# Financial Independence
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# Conversation guide

## How to address clients' concerns in any market

If you and your clients are feeling anxious right now, you're not alone. Between oil prices, interest rates, political uncertainty around the world, and myriad other factors, no one knows for certain what the markets will do next week—or next quarter. Facing such extreme volatility just drives home a fundamental truth: you can't deliver good news about the markets to your clients every week.

## Manage the anxiety with Lincoln solutions

In times like these, remember to share some optimism with your clients: You've added annuities and insurance solutions to their retirement portfolios, which are designed to help manage risk during all types of markets. Lincoln solutions and your guidance make a great team, helping your clients stay on track toward their retirement goals.

Lincoln knows that our solutions can play a valuable role for your clients during volatile times. By adding insurance solutions to client portfolios, you can feel confident staying invested. And with a 110-year history of strong financial ratings for Lincoln and an unblemished reputation for disciplined financial and risk management, you'll always have a good news story to share.

## Telling the story

How can you help clients understand the value of solutions designed to help them achieve their retirement goals while guarding against risk? You know that it's hard for clients to watch their net worth go up and down at the whim of the market. They may feel that their chances of retiring happily go up and down with it. But you can help clients feel more confident if you address their biggest concerns and add the right solutions to their portfolios. We've put together some tips to make your conversations easier and help soothe clients' fears.

### If your clients worry about being able to retire when and how they imagine...

### Ask them, "How would you feel if we put guaranteed retirement income into your strategy?"

Help your clients figure out how much income they need to feel confident about their retirement lifestyle. Explain how an annuity allows them to receive guaranteed monthly payments in retirement. Knowing they have solutions designed to generate reliable income in their portfolio may reduce the uncertainty they feel about living in retirement and may even help them handle market swings more calmly.

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## If your clients fear the market will rock their security and their retirement cash flow...

### Ask them, "Would you feel safer knowing that your loved ones are financially secure — and that you're growing market-protected cash flow for retirement?"

Explain how life insurance can help protect their family's lifestyle regardless of market performance through a tax-free death benefit.[1] Then introduce them to a range of life insurance solutions that offer the opportunity for tax-advantaged growth and options to generate cash flow when the market rises, while also providing a degree of growth even when the market is down. Dollar cost averaging options allows clients to focus on longer-term growth potential rather than attempting to time the markets.[2]

## If your clients worry about health costs, particularly long-term care...

### Ask them, "What if we could ensure that you could afford the long-term care you want without worrying the market will eat away your retirement savings?"

Educate your clients on how long-term care solutions, particularly hybrid solutions, can help secure their choice of care and relieve their family from the work of caregiving. If clients plan to self-fund, they may worry with every market swoon. Instead of risking a depleted funding pool or encountering a care need when their market holdings are down, clients can transfer their risk of needed long-term care funding to an insurance company and gain financial leverage by paying less in premiums than they would pay out of pocket for their care costs. They'll know they've taken solid steps to provide funding for the kind of care they want, such as a home health aide or nurse, should a long-term care situation occur, and to help cushion their family from the financial and emotional impact of caregiving.

## If your clients are worried about the bite of taxes...

### Ask them, "Are you taking advantage of tax-deferred investment vehicles?"

Many clients, including small-business owners, overlook the role of employer-sponsored retirement plans in mitigating the impact of taxes on their investment growth. Help clients see that now is the right time to increase contributions to their sponsored retirement plan. This strategy provides a tax benefit for clients' small businesses through tax deductions on matched contributions, overhead, and plan administration, as well as for their personal taxes through pretax plan contributions. The value of dollar cost averaging of their contributions also provides a valuable way to take advantage of volatility over the long term.

[1] With VUL products, death benefit and account values may fluctuate with the performance of your investment options.

[2] Dollar cost averaging (DCA) does not assure a profit or protect against loss in declining markets. Because dollar cost averaging involves continuous investment regardless of changing price levels, clients should consider their ability to continue purchasing through periods of all price levels.

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# Reaching your unique goals with trust planning strategies

Opportunities to preserve wealth

White paper

## OVERVIEW

Trusts are not exclusively for the ultra-affluent. They can play a vital role in outcomes-based planning for many individuals. This paper reviews planning opportunities, investments owned by trusts, and tax rules influencing trust ownership of life insurance and annuities.

- **The benefits of trusts**
  As important planning tools, trusts can offer you asset control, legacy protection, financial privacy, probate avoidance, and estate tax mitigation.
- **Planning flexibility**
  Trusts can help you meet your unique goals including marital estate planning to protect wealth for your spouses and children, family estate planning for tax-efficient asset transfer, and charitable planning to help you make the most of your bequests.
- **Trust ownership of annuities and life insurance**
  These investments can offer a number of advantages including tax deferral, diversification, death benefits, volatility protection and guaranteed income.

## Beyond wealth accumulation — trusts play a vital role in outcomes-based planning

Money is a means to an end. Behind the accumulation of wealth lie personal objectives and values as unique to individuals as their fingerprints. Whether the goal is to fund a comfortable retirement, take care of children or grandchildren or make a meaningful social impact, trusts can play a valuable role in helping to achieve those objectives.

## Understanding the fundamentals of trusts and the benefits they can provide to you

A trust is an entity created under the law that is empowered to take title to assets and manage them in accordance with the terms spelled out in the trust document. For a trust to exist, it must be in writing and, in most cases, have property to which it holds title.

A trust is an important tool that can be used to help protect and transfer wealth and meet a wide variety of estate planning objectives.

The benefits of trusts include:

**Control**—A trust allows an individual to dictate when and to whom distributions from the trust may be made.

**Legacy protection**—A trust may help protect an individual's wealth from creditors or the spendthrift behavior of beneficiaries.

**Privacy**—The transfer of trust assets occurs outside the public record, maintaining the privacy of financial affairs.

**Probate savings**—Assets passed by operation of a trust avoid the delays and fees associated with probating them through the court.

**Estate tax savings**—Trusts may be used to reduce future estate taxation.

The general purpose of a trust is to manage assets on behalf of one or more individuals. The interests of the parties can be split contemporaneously (i.e., pay the income in equal amounts to John and Mary) or over time (i.e., pay income to a spouse, then distribute to the children). Since there is always someone who will take title to the trust assets when the trust ends, the trustee is almost always managing assets with more than one party in mind. An exception might be a minor's trust (i.e., manage the assets until John is 30, then distribute to John).

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# Trusts are not just for the Carnegies or Rockefellers. Many people have the same concerns about protecting wealth.

## Types of trusts

Trusts are either testamentary (i.e., created as part of a will) or inter vivos (i.e., created by a living person as a stand–alone document and not part of a will). In the case of a testamentary trust, the trust does not come into existence until the death of the individual.

Trusts may be revocable or irrevocable.

As the name implies, a revocable trust may be revoked or modified at any time during the life of the grantor (the individual creating the trust), but becomes irrevocable at the grantor's death. Because it is revocable, it does not remove any assets from the individual's estate.

An irrevocable trust is a trust that cannot be modified or terminated without the agreement of the beneficiary. The primary reason a grantor creates an irrevocable trust is to remove assets from his or her estate by severing all incidents of ownership in those assets. The removal of such assets is designed to save on current taxation, as well as reduce the grantor's taxable estate.

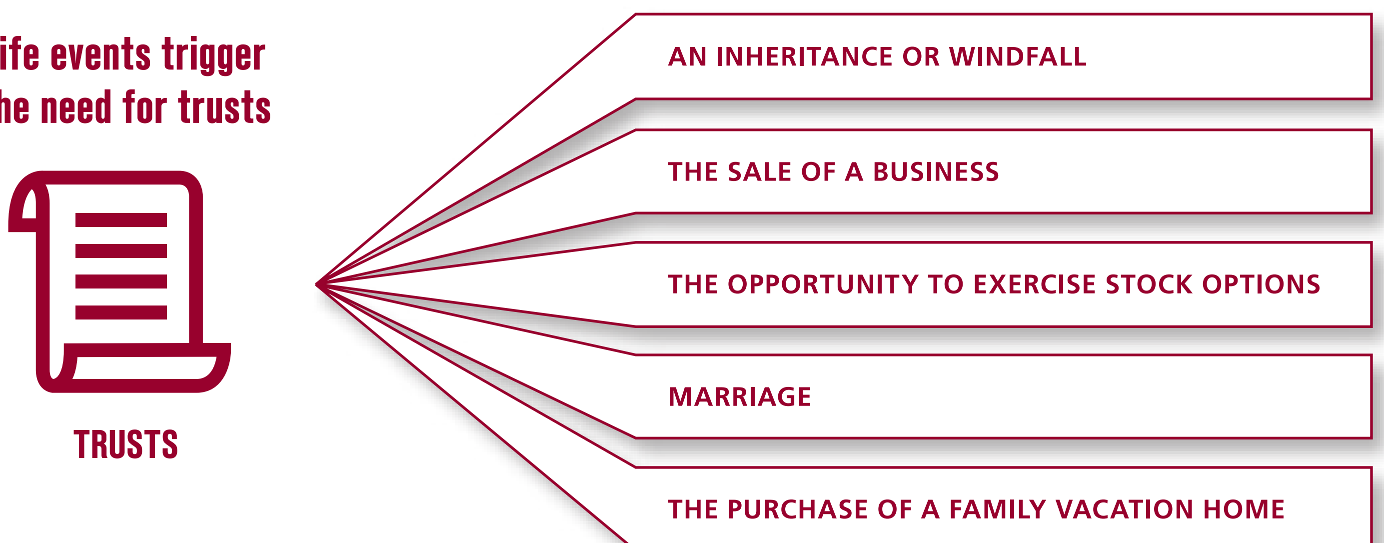
Trusts can also be grantor or nongrantor for income tax purposes. Whether a trust is a grantor trust or a nongrantor trust is determined by the relationship the grantor has with the other individuals involved with the trusts, e.g., the beneficiaries who receive income from the trust or the remainderman who receives the trust assets when the trust is dissolved.

In a grantor trust, the grantor retains certain powers, such as the power to revoke the trust or control the assets inside the trust. Because the grantor retains ownership interests in the trust's assets, the trust is not considered a separate entity and all trust income, deductions and credits are reported on the grantor's individual tax return.

In a nongrantor trust, the grantor forfeits all rights to the property and any income generated by that property. A nongrantor trust is treated as a distinct taxable entity. The assets are owned by the trust, and as such, all income, deductions and credits are filed on a separate tax return on behalf of the trust. (Trusts are subject to a taxation structure that mirrors the individual tax rate schedule but reaches the higher marginal tax brackets at lower income thresholds.)

A third form is the intentionally defective grantor trust, which shares the characteristics of a grantor and nongrantor trust. In an intentionally defective grantor trust, the grantor makes an irrevocable gift of property but reserves the right to substitute other property of equal value at a later date.

## Life events trigger the need for trusts



# The flexibility to achieve a number of goals

Trusts can serve a wide range of objectives. Summarized below are the more common uses of trusts.

## Marital estate planning strategies to protect wealth for married couples and their children

### **Marital trust**—shelter assets for a surviving spouse

A marital trust is designed to pass assets that qualify for the unlimited marital deduction. With the exception of QTIP trusts, assets given to a marital trust will qualify for the marital deduction if the spouse who benefits from the trust is vested with the power to appoint the assets in one of the following ways:

- While alive, to anyone
- While alive, to creditors of the beneficiary spouse
- To anyone at the death of the beneficiary spouse
- To creditors of the beneficiary spouse at his or her death

### **Credit shelter trust**—provide income and asset control to a surviving spouse and a tax-advantaged legacy to a couple's heirs

The credit shelter trust, also known as a family trust or B trust, allows certain amounts to pass from one individual to another at death without an estate tax.

Married couples will establish a credit shelter trust to ensure that both spouses take full advantage of the estate tax exemption available to each. To understand why this is valuable, it's essential to understand basic estate tax rules. Any individual may pass on up to $5.34 million (in 2014) in assets to anyone estate-tax-free. Spouses may pass an unlimited amount of assets tax-free to the surviving spouse.

Through the use of a credit shelter trust, the first-to-die spouse can transfer up to $5.34 million estate-tax-free to a credit shelter trust and transfer any remaining assets to the surviving spouse—also free of any estate taxation.

In the past, a credit shelter trust was utilized to ensure that both spouses took full advantage of their individual estate exemption. Due to a recent change in the law, the credit shelter trust is no longer necessary to accomplish this. Now, the executor of the first-to-die spouse's estate may make an election to use the deceased spouse's unused exclusion amount via Form 706 within the prescribed time period.

Even though a credit shelter trust is no longer necessary to secure the deceased spouse's estate exemption, it may still be useful for sheltering asset appreciation and protecting assets from creditors. A credit trust will also preserve the exemption for residents of the 22 states (and Washington D.C.) that have their own separate estate tax and do not recognize this federal provision.

With a credit shelter trust, the surviving spouse retains certain benefits in the trust assets without treating that spouse as the owner. In this way the assets can be used to help support the surviving spouse without wasting the estate tax exemption of the first-to-die spouse. Specifically, the trust may (but does not have to) allow the spouse access to:

- All income
- Principal as needed according to an ascertainable standard at the discretion of the trustee (e.g., as needed for health, maintenance, welfare, support, etc.)
- An unrestricted right to withdraw the greater of 5% of trust value or $5,000, on an annual noncumulative basis

### **Spousal limited access trust**—shelter a couple's estate assets while providing income for a spouse

A spousal limited access trust (SLAT) or spousal lifetime access trust is a variation of a credit shelter trust. Unlike a credit shelter trust, which is funded by a bequest when a spouse passes away, a SLAT provides married couples a way to pass wealth tax-efficiently to their children, grandchildren, and future generations while giving a spouse access to trust assets during and after their spouse's lifetime.

A SLAT is an irrevocable trust established by one spouse (the grantor), who transfers assets from the couple's taxable estate to the trust. This transfer is considered a gift, and the grantor can shelter up to the individual lifetime gift allowance, or $5.34 million (in 2014) from estate tax exposure.

The trust can be structured to provide distributions to a spouse during the grantor's lifetime for education, health or financial support (if needed). It can also be drafted to give an independent trustee control of making trust assets available to the spouse. To protect the grantor spouse in the event of divorce, the trust document can specify that the trust terminates upon divorce.

**Couples can benefit from a SLAT because it provides:**

- A way to protect wealth from state and federal estate taxes
- The ability to transfer legacy assets and their appreciation to heirs tax-efficiently
- Financial protection from future uncertainty because a spouse can access trust funds if something unforeseen happens

# Family estate planning strategies for tax-efficient wealth transfer

Trusts may also be used to accomplish a variety of estate planning objectives related to family and legacy planning.

## QTIP trust — establish flexibility to minimize future estate tax exposure and legacy control for couples in second marriages

As a general matter, to qualify for the marital deduction, a gift from one spouse to the other must allow the recipient spouse control of where the assets go or how they can be used. If the donor spouse tries to have too many strings on the gift or "rule from the grave," then the marital deduction will be denied.

An exception to this is the qualified terminable interest property (QTIP) trust. Here, assets can be placed into trust and the spouse making the gift can determine where the assets go after the death of the surviving spouse. The trust is created and funded either while living or at the death of the first-to-die spouse. An election is then made to treat the trust as a QTIP trust. If this election is made, then:

- The assets given away qualify for the unlimited marital deduction.
- At the death of the second-to-die spouse, all assets in the trust will count as part of the second-to-die spouse's taxable estate.

The assets do not escape any potential estate tax; the tax is just delayed until the second spouse dies. A key requirement is that the trust generates a reasonable amount of income for the surviving spouse and if it does not, then the surviving spouse can compel the trustee to change investments so a reasonable level of income is produced.

A QTIP trust is most commonly used in second marriage situations. If one spouse brings assets to a second marriage and he or she left those assets to their spouse, the surviving spouse might then disinherit the children from the first-to-die spouse's previous marriage. Absent the QTIP election, the only way to prevent this would be to forgo the marital deduction. Thus, the QTIP trust will provide income to a surviving spouse, but typically makes the children from a prior marriage its beneficiaries upon the death of the second-to-die spouse.

## Generation-skipping trust — maximize tax-efficient wealth transfer to grandchildren

The estate tax system presumes that parents want to leave assets to their children, though social policy has sought to mitigate concentrated wealth from passing through multiple generations.

Generally speaking, when generation 1 leaves assets to generation 2, the federal government will levy estate taxes, depending upon the size of the estate. As assets move from generation 2 to generation 3, more taxes will be paid. But what happens if generation 1 leaves assets directly to generation 3? Skipping a generation might appear to be one way to avoid asset transfers from being taxed twice. However, the federal government does not easily surrender potential tax revenues. To prevent this, the generation-skipping tax or GST was born. This tax is imposed when one generation makes gifts that skip a generation to a younger generation. The tax can be imposed on lifetime gifts or on transfers at death, and it is in addition to the normal estate or gift tax. Each person is granted a lifetime exemption from the tax ($5.34 million in 2014).

A GST trust is designed to transfer assets from the grantor's estate to his or her grandchildren. Because the grantor's children never take title to the assets, it avoids one generation of potential estate tax exposure. A GST trust may be constructed to provide income to the grantor's children during their lifetime, while still leaving the assets to the grantor's grandchildren.

## Special needs trust — provide sufficient income to the beneficiary without affecting their government benefits

Special needs trusts are designed to supplement the income and lifestyle of those who are incapable of taking care of themselves. A special needs trust's income and principal is used for the beneficiary at the discretion of the trustee. The beneficiary has no right to the income or principal, which protects the beneficiary's eligibility for Medicaid. If the beneficiary qualifies for Medicaid benefits, the trustee can then use trust assets and income for expenses Medicaid does not cover.

A special needs trust can be funded with assets in the individual's name (a self-settled trust) or with assets from a third party (a third-party trust). In the former case, the trust must provide that the Medicaid authorities will be the primary beneficiary of any trust assets at the death of the trust beneficiary up to amounts that Medicaid has provided. Third-party trusts do not have this requirement.

A third-party trust can spring out of a revocable trust from a will or it can be established as an irrevocable trust with a lifetime gift, usually from the parents or grandparents.

# Charitable planning strategies to help you make the most of your contributions

In addition to caring for family, many individuals wish to leave a legacy for charities that align with their passion and values. Aside from a simple donation of cash or securities, individuals can use trusts to contribute to charities of their choice.

## Charitable remainder trusts — create tax-efficient income for the benefactor and a tax-advantaged endowment

Charitable remainder trusts, or CRTs, are a special creation of the income tax code. CRTs are designed to encourage charitable giving by providing certain planning benefits for the donor, including:

- An income stream back to the donor or others
- A charitable deduction when assets are given to the trust
- The removal of assets from the taxable estate
- A tax-free environment for trust asset growth

A common strategy is to donate assets with a low cost basis, which if otherwise sold by the owner would result in a large capital gains tax. By donating the appreciated asset to a charity or a charitable trust, the donor receives a charitable deduction in the amount of the asset's current value (subject to certain limitations), while eliminating a personal income tax liability.

The trust that receives the asset can then sell it free of any taxation.

The charitable deduction is not dollar for dollar since an income stream benefit is retained by individuals. As a result, if $1 is donated, the deduction will be some amount less than $1. The higher the income retained by the donor, the lower the deduction. The longer the trust term (often the life expectancy of the donor), the lower the deduction. To prevent abuse, the IRS has tests imposed when the trust is established to make sure that the charity will receive some meaningful benefit from the gift. The practical impact of these tests is to limit charitable trusts to individuals of certain ages and/or to place a ceiling on how much income can be received.

Even though the trust is tax exempt, that does not mean the income received by the individual is tax exempt.

It does bear mentioning that the donor has given away assets that his or her heirs will never receive when donating to a charitable trust. As a consequence, some donors who receive income from a CRT elect to use some portion of that income to purchase life insurance to replace the value of the assets donated.

**A CRT can take three forms:**

1. **Charitable remainder annuity trust (CRAT):** A CRAT, once funded, will pay the donor or other individual a flat dollar amount based on the value of the original contribution. Every year the payment is the same whether the trust goes up or down in value—even if the result is that the trust must be liquidated to make the payment.
2. **Charitable remainder unitrust (CRUT):** A CRUT pays the donor or other individual a stated percentage of the trust value, resulting in income payments that may change from year to year. For instance, if the trust value goes up, the income payment goes up. If the value falls, the income payment falls.
3. **Net income with make-up provision charitable remainder unitrust (NIMCRUT):** The NIMCRUT is a special type of CRUT. This trust is the same as a CRUT with one exception — instead of paying income at a stated percentage of trust value, it pays either that amount or the net income received in the year, whichever is smaller. Thus, if the trust has no income, then there is no payment. In years where the payment does not reach the stated percentage payout, the unpaid amount is carried forward to be paid in some future year when there is sufficient income.

   The goal of the NIMCRUT is to allow the trustee to have control over when a distribution is made and the amount of that distribution.

## Charitable lead trust (CLT) — minimize current tax exposure with a gifting strategy that creates a legacy for the donor's heirs

A charitable lead trust works differently than a CRAT or CRUT in that rather than the trust income going to the donor or other named individual, the trust income is donated to a charity. After a specified period of time, the trust will transfer the remaining assets to the trust's beneficiaries. The primary use of a CLT is to reduce a donor's current income, while retaining the ability to transfer assets to the donor's heirs.

# The advantages of life insurance and annuities within trusts

Life insurance and annuities within a trust maintain a number of important advantages, including tax deferral, diversification and death benefits.

However, there are some unique considerations a trustee should be aware of, including tax, financial and legal issues.

## Assets that can be held within a trust

- Common stocks
- Bonds
- Real estate
- Precious metals
- Life insurance
- Annuities
- Some gas and oil leases

### The importance of understanding tax laws and regulations regarding trust ownership of life insurance and annuities

When life insurance and annuities are coupled with trusts, the unique tax rules and regulations of each must be satisfied. This discussion does not cover every possible issue arising from the use of life insurance and annuities in trusts, but serves as an overview of key considerations and as a peek into the complexities they present.

Broadly speaking, a trustee should ask itself three important questions:

1. Does the trust qualify as a "natural person" under IRC Section 72(u)?
2. How will annuity distributions be taxed during the lifetime of a trust's beneficial owners?
3. How will the death distribution be treated under the IRC 72(s) rules?

**1. When is a trust a natural person under IRC Section 72(u)?** An annuity held by a "natural person" or the "agent of a natural person" will be treated as an annuity contract for income tax purposes. The obvious example of a "natural person" is any individual. A corporation is an example of an entity not considered a "natural person" or an "agent of a natural person."

When it comes to trusts, some trusts are deemed to be a "natural person" or "agent of a natural person" while others are not.

Since the grantor retains control over a grantor trust's assets, most grantor trusts would be considered a "natural person" or "agent of a natural person" and receive the same income tax treatment as any individual owning an annuity directly. (In the case of any grantor trust in which substantial beneficial interests are held by nonnatural persons, the trust may not qualify for treatment as a "natural person.")

Nongrantor trusts may be more problematic. Because these trusts are treated as a distinct entity, they could be viewed as a nonnatural person for purposes of annuity income tax treatment. However, there may be instances where the beneficiaries are considered natural persons, and an annuity might work. There have been a number of private letter rulings that serve as guidance on when a nongrantor trust might qualify for annuity tax protections, but there remains some ambiguity.

For charitable remainder trusts, it seems clearer. A deferred annuity owned by a CRT would not benefit from the favorable tax-deferred treatment. However, the charitable trust would receive the tax benefits of an immediate annuity.

**2. How are lifetime distributions taxed?** If it has been determined that the trust will be viewed as a "natural person" or "agent of a natural person," then distributions from that annuity should be taxed as one.

For the revocable trust, the grantor is considered the owner of the annuity, and as such, the withdrawals would be subject to ordinary income tax and, if the grantor is under age 59½, then an additional 10% tax may be applied.

**3. How are distributions at death treated under IRC 72(s) rules?** One of the requirements of an annuity is that distributions must begin when the annuity owner dies, unless the surviving spouse is the beneficiary.

In the case of grantor trusts, the grantor's death will create an income tax event, though it appears that an actual distribution may not be required. For all trusts, the death of the primary annuitant is the trigger for required death distributions, and it appears that an actual distribution would be required.

It is important to remember that the annuity death distribution rules may conflict with the terms of the trust, which could lead to the trustee violating its fiduciary duty. Consequently, trustees will normally require that the trust be the designated beneficiary. This means that death distributions will be paid out in a lump sum or over five years to the trust, which will, in turn, make payments to the trust beneficiaries. The spousal continuation option typically connected with an annuity contract is unavailable.

## Special considerations for using life insurance in trusts

One of the key advantages of using life insurance in trusts is that, when properly structured, the proceeds may avoid estate taxation, unlike life insurance proceeds owned by the insured outside of a trust. Accomplishing this requires that the insured have no "incidents of ownership" in the policy. Thus, the trust must be drafted so that the insured has none of the powers that define incidents of ownership (e.g., outright ownership, right to change the beneficiary of the policy, ability to borrow against the policy or use it as collateral for a loan). This is the reason that the insured cannot be the trustee on a trust that holds a life insurance policy. The trust should also avoid requiring that the proceeds be used to meet the insured's estate obligations, leaving that decision to the trustee's discretion.

The funding of life insurance in a trust may come either through the transfer of an existing policy or the purchase of a new one, funded by gifts made to the trust.

Both funding methods represent a taxable gift. Generally speaking, because such gifts are of a future interest, they do not qualify for the annual federal gift tax exclusion, unless the trust's beneficiaries are given *Crummey* powers. A *Crummey* power allows the trust's beneficiaries to withdraw the gift of funds or existing policy within some prescribed period of time—typically 30 days.

In the case of a transfer of an existing policy to an irrevocable trust, the insured must be the grantor for income tax purposes in order to avoid subjecting the death proceeds to income tax under the "transfer-for-value" rules.

## The knowledge and experience to protect wealth with trust planning expertise

Two of the most fundamental objectives of creating a trust—preserve wealth and provide income—dovetail very well with the primary benefits of life insurance and annuities: asset protection and guaranteed income.

While the symmetry of individual need and financial solution makes life insurance and annuities a natural fit for a range of trust vehicles, the complexity of trusts requires working with a provider who has the understanding and expertise to help individuals navigate these complex waters.

At Lincoln Financial Group, our Advanced Planning Group is a team of seasoned professionals with an average of 25 years of experience in assisting financial advisors with structuring wealth protection solutions for their clients' estate planning goals.

This team is comprised of a diverse set of professionals, including attorneys, licensed financial planners, and accredited investment, life insurance and annuities experts, allowing Lincoln Financial to develop broadly tailored, outcomes-based solutions with your advisor.

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RETIREMENT PLAN SERVICES

# Managing market ups and downs

## Understanding market volatility

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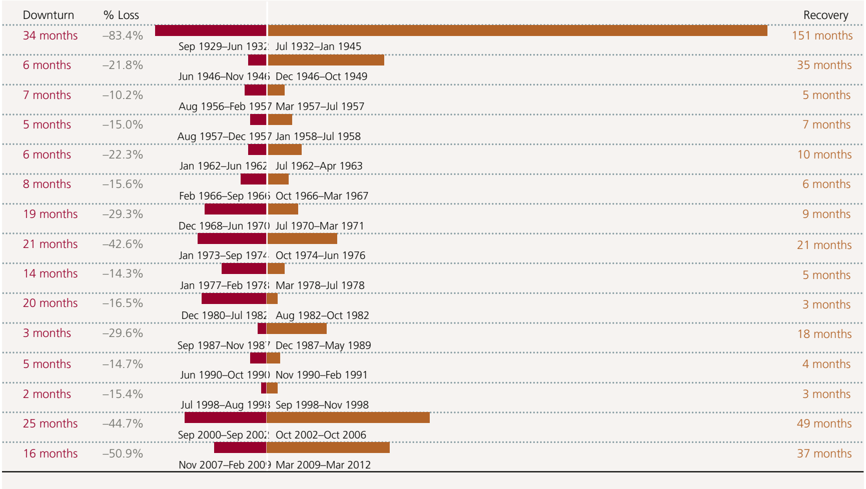
# Market fluctuations are normal

Investing might be less stressful if the stock market rose in a steady climb. But, as this chart shows, downturns have been a normal part of the market cycle. Historically every downturn has been followed by a recovery.




 Large stocks are represented by the Ibbotson® Large Company Stock Index. Downturns in this example are defined by a time period when the stock market value declined by 10% or more from its peak, while the recovery period indicates the number of months from the trough of the downturn to the market's previous peak. An investment cannot be made directly in an index. The data assumes reinvestment of all income and does not account for taxes or transaction costs.

## Understanding market volatility

It's natural for market swings to cause concern. So what can you do to manage market volatility? Learn about the following market volatility considerations to help you manage your account during times of market ups and downs and keep on track for your retirement goals.

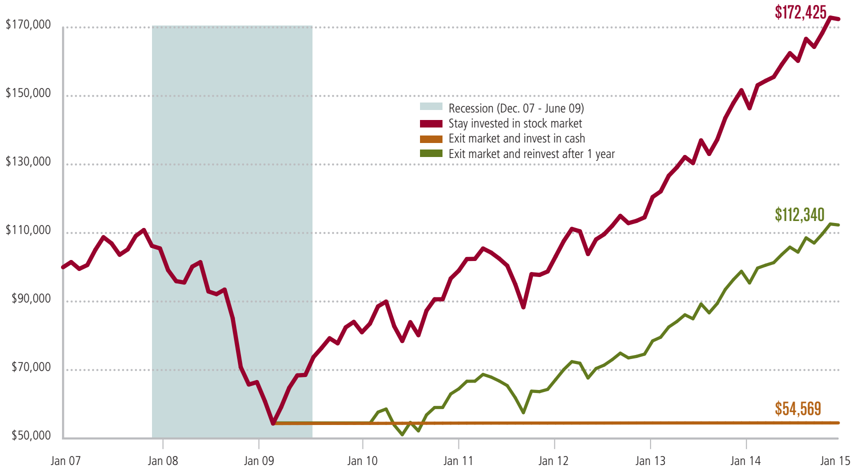
1. **Consider the big picture**
2. **Diversify your portfolio**
3. **Keep a long-term perspective**

# Consider the big picture

## Stock markets can go through periods of relative calm, followed by unpredictable ups and downs. It's tempting to make investment changes to try to time these cycles.

But trying to time the market may cause you to miss out on some of the market's best days. Significant short-term gains have occurred during down markets and early in recoveries, before investors realized the market was on the upswing. This chart shows how steady contributions to employer-sponsored plans performed in a volatile market.

This chart demonstrates how steady contributions to employer-sponsored retirement plans performed over a period of intense market fluctuation. Routinely and systematically contributing to a retirement plan can help balance market fluctuations.




©2015 Morningstar. Past performance is no guarantee of future results. This chart illustrates the value of a continuous $100,000 investment in the stock market in the three illustrated scenarios during the period from 2007 to 2014. The market is represented by the Ibbotson® Large Company Stock Index. Cash is represented by the 30-day U.S. Treasury bill. An investment cannot be made directly in an index. The data assumes reinvestment of income and does not account for taxes or transaction costs.

## Benefits of consistent investing

By regularly saving in your employer-sponsored retirement plan, you're practicing dollar cost averaging. Dollar cost averaging helps you navigate market ups and downs by easing into the markets slowly and steadily over time. Consistent investing allows you to buy more shares when prices are low and fewer when they're high—generally resulting in a lower average cost per share. It also takes some of the emotion out of investing, because you don't have to make decisions about when to buy and sell. Dollar cost averaging does not assure a profit and does not protect against loss in a declining market.

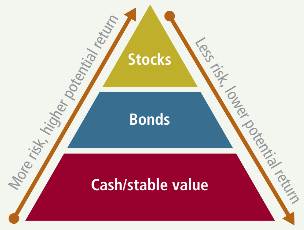
# Diversify your portfolio

## You can't control the market. So how can you invest to minimize the impact of its ups and downs on your savings?

## Diversification and asset allocation

Investments in different asset classes (stocks, bonds, and cash/stable value) often perform differently. Diversifying—or spreading money across a variety of investments—can help you minimize risk. If stock prices go down, losses may be offset by gains in bonds, or vice versa.

### The risk and return characteristics of different asset classes




**Stocks** are shares of ownership in a company. Stocks typically carry greater risks than bonds or cash/stable value options, but historically have offered the greatest potential for long-term growth.

**Bonds** are debt securities that pay the holder the original amount invested plus interest on a specific future date. Bonds offer more moderate risk but, typically, lower returns than stocks.

**Cash/stable value** options are similar to bonds but hold money for much shorter periods. They offer low investment risk and potentially low returns.

This chart illustrates the relative risk and potential return of the major asset classes. You'll notice that the level of risk is lowest at the bottom and highest at the top. But along with the higher risk is a higher potential return.

Your asset allocation is the way the assets in your portfolio are divided among stocks, bonds, and cash/stable value investments.

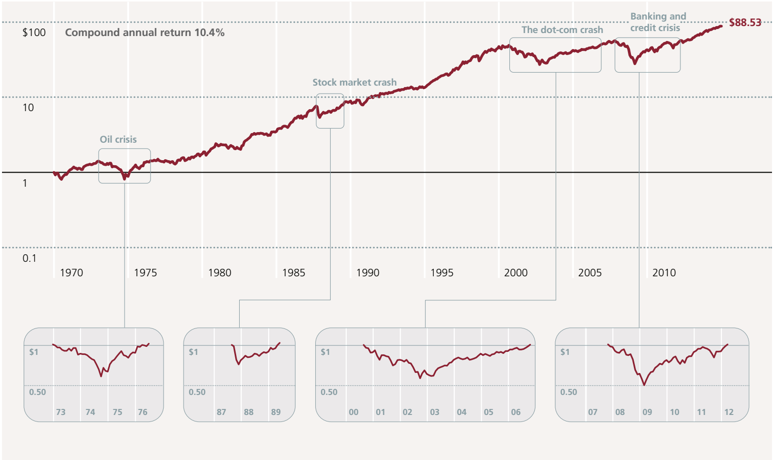
Neither asset allocation nor diversification can ensure a profit or protect against loss. Significant differences in risk exist among investment asset classes. Past performance is no guarantee of future results.

**If you have questions about asset allocation or risk tolerance, contact your retirement plan representative.**

# Keep a long-term perspective

Market cycles are part of investing, but it's normal to be anxious when the market takes a dip. Take comfort from a historical perspective. Over time, stocks have outperformed all other asset classes. As this chart demonstrates, the market has suffered periodic declines over time, but has bounced back. Historically, the long-term trend of the market has been up. So despite their volatility, stocks may offer the potential for significant long-term gains that can help you meet your retirement savings goals.

### Market downturns and long-term performance




©2015 Morningstar. Past performance is no guarantee of future results. Large stocks are represented by the Ibbotson® Large Company Stock Index. Downturns in this example are defined by a time period when the stock market value declined by 10% or more from its peak, while the recovery period indicates the number of months from the trough of the downturn to the market's previous peak. An investment cannot be made directly in an index. The data assumes reinvestment of all income and does not account for taxes or transaction costs.

So remember to consider the big picture, diversify your portfolio, and keep a long-term perspective. Understanding market volatility can help you keep your retirement savings on track and be better prepared to manage inevitable market fluctuations.

**To learn more about managing market volatility, contact your retirement plan representative.**

## Important disclosures:

**Mutual funds and variable annuities are sold by prospectus. Investors are advised to consider carefully the investment objectives, risks, and charges and expenses of a mutual fund and, in the case of a variable annuity, the variable contract and its underlying investment options. To obtain a mutual fund or variable annuity prospectus that contains this and other information, call 800-4LINCOLN. Read the prospectus carefully before investing or sending money.**

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## Interest Rates and Asset Protection

Interest rates have been low for a long time, and with the recent slight uptick in the Fed Funds rate some economists think rates will go higher in the near future. If that happens, given the inverse relationship between bond values and rates, investors owning bonds can see the market value of their bonds go down.

If this happens, it might make sense to move some money out of bonds. Let's say your clients are a couple, both age 64, with pension and social security covering a majority of their retirement income needs. They also have $200,000 in bonds and while they like the income, they do not need the income nor do they need to spend down the principal, and so those bonds are primarily assets they will pass to their heirs. In a rising interest rate environment, how can they protect their assets from interest rate risk?

Life insurance may be an option. Let's say they sell half their bond portfolio and put a $100,000 lump sum into a Guaranteed Universal Life Survivorship Policy. A standard non-tobacco male age 64 and a standard non-tobacco female age 64 would leverage that $100,000 into a guaranteed death benefit of $333,876. Instead of possibly watching their bond values decline, they can more than triple that $100,000 legacy for their heirs. GULS can protect their assets, and even multiply their assets, in a rising interest rate environment.

This is for informational purposes only. Recommendations for any financial products or financial strategies must be suitable for the individual based on their individual circumstances. All clients are encouraged to speak to their tax and legal advisor before making any financial decisions. Life expectancy does vary and the rate of return on the death benefit will be significantly higher in the early years of the policy, but will decrease with time. If the client lives beyond their life expectancy, it is possible that the premium dollars, if invested elsewhere, might provide more funds to beneficiaries. Mutual of Omaha, it's employees and Representatives do not give tax advice.

**ADVISOR TRAINING**

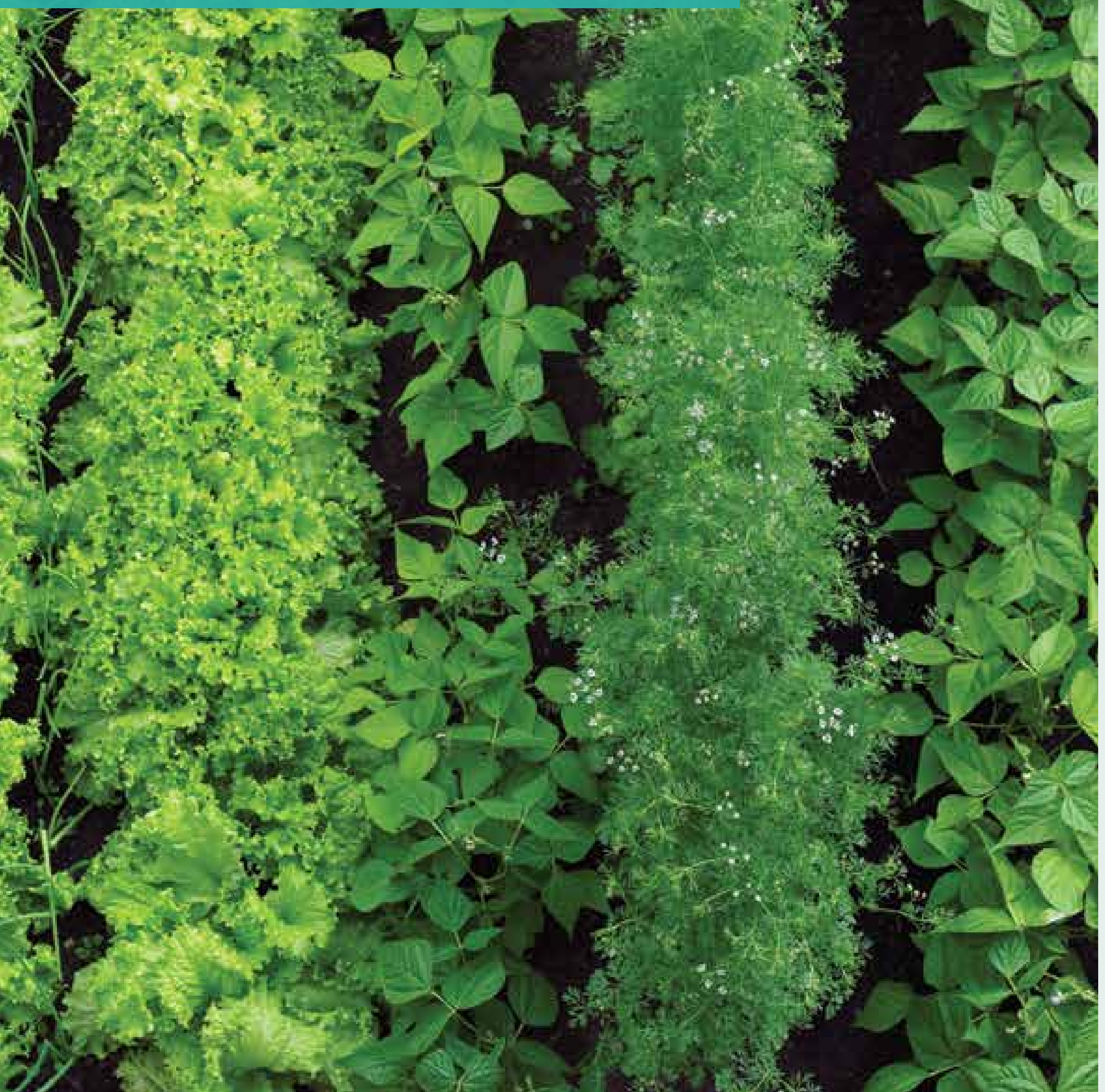
# Life Insurance – an Asset that Creates Predictability

*For use with concept brochure, LYC8461*

Oftentimes, an individual believes their savings and investments will eventually accumulate to an amount where they will be able to eliminate their need for life insurance. For people who have accumulated wealth, once they understand the concept of leveraging their dollars, they begin to understand why this may not be true. By purchasing a life insurance policy, the client may be able to pay a smaller premium in order to have the insurance company pay a larger death benefit that can be used to settle their estate.

- Nearly all investments have risk as a component, and the investors pursuing the greatest returns are taking on the most risk. Life insurance provides stability when the exact amount of risk is unknown.
- The market is very difficult to predict and market changes affect people differently. When the markets increase, all investors are happy. When the markets decline, it's a different story:
  - Younger investors can wait it out, knowing they have time to recover
  - Those nearing retirement worry about whether or not they will be able to retire when planned
  - Retirees worry about how much of their retirement income was just lost
- Life insurance is predictable. The only thing that is unknown is when the money will be needed (which equates to the date the insured dies). For those who are adamant about using their own money rather than purchasing life insurance to pay for estate expenses, the unknown date of death presents several risks of its own:
  - The accumulated wealth on the date of death may not be enough to pay the bills and provide cash for surviving family members
  - Even a considerable amount of accumulated wealth can be significantly impacted by a market decline. Even though similar percentage losses may affect everyone, the same amount of dollars lost is greater for someone who has a larger portfolio
- When markets decline, it takes much longer to 'catch up' than many realize. An investment may have to recover by 25 percent to make up for a 20 percent loss. This is because there is less principal working for the client.
- There are many benefits of using life insurance to create predictability. Life insurance can:
  - Make up for lost portfolio assets
  - Make up for lost retirement income
  - Fund a business transition plan
  - Eliminate the need for heirs to have to sell off assets to pay for estate settlement costs in a down market
  - For younger investors, the death benefit proceeds can also make up for future contributions to savings and investments for a surviving spouse
- Life insurance maximizes wealth transfer, as the policy proceeds are paid directly to the beneficiary free of federal income taxes. When an irrevocable life insurance trust (ILIT) is the owner and beneficiary, the trust also receives the death benefit proceeds free of federal estate taxes.
- Estates subject to estate taxes must pay the estate tax bill within nine months of death. Life insurance provides ready cash to pay these expenses. Without liquid assets, the deceased's assets would have to be sold, depleting the account balances even more.
- Another benefit of the life insurance policy's proceeds is they avoid probate. This provides immediate cash to the surviving family members without the normal delays associated with the probate process.

You have spent years working hard and building your savings. Now, as you look to the future, you're starting to think about the legacy you want to pass on to your children, grandchildren or maybe even a favorite charity. It's important to have a plan in place to protect your assets and to maximize the amount of wealth you are able to transfer.



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# Creating Predictability
## When it's Needed Most

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## Life Insurance – an Asset Unlike Any Other

Take a moment to consider the assets you have in your current portfolio. If you are like most investors, your investments are all designed to help you accumulate wealth. While accumulation is an important part of an investment strategy, if you plan to transfer your wealth to the next generation, you also need to consider ways to ensure they receive what you planned for.

Investors expect market ups and downs, but when it comes to transferring wealth, all that really matters is the value of the investment at the time of your death. Untimely market losses can significantly impact the amount that will be left for your loved ones. Many investors don't realize how long it can take to recover from a market decline. For example, a 25 percent market drop can cause a taxable investment with a value of $1 million to be suddenly reduced to $750,000. Assuming a constant increase of 4 percent, with no additional deposits, it would take over 11 years for this asset to recover the $250,000 that was lost (assuming a 35 percent marginal tax bracket).

Without proper planning, you may find that your original intentions for your money may need to change if there is a market decline. The amount you would leave behind may be significantly less than you intended. Life insurance can add stability to your portfolio by providing a predictable amount of money that can be left for your beneficiaries.

## Strengthening Your Portfolio

By purchasing a life insurance policy, you can strengthen your overall portfolio. Upon your death, your loved ones will receive funds which can be used to:

- Catch up on lost portfolio assets due to market losses
- Compensate for lost income if you were still working
- Make up for future contributions you would have made to your savings and investments
- Avoid selling off assets to pay estate settlement costs
- Fund a business transition plan

### Comparing Your Options*

You may wonder if life insurance is a good use of your hard-earned money. In fact, some people even think of the premiums as just another bill. The internal rate of return (IRR) can help you see the value of your invested premiums. This rate signifies the percentage at which your premium dollars would have to grow in another investment to equal the death benefit of your policy. When comparing assets, it's also important to remember that life insurance proceeds are received free of income tax.**

Consider Brian, a 55-year-old who purchased a $1 million life insurance policy and is paying premiums of $15,638 annually. The internal rate of return on his premiums if he were to die unexpectedly, as well as the comparable pretax equivalent return, is illustrated below.

| | Return on Death Benefit (IRR) | Pretax Equivalent Return *(assuming a 35% marginal tax bracket)* |
|---|---|---|
| Age 60 | 101.49% | 156.14% |
| Age 65 | 32.51% | 50.02% |
| Age 70 | 16.71% | 25.71% |
| Age 75 | 10.12% | 15.57% |
| **Age 83 (Life Expectancy)** | **5.25%** | **8.08%** |

Brian would have to consistently earn 8% in a taxable investment to equal the amount his beneficiaries would receive from his life insurance policy if he lived to his full life expectancy.

**This illustration is for example purposes only*

***Death benefit proceeds from a life insurance policy are generally not included in the gross income of the taxpayer/beneficiary (Internal Revenue Code Section 101(a)(1)). There are certain exceptions to this general rule including policies that were transferred for valuable consideration (IRC §101(a)(2)). This information should not be construed as tax or legal advice. Consult with your tax or legal professional for details and guidelines specific to your situation.*

## An Efficient Way to Transfer Your Wealth

### Peace of Mind

In an unpredictable world, life insurance can provide your loved ones with an expected death benefit that does not fluctuate based on market performance.

### A Simple Strategy

Because the value is predetermined, the proceeds from a life insurance policy can easily be divided among your designated beneficiaries. And, unlike other assets, such beneficiaries will receive the money immediately since it avoids probate.

### Tax Advantages

As long as you properly structure your policy, your beneficiaries will receive the funds without paying income or estate taxes.

### A Significant Return on Investment

The internal rate of return on your premium dollar can be considerable, and for your beneficiaries it is even greater when you consider the numerous tax advantages they receive.

Life insurance is an important part of a well-diversified portfolio. By putting a plan in place, you can leave a legacy for your loved ones.

[Agent Photo]

[Agent name]
[Agent phone number]
[Agent email address]
[Agent license number]

**ADVISOR TRAINING**

# Lifetime Protection without a Lifetime of Payments

Mutual of Omaha

*For use with concept brochure, LYC8449*

## This concept is also referred to as "Short Paying." This means that a client pays their premiums in a reduced time frame, rather than over the life of the policy. Once the policy is paid-up, it remains in force to maturity or until the age the client selected the death benefit be guaranteed to.

- The policyowner determines how many years, or to what age, they would like to pay the premiums. Once they have paid for this length of time, the policy is owned outright and no more premiums will ever be due.
- Short paying a policy will require higher premiums than if the policy were paid for all years. However, there is a break-even point where the cumulative premiums paid will be less with a short pay policy. This savings becomes significantly more each year the insured lives past the break-even point.
- The short pay option may not be appropriate for insureds classified below Standard because:
  - The short pay premiums are more than the level lifetime option. If the insured dies 'too soon,' they will have paid more premiums than required. Although this can happen with healthier people too, the chances of insureds who are rated dying before the break-even point are higher than they are for healthy people
  - A rated premium on an already increased short pay amount may make the short pay option unaffordable

Short paying is an attractive purchasing strategy for many reasons:

- Once there are no longer premiums due, the money that was used to pay the premiums can be used for additional planning needs
- Payment schedules can be designed to coincide with a time when more cash will be needed for other obligations. For example, the payments can be scheduled to end before the oldest child begins college; or the payments can be paid only during the owner's working years in order to increase the amount of cash available during retirement

- When using the short pay strategy, if something happened and the client could not pay the full amount of the premium, the client has the option to lower the premium and pay for a longer duration. You can run an in force illustration to help the client choose a revised payment plan for a lower amount.
- It's important to know that short paying the premiums can cause the insurance policy to become a Modified Endowment Contract (MEC). Becoming a MEC is not necessarily a bad thing, as long as it is intentional and the client understands how a MEC is treated. When distributions are taken from a MEC, the money is treated similar to other qualified plans (i.e., 401(k)s and IRAs):
  - Under the current tax law, if the policy is a MEC, money taken from the policy via a loan or a withdrawal will be subject to income tax
  - Loans and withdrawals prior to age 59½ are subject to a 10 percent federal penalty
  - As long as ownership and beneficiary designations are set up properly, the death benefit remains tax free
- When paying on a short pay schedule, a guaranteed universal life policy will generally work best. These policies are designed to provide guarantees of both the premium amount and the death benefit. These policies are not designed to accumulate significant wealth; therefore, there is not as much concern about the implications of these contracts becoming a MEC since very little, if any, cash will be taken from the policy.
- A non-guaranteed permanent policy can also be used for this strategy; however, the planned premium amount and duration would not be guaranteed. The client will need to continue to monitor the policy since more premiums could be required in the future if the interest rate environment is unfavorable.

As you grow older, get married and start a family, it becomes clearer how important a role life insurance plays in creating a solid financial plan. You may find that your reasons for needing coverage change over time, but there's a good chance that you will always have some type of life insurance need. Even though your needs may last a lifetime, your life insurance payments don't have to.

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Modified Endowment Contracts (MEC) – Any lifetime distributions, loans or assignments from a MEC are treated as ordinary income for tax purposes to the extent there is gain in the contract and could be subject to an additional 10 percent penalty tax, if the policy owner is under age 59 1/2. MECs are considered life insurance and offer tax free death benefits and tax-deferred cash value accumulation. You should discuss potential tax consequences created by a MEC with your tax or legal advisor.

Life insurance is underwritten by United of Omaha Life Insurance Company, Omaha, NE 68175. United of Omaha Life Insurance Company is licensed nationwide except in New York. This information should not be construed as tax or legal advice. Consult with your tax or legal professional for details and guidelines specific to your situation. **This is a solicitation for insurance and a licensed agent/producer will contact you.** Coverage may vary by state.

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# Lifetime Protection
## Without a Lifetime of Payments

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## Protection That's Guaranteed for Life

When purchasing your life insurance policy, you may want to consider paying your premiums over a shorter time frame. By reducing the number of years you will make payments, you can pay your life insurance premiums during your peak income-earning years and free up money to use for other expenses as you approach retirement.

When using a shortened payment plan, a fully-guaranteed permanent life insurance policy generally works best since interest rate fluctuations cannot impact the death benefit guarantee. Here's how it works:

- You choose the death benefit amount, the number of guaranteed coverage years and the number of years you plan to make your payment. Based on that information, your agent/producer will provide you with a payment amount
- You purchase a policy and continue to make your planned premium payments on time
- As soon as the payments are complete, your policy is guaranteed to remain in force for the guarantee period you selected

### A COMPARISON OF PAYMENT OPTIONS*

Chris, age 45, has a need for $1 million of life insurance coverage and chooses to purchase a policy that offers a lifetime guarantee. The annual payments for this policy would be $10,296, assuming payments were made in all years.

Chris likes the idea of paying his policy premiums over a shortened time frame so that he doesn't have to worry about premium payments once he is ready to retire at age 65. His premium based on a 20-year payment plan would be $12,595 annually.

By age 75, Chris will have paid $56,980 less by choosing the 20-year paid up plan. The longer Chris lives, the greater the cumulative savings will be.

| | A Comparison of Cumulative Premiums | |
|---|---|---|
| | $10,296 Annually Paid in All Years | $12,595 Annually Paid for 20 Years |
| 10 Years, Age 55 | $102,960 | $125,950 |
| 20 Years, Age 65 | $205,920 | $251,900 |
| 30 Years, Age 75 | $308,880 | $251,900 |
| 40 Years, Age 85 | $411,840 | $251,900 |

**This illustration is for example purposes only. The example shown is fictitious in nature and represents a situation a consumer could face.*

## The Benefits of a Shortened Payment Plan

Purchasing a life insurance policy is a smart way to help provide protection for the uncertainties in life. By paying your policy on a shortened payment schedule, you will also benefit from:

### Overall Policy Savings

A policy paid over a shortened time frame may cost slightly more up front; however, you may see significant savings on the amount of money paid over the life of your policy.

### Additional Available Funds at Retirement

After your payments are complete, the money you have been paying each year will be freed up to be used for other expenses.

### Peace-of-Mind

When you select a guaranteed universal life policy, you have the assurance of knowing that upon your death your loved ones will receive a death benefit. This protection will be guaranteed for the period you selected.

### Flexibility for Life's Changes

If an emergency arises and you can't make your full payment, you have the flexibility to reduce your premium amount and extend the number of payment years without jeopardizing your coverage. You agent/producer can work with you to determine a new payment amount that continues to allow you to achieve your life insurance goals.

It's time to put a plan in place. The steps you take today can help ensure your family remains financially secure in the future.


[Agent Photo]

**[Agent name]**
**[Agent phone number]**
**[Agent email address]**
**[Agent license number]**

# Does My Old Plan Work with My New Family?

## Blended Families:

Important questions to think about when it comes to your family's financial future.

### Nobody said life was predictable.

But one thing is constant—the need to protect the people you care about most.

With over 20 million blended families in the United States, it is very common to be part of a family that brings together children and assets from previous marriages.

Whether you already have an estate plan in place, or are just developing one for your blended family, it's critical that you identify your objectives, recognize potential conflicts and understand the implications of these decisions on those you care about most.

### Why a typical estate plan may not be enough.

While a traditional estate plan is principally designed to benefit a surviving spouse and minimize taxes, this type of plan may not address the specific needs and potential conflicts unique to a blended family.

How do you know if you need a more detailed plan to ensure that everyone is taken care of the way you intended?

### Here are a few questions to consider:

- Is it important to provide for your children from a previous marriage in a way that ensures that they will receive their inheritance in a timely manner?
- Did you know that with a traditional estate plan you may unintentionally be giving your ex-spouse control over your minor children's inheritance?
- Is it important to you to avoid conflict between your current and previous family members regarding the way that your estate will be distributed?

If your answer is "yes" to any of these questions, it may be time to develop a new plan for your blended family.

### Where do you start?

To help you develop a framework for discussing your objectives, we've put together several key questions to think about as you develop your plan.

- To which family members would you like to leave an inheritance?
- What are your specific financial objectives for each family member (i.e. college fund, medical bills, monthly income after retirement)?
- What are the potential conflicts within the family that may arise and require some sensitivity?
- Do you have concerns over your spouse's ability to successfully manage inherited assets?

While this list of questions is only intended to get you started, it may help you to develop a clear idea of what you want to accomplish with your plan.

It may be called Legacy Planning, but it's really about today.

## The Blended Family strategy may be a viable solution if you want to:

- Provide assets to loved ones in a fair and timely way.
- Have more control over the way your legacy will be distributed.
- Avoid potential conflicts between family members.

## Our business was built on helping families.

For over 100 years, Transamerica has been providing insurance products designed to help families just like yours.

While the world has certainly changed, our objective to help families protect their financial future has always remained the same.

## For more information on how Transamerica, legacy planning, and life insurance may be able to help your family's future, please contact your life insurance professional or Transamerica today.

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TRANSAMERICA®

# Life Insurance for the Blended Family

Planning an Estate with Children from a Previous Marriage

PACIFIC LIFE

AD-OC-789C

# Life Insurance for the Blended Family

## COMMON CONCERNS OF BLENDED FAMILIES

Traditional estate plans do not anticipate the special considerations and planning needed for blended families. An estate plan is typically designed to benefit the surviving spouse and to minimize estate taxes.[1] Generally, the children from the prior marriage may have to wait until the surviving spouse's death to receive their inheritance. Worse yet, the deceased spouse's children may be close in age to the surviving spouse, and may, effectively, be disinherited.

## PROVIDING FOR A CURRENT SPOUSE AS WELL AS CHILDREN FROM A PRIOR MARRIAGE

Planning is especially important in a blended family situation. Life insurance insuring the spouse with children from a previous marriage can provide death benefit protection in the event of a premature death. It may also provide other resources for the children as well as an equitable division of assets upon the death of the biological parent. Life insurance also provides the couple with the ability to protect the surviving spouse and/or family without disinheriting children from the prior marriage.

During the insured's lifetime, with the help of an attorney, he or she creates a will or living trust that will pass his or her estate at death. The insured also establishes an irrevocable life insurance trust (ILIT). The insured makes annual gifts[2] to the ILIT to pay for the policy premiums on a life insurance policy insuring his or her life. If the gifts to the ILIT qualify for the annual exclusion and/or lifetime gift tax exemption amount, the gifts would not be subject to gift tax. The ILIT trustee[3] uses these funds to purchase and own a life insurance policy on the insured's life; the ILIT becomes the beneficiary of the life insurance policy proceeds.

At the insured's death, the portion of the insured's estate equal to the amount he/she can pass free of estate tax passes to a B-Trust (also referred to as a credit shelter trust). The remainder of his or her estate passes to a marital trust. No estate tax is imposed at the insured's death because the portion of his or her estate not shielded by the applicable federal estate tax exemption amount passes to the marital trust for the benefit of the surviving spouse and qualifies for the unlimited marital deduction. The surviving spouse typically has the right to use all of the income from both of these trusts and the principal for health, education, support, and maintenance.

Additionally, assuming proper funding and structuring of the ILIT, at the insured's death, the ILIT receives the life insurance death benefit proceeds free of estate[1] and income[4] taxes. The trustee of the ILIT may then distribute the death benefit proceeds to the beneficiaries of the ILIT (the insured's children) in accordance with the terms of the ILIT. This gives the children their inheritance before the death of the surviving spouse.

When the surviving spouse dies, the balance of the insured's assets held in the B-Trust will pass to the insured's children free of estate tax.[1] The balance of the insured's assets in the marital trust is includable in the surviving spouse's estate and may be subject to estate tax. Depending on the overall estate plan, these assets may also pass to the insured's children.

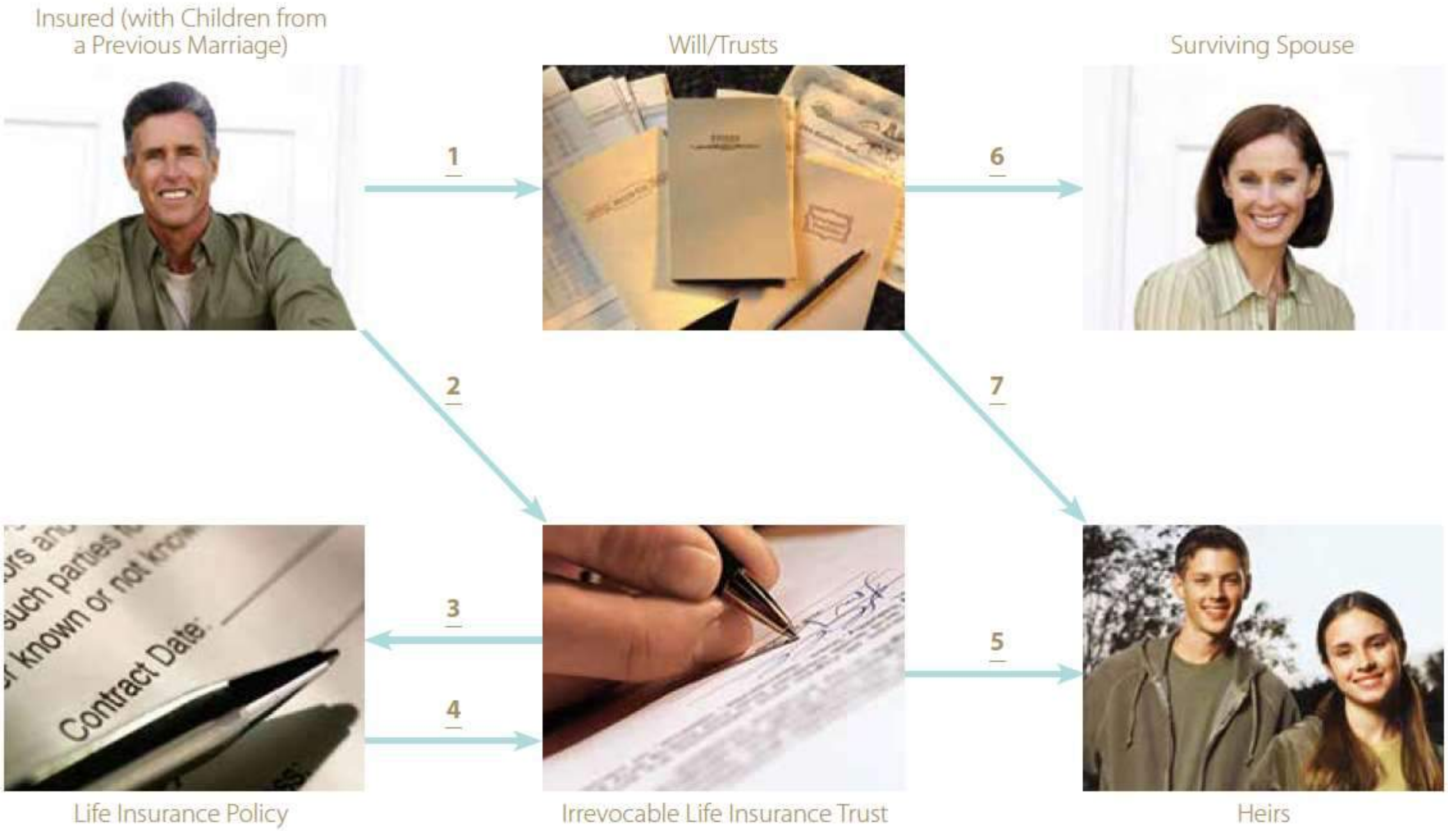
The surviving spouse benefits from both the B-Trust and the marital trust during his or her lifetime because the surviving spouse is able to maintain the lifestyle that was shared with his or her spouse. Furthermore, the estate tax that might have been due at the insured's death (if the insured were to leave more to his or her children than his or her remaining estate tax exemption amount) is now deferred until the death of the surviving spouse. Additionally, the surviving spouse may feel less pressure that he/she is spending the children's inheritance. The children also benefit from this arrangement because they are able to receive an inheritance from their parent at that parent's death rather than having to wait until the surviving spouse's death. Finally, the use of a properly structured ILIT enables the life insurance death benefit proceeds to pass to the ILIT (and then to the children) free of estate tax.[4]

1 *According to the American Taxpayer Relief Act of 2012, the federal estate, gift and generation skipping transfer (GST) tax exemption amounts are all $5,000,000 (indexed for inflation effective for tax years after 2011); the maximum estate, gift and GST tax rates are 40%.*

2 *As of January 1, 2017, the annual gift tax exclusion is $14,000 per donee (indexed for inflation).*

3 *The trustee appointed should not be the insured or the insured's life insurance producer. A life insurance producer who is paid a commission on the sale of a life insurance policy represents both his or her personal interest and the interests of the trust, creating a conflict of interest.*

4 *For federal income tax purposes, life insurance death benefits generally pay income tax-free to beneficiaries pursuant to IRC Sec. 101(a) (1). In certain situations, however, life insurance death benefits may be partially or wholly taxable. Situations include, but are not limited to: the transfer of a life insurance policy for valuable consideration unless the transfer qualifies for an exception under IRC Sec. 101(a) (2) (i.e. the "transfer-for-value rule"); arrangements that lack an insurable interest based on state law; and an employer-owned policy unless the policy qualifies for an exception under IRC Sec. 101(j) state law.*




**Pacific Life is not engaged in the practice of law, nor are they licensed to do so. This communication is not intended as legal or tax advice, nor may it be relied upon by any taxpayer for the purpose of avoiding any tax penalties. This communication may not be used to promote, market, or recommend to another party any transaction or matter addressed herein. Any taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.**

1 **Will/Trusts:** Working with an attorney, the insured creates a will or living trust, as well as a B-Trust and marital trust, that leaves his estate to his spouse, his children from his previous marriage, and any children from his current marriage.

2 **ILIT:** Insured creates an irrevocable life insurance trust (ILIT) benefiting his children from a previous marriage and makes annual gifts[2] of cash to the trust to pay the life insurance policy premiums.

3 **Life Insurance Policy Owned by ILIT:** The trustee[3] of the ILIT purchases a life insurance policy insuring the client with children from a previous marriage. The ILIT is the owner and beneficiary of this life insurance policy.

4 **Life Insurance Death Benefit Proceeds Paid to ILIT:** At the death of the insured, the ILIT receives the life insurance death benefit proceeds free from estate[1] and income[4] taxes.

5 **Distributions to Children from Previous Marriage:** The trustee will make distributions to the insured's children from a previous marriage according to the terms of the ILIT.

6 **Spouse:** Upon the insured's death, his estate is divided between a B-Trust and a marital trust, both of which provide for the surviving spouse's support during her lifetime while deferring any estate tax until the surviving spouse's subsequent death.

7 **Heirs:** Upon the surviving spouse's death, the assets remaining in the B-Trust will pass free of estate tax[1] to the insured's children from a previous marriage, as well as any children from the current marriage. The marital trust assets are subject to estate tax at the surviving spouse's death and may also pass to the insured's children, depending on the overall estate plan.

**Pacific Life is a product provider. It is not a fiduciary and therefore does not give advice or make recommendations regarding insurance or investment products. Only a life insurance producer who is also a fiduciary is required to advise if the product purchase and any subsequent action taken with regard to the product are in their client's best interest.**

### FOR THE SURVIVING SPOUSE

- Maintains lifestyle.
- Defers estate tax[5] until surviving spouse's death.
- Prevents surviving spouse from feeling pressure that he/she is spending children's inheritance

### FOR THE CHILDREN

- Provides an inheritance at biological parent's death instead of waiting until the death of surviving spouse.
- Provides an inheritance without triggering an estate tax.
- Avoids potential disinheritance if children are close in age to the surviving spouse.
- Provides a more equitable division of assets.

5 *According to the American Taxpayer Relief Act of 2012, the federal estate, gift and generation skipping transfer (GST) tax exemption amounts are all $5,000,000 (indexed for inflation effective for tax years after 2011); the maximum estate, gift and GST tax rates are 40%.*

# Life Insurance for the Blended Family

*This fact finder is provided to help you and your life insurance producer better understand your goals and objectives. Please return the information to your life insurance producer and not to Pacific Life as we cannot and do not provide financial, legal or tax advice.*

## VITAL INFORMATION

### Insured

Client: ______________________________ Date of Birth: ____________

Client Risk Status: ☐ Select ☐ NS ☐ S

Address: ______________________________ State: ____________

Spouse: ______________________________ Date of Birth: ____________

Spouse Risk Status: ☐ Select ☐ NS ☐ S

### Children

Name: ______________________________ Age: ____________

Natural Parents: ______________________________

Name: ______________________________ Age: ____________

Natural Parents: ______________________________

Life Insurance Death Benefit Need: ______________________________

Illustrate Level Death Benefit: ______________________________

Premium Payment Mode: ____________ Solve? ________ OR Amount? ________

Anticipated Years to Pay: ____________ Hypothetical Earnings Rate: ____________ %

Life Insurance Product to Illustrate: ______________________________

How would you like your estate distributed in the event of your death? ______________________________

What do you want your children to receive? ______________________________

What do you want your spouse to receive? ______________________________

Do you own a business? ______________________________

What will happen to the business at your death? ______________________________

What else do I need to know about your goals for your estate? ______________________________

PACIFIC LIFE

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INSURANCE

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Pinney has expanded into a national distributor with thousands of contracted agents and offices in California, Illinois, Maryland, North Carolina, Oklahoma, Pennsylvania, Texas, Washington, and Mississippi. Pinney represents over 100 life, annuity, disability, and long-term care companies with the intent of providing our clients & partners with the best possible product solutions at the lowest possible costs. Email Brokerage Sales Support or contact one of our Brokerage Directors today at 800-823-4852.

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Forms

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## Most Popular Tools

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  Access to carrier forms, quote tools, and 24/7 case status.
- **Insureio**
  Insureio.com - Insurance marketing evolved!
  Innovative Features
  Plans & Pricing
- **Policy Assessment**
  Learn about our hassle-free Policy Assessment Kit.
- **Ask the Underwriter**
  Introducing Our In-House Agency Underwriter
  Click here for a Basic Underwriting Questionnaire