Exceptional Split Dollar™

The Value of Selecting the Long-Term Applicable Federal Rate for Loan Regime Split Dollar Plans

Below are the Applicable Federal Rates (AFRs) for June 2018 (established by IRS Code Sections 1274(d) and 7520):

Applicable Federal Rates in effect for June 2018

- (•) Long-term loans (over 9 years): 3.05%
- ( ) Mid-term loans (over 3 years; not over 9): 2.86%
- ( ) Short-term loans (3 years or less): 2.34%
- ( ) Demand loan (blended annual rate): 1.09%

A one-time loan to the insured at the current long-term rate is the only way to lock in a known AFR for the entire duration of the loan. Otherwise, the insured executive is at the mercy of changing rates based on the term of the AFR selected.

The Demand AFR (blended) changes once every year in July. That 1.09% rate may look enticing, but if you believe, as I do, that we are likely in a world of increasing interest rates, selecting a long-term rate is likely a superb bargain.

The long-term rate allows you to illustrate a known loan interest rate for all years of the split dollar plan as opposed to guessing what you should reflect in years after year 1 of the illustration.

Note: Don't even think about using a non-blended Demand AFR; it changes monthly, and the twelve-times-a-year administration will drive you and your client crazy.