



New Module for the InsMark Illustration System *Dual Security Plan*

A new module, the Dual Security Plan, has been added to the Executive Benefits tab in the InsMark Illustration System: It is designed for use solely by pass-through businesses (Limited Liability Company (“LLC”), Limited Liability Partnership (“LLP”), or Partnership) with cash rich policies funded by the business passing tax free to Members or Partners.

Here is an example of how it works:

A Member or Partner is insured with, say, a \$1,000,000 cash-rich life insurance policy. The policy is initially owned by the LLC, LLP, or Partnership for the following purposes:

- 1) In the event of death during pre-retirement years, the insurance proceeds are used for redemption of the insured’s ownership interest in the firm and/or to reimburse the firm for the loss of the insured;
- 2) At retirement, ownership of the policy is transferred to the Member or Partner with no income tax consequences as a source of supplemental retirement cash flow.

The transfer of the policy to the departing partner is exempt from the transfer-for-value rule because the transfer is to the insured (IRC §101(a)(2)(B)).

Gain is recognized to the extent the amount of money distributed from an LLC, LLP, or Partnership to a Member or Partner exceeds that Member’s or Partner’s basis in his/her LLC, LLP, or Partnership interest; however, a distribution of property (life insurance is legally considered property) to a Member or Partner, generally results in no recognition of gain or loss to the LLC, LLP, or Partnership or to the Member or Partner (IRC §731(a) and IRC §731(b)).

Sounds good? It is, and this tax free magic only works this way for LLCs, LLPs and Partnerships; not C corporations (the accumulation value of the policy is taxable to the transferee); and not S corporations (the gain in the policy is taxable to the transferee).

Pass-through businesses earn more net business income than C corporations, so the market for the Dual Security Plan is huge. With reduced taxation available to most pass-throughs due to the new Tax Cuts and Jobs Act, the Dual Security Plan should be a considerable new revenue source for you.

Sample illustrations and InsMark Illustration System workbooks for the Dual Security Plan are available under Help in the InsMark Illustration System or on the lower right side of the Module in edit mode.

Bob Ritter, InsMark's president, will be writing a Blog in January 2018 on this subject with full details of illustrations, tax logic, and design ideas.

Below is an example of the potential results of a Dual Security Plan for a Member or Partner assuming the transfer occurs at age 65 (the numbers below have been rounded to make this a simpler explanation):

Details of the Life Insurance Policy:

- Policy type: Indexed Universal Life illustrated at 7.00% (increasing death benefit for 20 years; level thereafter);
- Current age of the insured: 45;
- Face amount of policy: \$1,000,000;
- Premium: \$50,000 paid for 20 years;
- Cash value of policy at age 65: \$2,000,000;
- Duration of the illustration: Age 95.

Living Benefits for the Member or Partner:

- Cash value of the policy at transfer: \$2,000,000;
- Income tax due on the transfer: \$0;
- Level, after tax, annual cash flow: \$200,000 yearly for 30 years;
- Residual cash value at age 95: \$1,000,000.

[Click here](#) to review an illustration featuring a Member of an LLC.

Most of you have LLC and LLP and partnership clients who will jump at this opportunity, and as part of the morning session on **Saturday, March 3, at the 2018 Symposium**, we'll provide a tutorial on the ins and outs of the Dual Security Plan including its straightforward legal underpinnings.

Important Note: The hypothetical values associated with this report assume the nonguaranteed values shown continue in all years. This is not likely, and actual results may be more or less favorable. Life insurance illustrations are not valid unless accompanied by a basic illustration from the issuing insurance company.

Important Note: The information in this report is for educational purposes only. In all cases, the approval of a client's legal and tax advisers must be secured regarding the implementation or modification of any planning technique as well as the applicability and consequences of new cases, rulings, or legislation upon existing or impending plans.