met:

1. Loans in gift situations specifically covered §1.7872-15(e)(5)(iv);
2. Loan treatment can be guaranteed – even if nonrecourse *§1.7872-15(d);*
3. Loan can be repayable at death of the insured *§1.7872-15(e)(5)(iii);*
4. Interest can be accrued *§1.7872-15(g)(4)*; *§1.7872-15(h)(5); and*
5. "The repayment is to be made from, or secured by, the policy's death benefit proceeds, the policy's cash surrender value, or both." §1.7872-15(a)(2)(i)(C)

SPLIT-DOLLAR INSURANCE HISTORY

IRS has been critical of transaction, finalized regulations in 2003

- New litigation front: Morrissett and Cahill
  - Gifts at inception (therefore ongoing gift deficiency issue)
  - Additional economic benefits conferred (*equity* split-dollar)
  - Reverse split-dollar
  - Split-dollar loan

Estate of Morrissett

Estate of Clara M. Morrissett v Commissioner 146 T.C. No 11, Docket No 4415-14, April 13, 2016

- Lump sum $30M loan to assure policies remain in force
- Buy sell between children/insureds
- Creation of ILIT by revocable trust and split-dollar agreement between revocable trust and ILIT created by court-appointed conservator
- Taxable term costs were reported each year
- At death estate claimed 75% discount for receivables based on life expectancies of the insureds

MORRISSETT – AUDIT ISSUES

IRS issued notices of deficiency and penalties – totaling $16,560,215.00

1) It's a gift – not a split-dollar arrangement therefore gift deficiency
2) It's reverse split-dollar
3) It's loan split-dollar
4) Premiums were prepaid MEC issues?

Morrissett – Tax Court Decision

Estate petitioned for partial summary judgment, additional case – *Levine considered*

- Issue were the transactions split-dollar arrangements as a matter of law?
- IRS argued it was matter of facts
- Court decides it is a matter of law; ruling favorably on the gift tax treatment of the initial premium transfer. Neither case has a decision addressing the valuation of the split dollar receivable in the estate of the premium lender.
- Does IRS have weaker position going forward or stronger?

Estate of Cahill

Motion for Partial Summary Judgment March 2017

Key Issues

1. Does the economic benefit regime of Treasury Regulation section 1.61-22 apply to the split-dollar life insurance transactions when the only economic benefit provided to the donee under the split-dollar agreement is current life insurance protection?
2. Does section 2703 of the Internal Revenue Code apply to the estate's interests in split-dollar life insurance transactions that are freely alienable and are not subject to an option or other right to acquire or use the interests at less than fair market value?
3. When a split-dollar life insurance transaction is a bona fide sale for adequate and full consideration for gift tax purposes, is it also a bona fide sale for adequate and full consideration for purposes of sections 2036 and 2038?
4. Does the holder of a receivable from a split-dollar life insurance transaction with a trust that owns the policy retain an interest in the corpus of the trust under section 2036(a)?
5. Does section 2038 apply to a conditional event of a loan default, which has not occurred prior to the Decedent's death and where the lender holds the power to default?

KEY SDA ISSUES

- Note v. Economic benefit “regime”
- Agreements and terms
  - Split-dollar agreement
  - Collateral assignment
  - Promissory note
- Cash flow & review risks on audit gift and estate
- The demand loan trap with 2042

VALUATION ISSUES

What is the value of a receivable?

- Due at some indeterminate date in the future?
- Amount of receivable unknown?
    - Economic benefit split-dollar – cash value
    - Loan split-dollar – amount of accrued interest
- Loan interest below market rate?
- Interest may be accrued?
- Secured by the death benefit of a life insurance policy owned by an ILIT?

Valuation Issues

- Note is payable on maturity of insurance policy
- Mortality tables/rates
- Risk classifications
- Who would buy this note?
    - No market for receivables?
- Active (but illiquid) market for policies
- Illiquid nature (and other factors) lead to higher discount rates

Valuation Evidence

- Promissory Note regulations
  - The fair market value of a promissory note is the sum of the unpaid principal and accrued interest to the date of gift or death under Section 25.2512-4 and 20.2031-4.
- This presumption is rebuttable by evidence that the promissory note is worth less than the sum of the unpaid principal and accrued interest.
- Below market loans are subject to IRC 7872.
- Appraisers look to investors and 3rd party data sources

KEY PERSONALITY TRAITS FOR PROSPECT

- Sophisticated Client who values insurance protection
- Understands the magnifying effect of leverage
- Must be willing to meet annually
- Has the mental and financial flexibility to change course in an inversion scenario
- If the client is a set it and forget it type of person –
  - DO NOT FINANCE

Benefits of Financing

- Loan provides tax efficient policy acquisition

- Opportunity to pledge collateral in lieu of liquidating assets or using personal cash flow to acquire policy
- Arbitrage alone, or in conjunction with other planning techniques, and cost recovery on policy investment, allows loan to be repaid tax efficiently during insured's lifetime
- Death benefit proceeds pass tax free

FUNDAMENTAL DISCONNECT

LENDER NEED:

- Short Term/Demand Facility
  - Libor based pricing w/ floor
  - Closing Fee
  - Unused Commitment Fee
  - Ratings Triggers
  - Guaranty
  - Annual financial reporting
  - Annual review

CLIENT WISH:

- Committed Facility for Life of Transaction
  - Fixed Rate
  - No fees
  - No Guarantee
  - No pledged collateral
  - No ongoing financial reporting requirement
  - No review
  - No legal fees
  - No closing costs

DESIGN MODEL CONSIDERATIONS

RISKS	RISK MITIGANTS
Interest Rate	Work with an experienced advisor team
Carrier Efficacy	Model using current, increasing and catastrophic interest rates
Carrier Diversification	Model with interest rate protection
Product Risk	Model with implicit exit (death alone is not acceptable)
Product Mix	Understand Lender's calculations
Lender Longevity	Understand Guarantor issues (per §2402)
Policy Structure	Understand implication of rating triggers
Policy Performance	Set up review and administration expectations
Collateral Need – initial and ongoing	

CASE STUDY

Client Profile: Successful/serial entrepreneur and Business Executive – with experience in building companies then taking through IPO's. Continues to retain Board Positions (144 holdings), make investments and build companies for IPO.

Total Assets	$341M	Total Liabilities	$39M
Liquid	$230M		
Concentrated	$173M		
		Net Worth	$302M
Income (3 year average)	$20M		

Estate Tax Issue Do nothing more (already engaged in significant planning to reduce to $341M) $135M

He is uninsurable - cannot create liquidity at death

Wants to preserve and transfer family wealth

Minimize estate tax/Maximize Charitable Giving

SOLUTION

MULTI-GEN PRIVATE SPLIT DOLLAR

- Bank lends $99M to G1 Individually
- G1 lends money to trusts to purchase policies on G2 (involved with family businesses) pursuant to split dollar loan agreements.
- Use premium advance account to maximize day 1 liability
- Purchase interest rate cap to protect against interest rate volatility
- Loan repayment planned prior to G2 passing.
- Loan reduces G1's estate
- Charities ultimate beneficiaries

SOLUTION SLIDE 2

ILLUSTRATED RETURNS

Year	Interes Rate	Interest Expense	Annual Out of Pocket	Policy draw/ Loan to repay	Cumulative Out of pocket	YE Loan Balance	Combined CSV @100%	PA Value	"AT RISK"	Total Collater at 95%	Shortfall/ Collateral	DB Guaranteed	Net Cash to Trust
1	2.10%	$ 2,035,990.47	$ 5,000,000	$ -	$ 5,000,000	$ 93,849,582	$ 4,853,171	$ 84,740,296	$ (4,256,115)	$ 85,113,793	$ (8,735,789)	$ 204,701,355	$ 110,851,773
2	2.79%	$ 2,406,058.13	$ 5,000,000	$ -	$ 10,000,000	$ 92,057,829	$ 15,172,573	$ 74,173,768	$ (2,711,488)	$ 84,879,024	$ (7,178,805)	$ 214,956,642	$ 122,898,813
3	3.27%	$ 2,479,882.83	$ 5,000,000	$ -	$ 15,000,000	$ 90,249,690	$ 26,102,954	$ 63,915,004	$ (231,732)	$ 85,517,060	$ (4,732,630)	$ 225,796,677	$ 135,546,987
4	3.71%	$ 2,438,920.51	$ 5,000,000	$ -	$ 20,000,000	$ 88,307,670	$ 37,662,917	$ 53,955,039	$ 3,310,285	$ 87,037,058	$ (1,270,612)	$ 237,249,427	$ 148,941,757
5	4.04%	$ 2,259,770.95	$ 5,000,000	$ -	$ 25,000,000	$ 86,090,796	$ 49,881,389	$ 44,285,170	$ 8,075,762	$ 89,458,231	$ -	$ 249,359,446	$ 163,268,650
6	4.35%	$ 2,019,109.48	$ 5,000,000	$ -	$ 30,000,000	$ 83,534,685	$ 63,120,678	$ 34,896,947	$ 14,482,940	$ 93,116,744	$ -	$ 262,161,638	$ 178,626,953
7	4.55%	$ 1,691,459.61	$ 5,000,000	$ -	$ 35,000,000	$ 80,549,390	$ 77,669,346	$ 25,782,168	$ 22,902,124	$ 98,278,938	$ -	$ 275,700,066	$ 195,150,676
8	4.75%	$ 1,339,629.65	$ 5,000,000	$ -	$ 40,000,000	$ 77,107,685	$ 92,990,239	$ 16,932,868	$ 32,815,422	$ 104,426,951	$ -	$ 290,010,719	$ 212,903,034
9	4.93%	$ 960,948.14	$ 5,000,000	$ -	$ 45,000,000	$ 73,179,582	$ 109,116,389	$ 8,341,314	$ 44,278,121	$ 111,584,818	$ -	$ 305,126,629	$ 231,947,047
10	5.07%	$ 559,458.43	$ 5,000,000	$ -	$ 50,000,000	$ 68,739,041	$ 126,084,787		$ 57,345,746	$ 119,780,548	$ -	$ 321,084,787	$ 252,345,746
11	5.20%	$ -	$ -	$ -	$ 50,000,000	$ 68,739,041	$ 133,524,847		$ 64,785,806	$ 126,848,605	$ -	$ 265,524,847	$ 196,785,806
12	5.29%	$ -	$ -	$ -	$ 50,000,000	$ 68,739,041	$ 141,517,945		$ 72,778,904	$ 134,442,048	$ -	$ 261,817,945	$ 193,078,904
13	5.40%	$ -	$ -	$ -	$ 50,000,000	$ 68,739,041	$ 150,054,065		$ 81,315,024	$ 142,551,362	$ -	$ 265,554,065	$ 196,815,024
14	5.48%	$ -	$ -	$ -	$ 50,000,000	$ 68,739,041	$ 159,178,192		$ 90,439,151	$ 151,219,282	$ -	$ 269,378,192	$ 200,639,151
15	6.14%	$ -	$ -	$ -	$ 50,000,000	$ 68,739,041	$ 168,938,834		$ 100,199,793	$ 160,491,892	$ -	$ 273,338,834	$ 204,599,793
16	6.14%	$ -	$ -	$ -	$ 50,000,000	$ 68,739,041	$ 179,378,847		$ 110,639,806	$ 170,409,905	$ -	$ 278,478,847	$ 209,739,806
17	6.14%	$ -	$ -	$ 70,811,000	$ 50,000,000	$ 68,739,041	$ 115,527,403		$ 46,788,362	$ 109,751,033	$ -	$ 209,127,403	$ 140,388,362
18	6.14%	$ -	$ -	$ 52,271,000	$ 50,000,000	$ 68,739,041	$ 67,186,935		$ 67,186,935	$ 63,827,588	$ -	$ 157,186,935	$ 88,447,894
19	6.14%	$ -	$ -		$ 50,000,000	$ 68,739,041	$ 71,300,235		$ 71,300,235	$ 67,735,223	$ -	$ 159,300,235	$ 90,561,194
20	6.14%	$ -	$ -		$ 50,000,000	$ 68,739,041	$ 75,765,913		$ 75,765,913	$ 71,977,617	$ -	$ 154,765,913	$ 86,026,872

SOLUTION SLIDE 3

GUARANTEED MODEL

Year	Interest Rate	Interest Expense	Annual Out of Pocket	Policy draw/ Loan to repay	Cumulative Out of pocket	YE Loan Balance	Combined CSV @100%	PA Value @100%	"At Risk"	Total Collateral at 95%	Shorfall/ Collateral	DB Guaranteed	Net Cash to Trust
1	2.10%	$ 2,035,990.47	$ 5,000,000	$ -	$ 5,000,000	$ 93,849,582	$ 3,983,664	$ 84,740,296	$ (5,125,622)	$ 84,287,762	$ (9,561,820)	$ 203,831,847	$ 109,982,265
2	2.79%	$ 2,406,058.13	$ 5,000,000	$ -	$ 10,000,000	$ 92,057,829	$ 12,962,074	$ 74,173,768	$ (4,921,987)	$ 82,779,050	$ (9,278,779)	$ 212,746,143	$ 120,688,314
3	3.27%	$ 2,479,882.83	$ 5,000,000	$ -	$ 15,000,000	$ 90,249,690	$ 22,040,989	$ 63,915,004	$ (4,293,697)	$ 81,658,193	$ (8,591,497)	$ 221,734,611	$ 131,484,921
4	3.71%	$ 2,438,920.51	$ 5,000,000	$ -	$ 20,000,000	$ 88,307,670	$ 31,196,346	$ 53,955,039	$ (3,156,286)	$ 80,893,816	$ (7,413,855)	$ 230,782,856	$ 142,475,186
5	4.04%	$ 2,259,770.95	$ 5,000,000	$ -	$ 25,000,000	$ 86,090,796	$ 40,418,586	$ 44,285,170	$ (1,387,041)	$ 80,468,568	$ (5,622,229)	$ 239,896,643	$ 153,805,847
6	4.35%	$ 2,019,109.48	$ 5,000,000	$ -	$ 30,000,000	$ 83,534,685	$ 50,024,370	$ 34,896,947	$ 1,386,632	$ 80,675,251	$ (2,859,434)	$ 249,065,330	$ 165,530,645
7	4.55%	$ 1,691,459.61	$ 5,000,000	$ -	$ 35,000,000	$ 80,549,390	$ 60,256,572	$ 25,782,168	$ 5,489,350	$ 81,736,803	$ 1,187,413	$ 258,287,292	$ 177,737,902
8	4.75%	$ 1,339,629.65	$ 5,000,000	$ -	$ 40,000,000	$ 77,107,685	$ 70,523,836	$ 16,932,868	$ 10,349,019	$ 83,083,869	$ 5,976,183	$ 267,544,316	$ 190,436,631
9	4.93%	$ 960,948.14	$ 5,000,000	$ -	$ 45,000,000	$ 73,179,582	$ 80,799,597	$ 8,341,314	$ 15,961,329	$ 84,683,866	$ 11,504,283	$ 276,809,837	$ 203,630,255
10	5.07%	$ 559,458.43	$ 5,000,000	$ -	$ 50,000,000	$ 68,739,041	$ 91,058,004	$ -	$ 22,318,963	$ 86,505,104	$ 17,766,063	$ 286,058,004	$ 217,318,963
11	5.20%	$ -	$ -	$ -	$ 50,000,000	$ 68,739,041	$ 91,317,568	$ -	$ 22,578,527	$ 86,751,690	$ 18,012,649	$ 223,317,568	$ 154,578,527
12	5.29%	$ -	$ -	$ -	$ 50,000,000	$ 68,739,041	$ 91,568,616	$ -	$ 22,829,575	$ 86,990,185	$ 18,251,144	$ 211,868,616	$ 143,129,575
13	5.40%	$ -	$ -	$ -	$ 50,000,000	$ 68,739,041	$ 91,736,648	$ -	$ 22,997,607	$ 87,149,816	$ 18,410,775	$ 207,236,648	$ 138,497,607
14	5.48%	$ -	$ -	$ -	$ 50,000,000	$ 68,739,041	$ 91,833,559	$ -	$ 23,094,518	$ 87,241,881	$ 18,502,840	$ 202,033,559	$ 133,294,518
15	6.14%	$ -	$ -	$ -	$ 50,000,000	$ 68,739,041	$ 91,873,048	$ -	$ 23,134,007	$ 87,279,396	$ 18,540,355	$ 196,273,048	$ 127,534,007
16	6.14%	$ -	$ -	$ -	$ 50,000,000	$ 68,739,041	$ 91,854,172	$ -	$ 23,115,131	$ 87,261,463	$ 18,522,423	$ 190,954,172	$ 122,215,131
17	6.14%	$ -	$ -	$ 70,811,000	$ 50,000,000	$ 68,739,041	$ 34,377,030	$ -	$ 23,115,131	$ 32,658,179	$ -	$ 66,677,030	$ -
18	6.14%	$ -	$ -	$ 52,271,000	$ 50,000,000	$ 68,739,041	$ -	$ -	$ 23,115,131	$ -	$ -	$ -	$ -
19	6.14%	$ -	$ -		$ 50,000,000	$ 68,739,041	$ -	$ -	$ 23,115,131	$ -	$ -	$ -	$ -
20	6.14%	$ -	$ -		$ 50,000,000	$ 68,739,041	$ -	$ -	$ 23,115,131	$ -	$ -	$ -	$ -

Year End 1

	Projected	Actual	Differnece	Favorable/ Unfavorable
Interest Rate	2.10%	1.44%	0.66%	31%
Loan Draws	$ 99,000,000	$ 94,291,028	$ (4,708,972)	-5%
Interest Expense	$ 1,988,982	$ 1,064,617	$ 924,365	46%
Principal Reduction	$ (5,000,000)	$ (2,250,000)	$ (2,750,000)	55%
Loan Balance	$ 90,405,009	$ 92,041,028	$ 1,636,019	2%
Combined CSV @95%	$ 78,797,283	$ 74,696,111	$ (4,101,172)	-5%
Collateral Shortfall	$ (11,607,726)	$ (17,344,917)	$ (5,737,191)	49%
Death Benefit	$ 198,977,814	$ 198,354,739	$ (623,075)	0.3%

- As carrier offers came in post approval and as a result the design had to change slightly to switch funding pattern on one of the six policies.
- Above strategy change reduced initial draw, interest cost, and funding pattern which was favorable for interest expense and loan balance. Reduced initial liability which was minimally unfavorable to plan.
- Interest rate was favorable to plan reducing client out of pocket
- Interest rate hedge was more expensive than anticipated which increased loan draw.
- Decision not to make full principal payment resulted in higher loan balance and a corresponding higher collateral requirement
- Policy underperformance resulted in lower than projected cash value and correspondingly higher collateral needs
- Death benefit to trust difference negligible

Year End 2

	Projected	Actual	Differnece	Favorable/ Unfavorable
Interest Rate	2.79%	1.70%	1.09%	39%
Loan Draws	$ 1,392,479	$ 1,392,479	$ -	0%
Interest Expense	$ 2,540,457	$ 1,536,078	$ 1,004,379	40%
Principal Reduction	$ (5,000,000)	$ -	$ (5,000,000)	100%
Loan Balance	$ 91,953,496	$ 93,433,507	$ 1,480,011	2%
Combined CSV @95%	$ 80,226,495	$ 74,831,364	$ (5,395,131)	-7%
Collateral Shortfall	$ (11,727,001)	$ (18,602,143)	$ (6,875,142)	59%
Death Benefit	$ 209,663,828	$ 205,892,021	$ (3,771,808)	2%

- With interest rates lower than expected and loan balance less than expected thus out of pocket interest expense favorable to plan
- Funding pattern matched amended strategy
- The decision not to pay principal in consort with the decision to only pay a portion of planned principal in year one resulted in higher loan balance and an 59% increase in amended collateral projection.
- Policy underperformance resulted in lower than projected cash value and correspondingly higher collateral needs
- Death benefit to trust difference negligible
- Liability at YE2 higher supporting estate reduction

YEAR END 3

	Projected	Actual	Differnece	Favorable/ Unfavorable
Interest Rate	3.27%	2.28%	0.99%	30%
Loan Draws	$ 1,392,479	$ 1,392,479	$ -	0%
Interest Expense	$ 2,857,921	$ 2,030,318	$ 827,603	29%
Principal Reduction	$ (5,000,000)	$ -	$ (5,000,000)	100%
Loan Balance	$ 90,639,739	$ 94,825,986	$ 4,186,247	5%
Combined CSV @95%	$ 82,590,593	$ 80,745,888	$ (1,844,704)	-2%
Collateral Shortfall	$ (8,049,146)	$ (14,080,098)	$ (6,030,951)	75%
Death Benefit	$ 221,098,905	$ 220,992,477	$ (106,428)	0.05%

- With interest rates lower than expected and loan balance less than expected thus out of pocket interest expense favorable to plan
- Funding pattern matched amended strategy
- The decision not to pay principal again in year 3 compounded higher loan balance and an 75% increase in amended collateral projection.
- Policy performed thus the net death benefit to trust improved from a 2% negative variance to plan to 0.05 negative variance to plan.
- Impact of policy performance less impactful than the decision not to reduce principal
- Repayment pushed out as principal was not reduced.
- Liability at YE2 higher supporting estate reduction