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John A. Anderson, CLU
Managing Principal

177 Madison Avenue
Morristown, NJ 07960

P: (973) 285-1000
F: (973) 285-1600

ja@tempewickinvestments.com

www.tempewick.com

About our firm:
Tempewick Wealth Management is a wealth and insurance firm with professionals specializing in estate and investment planning, business succession and wealth transfer.

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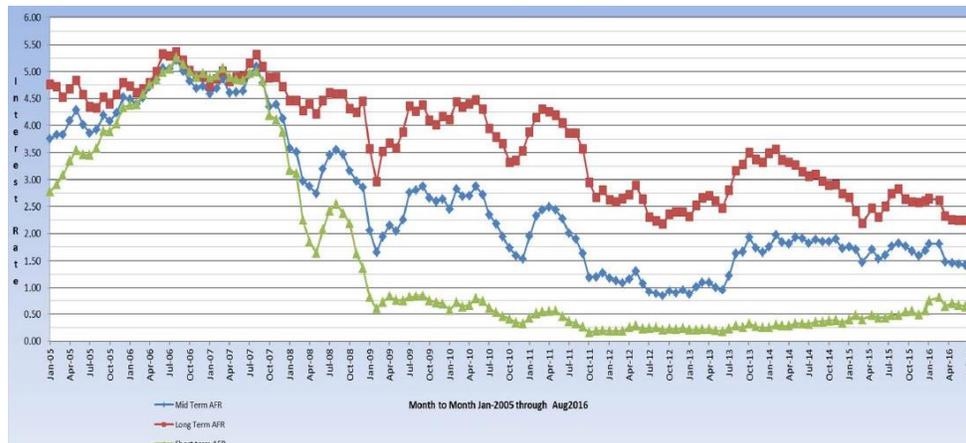
Why Low AFR's Matter: The Freeze – The Leverage

The term applicable federal rate (AFR) is used to describe rates published by the Internal Revenue Service that are used for a variety of purposes, including assigned interest charges on loans. The AFR is published monthly by the IRS, and effectively establishes the minimum interest rate that can be charged on a loan. Interest on loans should not be less than the AFR for the loan to be considered a taxable event and not a gift by the IRS.

Length of Loan

There are varying AFRs published according to the requirements for the length of a given loan. The three loan terms, as structured by the IRS, are short-term (three years or less), mid-term (up to nine years) and long-term (more than nine years).

AFR Look Back: January 2005 – August 2016



- ❖ August 2007 Mid-Term AFR 5.09%
- ❖ Average Mid-Term AFR last 9 years 2.04%
- ❖ August 2016 Mid-Term AFR 1.18%

9 Year Mid Term AFR



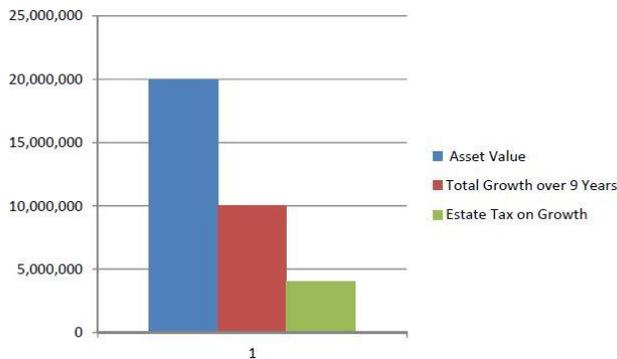
Estate Freeze

Estate freeze techniques shift appreciation from the taxable estate to trust. The estate owner aims to transfer assets to his or her beneficiaries without tax consequence.

Value of the Estate Freeze: Case Study

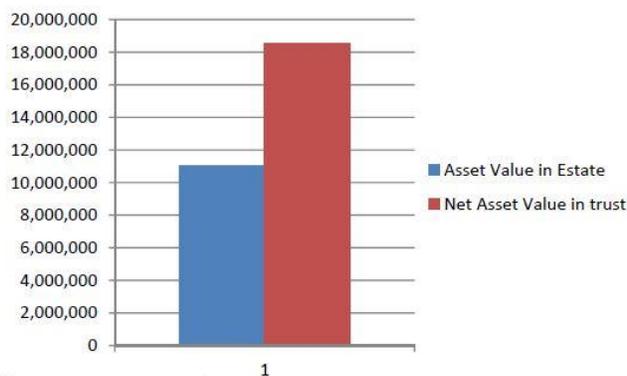
Consider a \$10M asset that grows at 8% annually

- ❖ In 9 years, if held in the taxable estate, the asset grows to \$20M
- ❖ At 40% Estate Tax on growth, the tax due would be about 4M



Consider the asset is sold/loaned to a Trust under a Mid-Term Loan at the August 2016 mid-Term AFR of 1.18%

- ❖ The value of the note in the estate would be about \$10.4M after 9 years
- ❖ The value of the asset in Trust after 9 years would be about \$18.5M (Net of AFR interest paid under the note)
- ❖ The value of the estate is reduced from \$20M to \$10.4M
 - Shifting \$9.6M of excess growth to Trust saves \$3.8M in estate taxes



Value of the Estate Freeze: Life Insurance Leverage

Consider the same \$10M Asset Sold/Loaned to an Irrevocable Life Insurance Trust (ILIT) earning 8% in the ILIT

- ❖ Excess cash-flow (after Loan Interest at 1.18%) used to pay premiums of \$631K for 9 years to a life insurance policy
 - Death Benefit about \$20.6M
 - Internal Rate of Return (IRR) at Life Expectancy (year 24) 6.57% Tax Free or 10.11% Pretax (assuming 35% tax bracket)
 - Trust Value equals \$30M (\$10M asset plus \$20M Life policy)
 - Additional Value of Trust with Insurance = \$11.5M

NUMERICAL SUMMARY OF RATES OF RETURN

Protection S.U.L., Initial Face Amount of \$20,559,716 Male, Preferred NonSmoker Female, Preferred NonSmoker

Year	Attained Age	Planned Premium	Death Benefit	ROR On Death Benefit	Pre-Tax Equivalent	Probability of at Least 1 Surviving	Probability of Both Surviving
1	71/71	631,481	20,559,716	3155.78%	4855.07%	100.00%	99.41%
2	72/72	631,481	20,559,716	422.78%	650.43%	99.99%	98.46%
3	73/73	631,481	20,559,716	179.88%	276.75%	99.98%	97.15%
4	74/74	631,481	20,559,716	105.00%	161.63%	99.95%	95.48%
5	75/75	631,481	20,559,716	70.67%	108.73%	99.89%	93.44%
10	80/80	0	20,559,716	21.40%	32.92%	98.61%	77.39%
15	85/85	0	20,559,716	11.97%	18.41%	92.58%	52.27%
20	90/90	0	20,559,716	8.23%	12.69%	72.92%	22.34%
24	94/94 LE	0	20,559,716	6.57%	10.11%	45.87%	6.50%
25	95/95	0	20,559,716	6.25%	9.62%	38.99%	4.37%
30	100/100	0	20,559,716	5.04%	7.75%	12.36%	0.32%
35	105/105	0	20,559,716	4.22%	6.49%	1.67%	0.01%
40	110/110	0	20,559,716	3.62%	5.58%	0.11%	0.00%
45	115/115	0	20,559,716	3.18%	4.89%	0.01%	0.00%

*Based on 2008 Valuation Basic Table, Select & Ultimate. Life Expectancy (LE) tables are based on actual mortality experience collected from sources such as life insurance companies and the Social Security Administration. As used in this presentation, LE tables show both the average age at death based on your current age, as well as the average probability of death by a certain year. The LE data provided in this presentation is not necessarily indicative of your own personal life expectancy, and you may live longer than indicated by the table. The LE tables used are not tailored to your personal situation or risk class; rather, they are based population averages and are presented merely to help you form a generalized idea of potential ages at death.

Please contact Tempewick Wealth Management if you wish to have a more in-depth discussion regarding AFR Rates and the benefits of estate freeze life insurance leverage.

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