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SALES KIT

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You can only get life insurance BEFORE you need it. Make today the day! I can help.

This Valentine's Day, surprise your loved ones with a secure financial future. I can help - contact me for a free life insurance quote.

40% of people *haven't* bought life insurance because they don't know how much they need or what kind to buy. I can help - contact me for a free quote.

Who says life insurance isn't romantic? It's the only gift that means you'll still love them even after you're gone.

People without life insurance overestimate the cost by 3X! Don't go without because you think it costs too much. It probably doesn't - and I can help you find out.

Life insurance is there to support the ones you love if something happens to you...but only HALF of millennials own life insurance! Don't be part of that statistic.

Shorter Posts that Work Well for Twitter

Post with any of the images linked on the next page.

1 in 3 wish their spouse/partner had life insurance...or more coverage. Got #lifeinsurance this Valentine's Day?

If people depend on you financially, you NEED #lifeinsurance.

Need help figuring out how to buy #lifeinsurance? It's my job to help!

1/3 of people haven't bought #lifeinsurance b/c they haven't gotten around to it. No time like the present!

40% haven't bought #lifeinsurance b/c they don't know how much to get - let me help!

Give More *than* Love

SALES KIT

Images: 1200 x 628 pixels

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Give More *than* Love

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Legal & General Social Media Images: 1200 x 600 pixels

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John Hancock
LIFE INSURANCE

SALES STRATEGY

NEEDS ANALYSIS | Advanced Markets

Basic Needs

Helping Your Client Plan for Their Loved Ones

As part of a comprehensive financial plan, clients should develop a proper estate plan, which may include life insurance. One of the reasons why life insurance is often included in estate plans is because it provides asset and income protection for surviving family members. If your clients have families they want to protect, how can you help them determine how much life insurance they will require?

The Concern

Many clients are worried because they have not taken the steps toward basic estate planning (they may not have wills and/or trusts or the means available to cover basic needs at death). Other clients may have done planning in the past, but have not recently reviewed their plans. In either case, lack of proper estate planning or a lack of continuous plan reviews can have a devastating effect on surviving family members.

The Solution

Clients should work with their financial advisor and legal counsel to create, plan, and fund a comprehensive estate plan. Clients should also work with their attorney to create the documents needed to fulfill their ultimate wishes. These documents include:

- **Will and/or Trust:** These documents should outline your clients intent for distribution of assets.
- **Powers of Attorney:** Gives your clients the ability to make financial decisions for each other.
- **Health Care Proxy:** Gives your clients the ability to make health care decisions for each other.

These documents should express your clients' wishes as they pertain to distribution of property, guardianship issues of minor children, etc. In addition, these plans should be reviewed especially when there are major life changes (such as the birth of a new child, job changes, or purchasing a new home, for instance). Beneficiary designations should continuously reviewed on qualified plans, insurance policies, and annuities, and updated when changes are necessary. Your client should work closely with their attorney with regards to these matters.

It is also important to make sure the clients' family can maintain its economic position into the future should something happen to the primary income earner. For younger clients with less assets, but have a good income, mortgages and student loans, life insurance can be an especially desirable method to ensure their family's shortfall is covered.

A comprehensive Needs Analysis can help determine how much life insurance is appropriate for your client.

What is a Needs Analysis?

A Needs Analysis is an efficient tool for determining and addressing clients' life insurance needs. The amount of life insurance required is derived from the client's assets, liabilities, income needs, support need and future goals. The ultimate aim is for the client to make decisions as to what they would like to take care of in the event of death.

Benefits of Life Insurance

- The death benefit can help protect your client's income, assets, and other needs in the event of a premature death. A life insurance death benefit provides cash at the exact time that the clients may need it, regardless of market or economic conditions.
- The client's beneficiary will generally receive life insurance proceeds income tax-free.[1]
- The cash values of life insurance policy grows tax-deferred, and tax-free loans and withdrawals are permitted when structured properly.
- The policy's death benefit/and or cash values are potentially protected from the claims of creditors, depending on the state.
- If the policy is owned by an Irrevocable Life Insurance Trust (ILIT), the proceeds will not be included in the client's taxable estate with proper planning. An ILIT can be structured so that amounts not needed by the surviving spouse will be protected from estate taxes at the surviving spouse's death. An ILIT also allows clients to control when, and by how much, beneficiaries access the policy's death benefit. Moreover, the ILIT can provide the policy's death benefit and/or cash values protections from the claims of creditors, depending on the client's state of residence. A properly drafted ILIT can take advantage of client's gift tax exemption amounts so that they may be able to fund their ILIT without paying gift taxes.

Considerations

- There are many different types of life insurance. At the basic level, there is Term insurance, which would be available to cover short-term needs, and there is permanent insurance, which provides for more long-term needs. When trying to figure out the appropriate insurance vehicle, items for thought include: Who should own the life insurance? Are there permanent needs that should be addressed by life insurance? What are the short-term and long-term costs associated with these policies? Can the client afford the premium? Is cash value important? (Cash values of a life insurance policy grow income tax-deferred. Life insurance permits income tax-free loans and withdrawals from the policy, when such transactions are properly structured.)[2]
- Trusts should be drafted by an attorney familiar with such matters in order to take into account income and estate tax laws, including generation-skipping tax applicable to beneficiaries who are more than one generation removed. Failure to do so could result in adverse tax treatment of trust proceeds. The life insurance protection your client qualifies for will be subject to medical and financial underwriting requirements.

How Does It Work?

The following is a list of questions that clients should consider when figuring out their needs:

- What income do your clients want to replace? How long do they want to replace that income? Do they want to adjust for inflation? (A younger client will likely have less assets and more income to replace than a mature client who has accumulated wealth and plans on retiring soon.)
- A stay-at-home spouse may not have actual income they need to replace, but they provide child care that would need to be paid for should something happen to them. What would the cost of care equal? How long would they need to provide that care? (Typically, a family with young children would have a higher need than a family who has teenagers.)
- Many times people buy life insurance to take care of debt. Do clients want to cover their debts? What are the debts? Mortgage? Student loans?
- Do they have other expenses, including but not limited to, charitable contributions and emergency funds?
- Does the client have future goals, for instance, wanting to provide for college expenses? How much do they expect to contribute? What is the total cost they want to cover?
- Funerals can be expensive. How much will it cost? In addition, there may be administration costs, such as probate, that include legal and court fees. Make sure the client is aware of these costs.
- What do they have to cover these needs? They may have group Term insurance through their employer, or they may have assets that they would need to liquidate in order to provide for these needs.

Once you and your client determine the money they need, there may be a gap between what they need and what the client has. If there is a shortfall, the gap can be filled with life insurance.

CASE STUDY: BRAD AND JANET MAJORS

Brad and Janet Majors are ages 45 and 42 respectively. They have one young child. They meet with both their financial advisor and estate planning attorney to discuss their estate planning needs. Their attorney will help them with their wills and other documents.

They share with their financial advisor that they want to cover income replacement, child care needs, their mortgage, and estate administration costs. In addition, they also have $500,000 of existing Term insurance. Their financial advisor is then able to plug this information into the Basic Needs JH Solutions Module and comes up with the following needs:

Insured(s): **Brad Majors** Initial Death Benefit: $1,264,893
Male Age 45. Preferred NonSmoker

ANALYSIS OF NEEDS	
	Present Value
Expenses to Replace	$1,225,904
Income Replacement Needs	
Salary of $80,000 replaced for 20 years.	
indexed for inflation at 0.00%	
Child Support Needs	
Child Care Needs	$65,073
College Fund Needs	$148,916
Debt Clearance Needs	$300,000
Estate Administration Costs	$25,000
Other Expenses	$0
(Emergency funds, charitable gifts, etc.)	
Total Death Benefit Needed	**$1,764,893**
Less Existing Insurance and Assets Set Aside for Death Needs	**$500,000**
New Life Insurance Need	**$1,264,893**

Insured(s): **Janet Majors** Initial Death Benefit: $1,432,816
Female Age 42. Preferred NonSmoker

ANALYSIS OF NEEDS	
	Present Value
Expenses to Replace	$1,388,827
Income Replacement Needs	
Salary of $82,000 replaced for 23 years.	
indexed for inflation at 0.00%	
Child Support Needs	
Child Care Needs	$65,073
College Fund Needs	$148,916
Debt Clearance Needs	$300,000
Estate Administration Costs	$25,000
Other Expenses	$0
(Emergency funds, charitable gifts, etc.)	
Total Death Benefit Needed	**$1,932,816**
Less Existing Insurance and Assets Set Aside for Death Needs	**$500,000**
New Life Insurance Need	**$1,432,816**

This is a hypothetical example provided for illustrative purposes only.

Based on this information, the shortfall of $1.2M for Brad and $1.4 M for Janet can be filled with purchasing a John Hancock Life Insurance policy.

For more information please call the Advanced Markets Group at 888-266-7498 option 3

1. Exceptions may occur when a life insurance policy has been transferred for valuable consideration.
2. Loans and withdrawals will reduce the death benefit, cash surrender value, and may cause the policy to lapse. Lapse or surrender of a policy with a loan may cause the recognition of taxable income. Policies classified as modified endowment contracts may be subject to tax when a loan or withdrawal is made. A federal tax penalty of 10% may also apply if the loan or withdrawal is taken prior to age 59½. Cash value available for loans and withdrawals may be more or less than originally invested.

Scan this code to find out more.

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INSURANCE PRODUCTS:		
Not FDIC Insured	Not Bank Guaranteed	May Lose Value
Not a Deposit	Not Insured by Any Government Agency	

Using Life Insurance for Blended Families

A blended family is a married couple in which one or both spouses are remarried, often with children from one or both previous marriages—and possibly children from the current marriage as well.

It is widely recognized that blended families make up an increasing portion of all household in the U.S. today. Some suggest that blended families actually outnumber traditional families as a result of higher divorce rates and relatively high incidence of remarriage of the divorced and widowed with children.

We believe that blended families have unique and challenging estate planning and life insurance needs that are frequently overlooked or misunderstood. Without adequate planning, the children of prior marriages, may be unintentionally disinherited. Proper planning can avoid some of the hidden traps, and ensure that your assets are fairly distributed according to your wishes.

Whether they're in their first, second or third marriage, most parents have a natural desire to build and preserve an estate that can be passed at death to the surviving spouse and children, with the least possible federal and state death taxes. In order to distribute your assets in accordance with your wishes—not by a probate court—you need basic estate planning documents, such as a Will, power of attorney, and trust.

Each spouse in a blended family may want to provide a fair and balanced inheritance for the surviving spouse and family, including children from previous marriage(s). Doing so can reduce potential conflicts among family members.

In a traditional family, there is often less concern about providing an inheritance for the children immediately upon the first parent's death—they would not ordinarily expect an inheritance until after the death of their surviving parent. But since children from your previous marriage(s) may be close in age to your current spouse, their inheritance may be delayed, diminished, or result in their being unintentionally disinherited, without proper planning.

See reverse side for important information

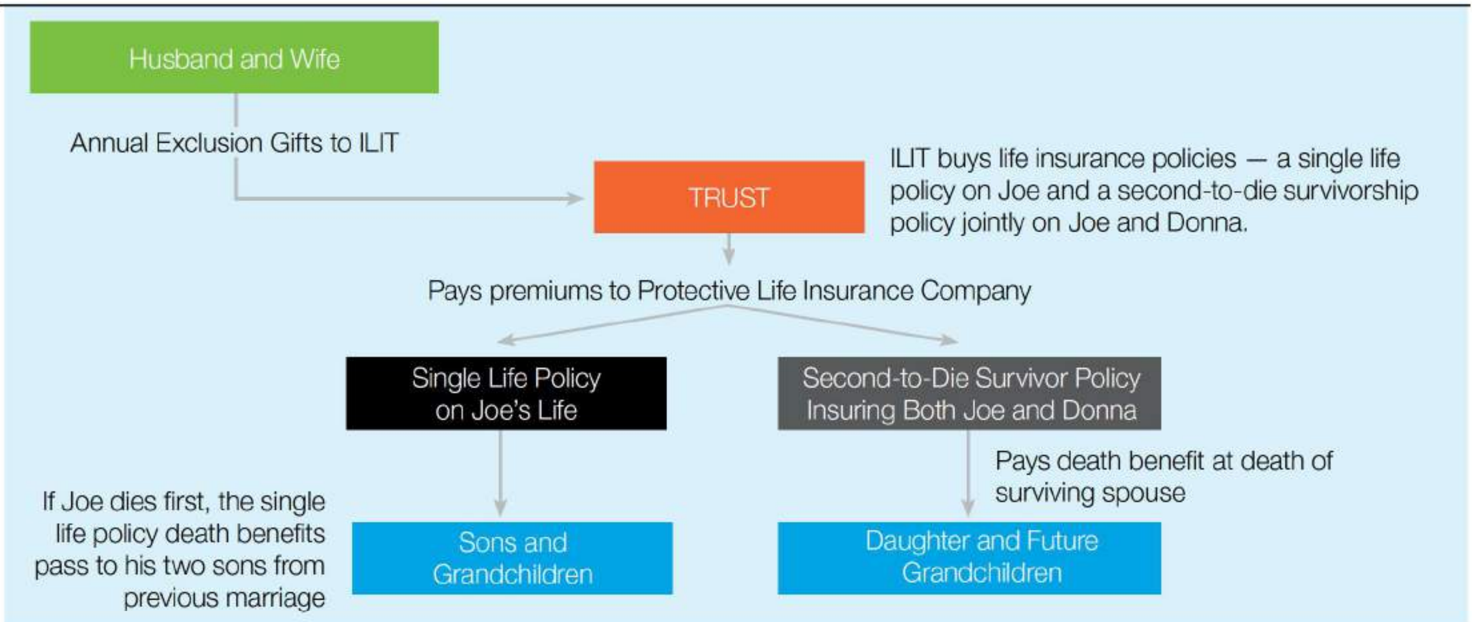
Using Life Insurance for the Blended Family

Life insurance can provide a valuable solution for the special planning issues of the blended family. By insuring the spouse with children from prior marriage using a single life policy, the death benefits can provide a meaningful inheritance at that spouse's death. A survivorship policy can be used to preserve the estate of the current family.

Working with your insurance professional and estate planning attorney, you would create an irrevocable life insurance trust (ILIT) tailored for your unique circumstances. Depending on the situation, the ILIT may own one or more policies to help achieve your estate planning goals. You will gift the life insurance premiums to the ILIT—often without federal taxes if the amount gifted is equal to or less than the current annual gift exclusion amount of $14,000.[1] Another life insurance policy may be desirable if the other spouse also has children from a previous marriage.

At your death, the insurance proceeds will be paid to the ILIT (free of income and estate taxes), managed or distributed according to your wishes. The end result is that your children will not have to wait for their inheritance.

How It Works Joe (age 60) and Donna (55)



To learn more about creating an inheritance for children in blended families, consult your attorney or tax advisor. Your Protective Life representative can give you more information about guaranteed second-to-die survivorship universal life insurance and how it can help you accomplish your goals.

These materials contain statements regarding the tax treatment of certain financial assets and transactions. These statements represent only our current understanding of the law in general and are not to be considered legal or tax advice by purchasers. Estate tax rules and the tax treatment of life insurance are subject to change at any time. Neither Protective Life nor its representatives offer legal or tax advice. Purchasers should consult with their legal or tax adviser regarding their individual situations before making any tax related decisions.

[1] The annual exclusion amount is indexed and may increase in future years.

For more information, contact your **Financial Representative.**

Life insurance is issued by Protective Life Insurance Company, Birmingham, AL.

www.protective.com

Not a Deposit	Not Insured by Any Federal Government Agency	
No Bank Guarantee	Not FDIC Insured	May Lose Value

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LIFE INSURANCE

SALES STRATEGY

NEEDS ANALYSIS | Advanced Markets

Blended Families

Helping Your Client Plan For Their Loved Ones

Families come in all shapes and sizes, including the "blended" family that combines several family groups into one. While each family unit is unique, a blended family has its own considerations to keep in mind when helping clients with estate and financial planning.

The Concerns

As with most, blended families are typically concerned with making sure their loved ones are taken care of during life and after a death. Due to the nature of a blended family, there could be children from a previous marriage from one or both clients. In addition, because of their new union, they could have much younger children.

For the children of the previous marriage, it's important to ensure that they receive their inheritance in a timely manner rather than having to wait until the death of a step-parent to inherit. Also, what if there is a family business that has been earmarked for the group of elder children? Those assets will be inherited by the elder children or they will need to be purchased from the surviving spouse.

Planning for adult children may not be your clients' only concern when establishing an estate plan for their blended family. Their spouse's mutual children may be significantly younger than their step-siblings, and it's crucial to ensure that younger children receive the same level of support and care, even if one of their parents predeceases. It is also essential that there are sufficient financial resources to support the surviving spouse, any children still living in the home, and any ongoing support obligations toward children from a prior marriage.

To ensure there is financial security for their blended family, clients should work with their financial advisor and legal counsel to create, plan, and fund a comprehensive estate plan. Clients should also work with their attorney to create the documents needed to fulfill their ultimate wishes. These documents include:

- **Will and/or Trust:** These documents should outline your clients intent for distribution of assets.
- **Powers of Attorney:** Gives your clients the ability to make financial decisions for each other.
- **Health Care Proxy:** Gives your clients the ability to make health care decisions for each other.

These documents should express your clients' wishes as they pertain to distribution of property, guardianship issues of minor children, etc. In addition, these plans should be reviewed, especially since they may have created an estate plan with their ex-spouse.

Beneficiary designations should continuously be reviewed on qualified plans, insurance policies, and annuities, and updated when changes are necessary. Your client may want to disinherit the ex-spouse or there may be a divorce decree that requires ongoing spousal support. Your client should work closely with their attorney with regards to these matters, as the consequences of not changing beneficiaries or following a divorce decree could create problems. It is as important to document the clients' intent as to make sure the clients' family can maintain its economic position into the future should something happen to the primary income earner.

What is a Needs Analysis?

A Needs Analysis is an efficient tool for determining and addressing clients' life insurance needs. The amount of life insurance required is derived from the client's assets, liabilities, income needs, support need and future goals. The client should make decisions as to what they would like to take care of in the event of death. They can also specify how much they would like to leave to children from a previous marriage.

Benefits of Life Insurance

- Life insurance can help meet the needs of the various members of a blended family because it provides a pool of liquid assets that can be used to offset any income the surviving spouse lost at death. In addition, life insurance can provide the means to satisfy any ongoing child support responsibilities, both by giving the surviving spouse the means to provide for their children and by fulfilling any court-ordered posthumous child support payments.
- Life insurance can also offer liquidity to the adult children so they receive their inheritance in a timely manner. They can use the death benefit proceeds to purchase specific assets from the estate, thereby satisfying the estate plan and creating liquidity inside your clients' estate.
- The client's beneficiary will generally receive life insurance proceeds income tax-free.[2] Additionally, if the policy is owned by an Irrevocable Life Insurance Trust (ILIT), the proceeds will not be included in the client's taxable estate with proper planning.
- The cash values of a life insurance policy grow tax-deferred, and tax-free loans and withdrawals are permitted when structured properly.
- The policy's death benefit and/or cash values are potentially protected from the claims of creditors, depending on the client's state of residence.

Considerations

There are many different types of life insurance. At the basic level, there is term insurance, which would be available to cover short-term needs, and there is permanent insurance, which provides for more long-term needs. When trying to figure out the appropriate insurance vehicle, items for thought include: Who should own the life insurance? Are there permanent needs that should be addressed by life insurance? What are the short-term and long-term costs associated with these policies? Can the client afford the premium? Is cash value important? (Cash values of a life insurance policy grow income tax-deferred. Life insurance permits income tax-free loans and withdrawals from the policy, when such transactions are properly structured.)[2]

- Trusts should be drafted by an attorney familiar with such matters in order to take into account income and estate tax laws, including generation-skipping transfer tax applicable to beneficiaries who are more than one generation removed. Failure to do so could result in adverse tax treatment of trust proceeds.
- The life insurance protection your client qualifies for will be subject to medical and financial underwriting requirements.

How Does It Work:

The following is a list of questions that clients should consider when figuring out their needs:

- What income do your clients want to replace? How long do they want to replace that income? Do they want to adjust for inflation?
- Does the client want to provide for their children from a previous marriage? Do they want them to inherit a business or other asset? Are there any required support obligations from a divorce decree?
- A stay-at-home spouse may not have actual income they need to replace, but they provide child care that would need to be paid for should something happen to them. What would the cost of care equal? How long would they need to provide that care? (Typically, a family with young children would have a higher need than a family who has teenagers.)
- Many times people buy life insurance to take care of debt. Do clients want to cover their debts? What are the debts? Mortgage? Student loans?
- Do they have other expenses, including but not limited to, charitable contributions and emergency funds?
- Does the client have future goals, for instance, wanting to provide for college expenses? How much do they expect to contribute? What is the total cost they want to cover?
- Funerals can be expensive. How much will it cost? In addition, there may be administration costs, such as probate, that include legal and court fees. Make sure the client is aware of these costs.
- What do the clients have to cover these needs? They may have group term insurance through their employer, or they may have assets that they would need to liquidate in order to provide for these needs.

Once you and your client determine the money they need, there may be a gap between what the client needs and what they have. If there is a shortfall, the gap can be filled with life insurance.

CASE STUDY: FRANK AND HELEN BEARDSLEY

Frank and Helen Beardsley are ages 45 and 42, respectively. This is the second marriage for both. Frank has two older children from his prior marriage and Helen has one older child. In addition, they have a young child that they want to provide for should something happen to them. They also want to make sure that their adult children receive an inheritance of $50,000 each. They work with their attorney to draft their wills and estate documents. They also meet with their financial advisor, who plugs the clients' information into the Blended Families JH Solutions module and comes up with the following needs:

SUMMARY FOR FRANK BEARDSLEY
ANALYSIS OF NEEDS

	Present Value
Expenses to Replace	
Income Replacement Needs	$1,225,904
Salary of $80,000 replaced for 20 years. indexed for inflation at 0.00%	
Child Support Needs	
Child Care Needs	$65,073
College Fund Needs	$148,916
Debt Clearance Needs	$300,000
Estate Administration Costs	$25,000
Other Expenses *(Emergency funds, charitable gifts, etc.)*	$0
Additional Inheritance for Prior Children	$100,000
Total Death Benefit Needed	**$1,864,893**
Less Existing Insurance and Assets Set Aside for Death Needs	**$0**
New Life Insurance Need	**$1,864,893**

SUMMARY FOR HELEN BEARDSLEY
ANALYSIS OF NEEDS

	Present Value
Expenses to Replace	
Income Replacement Needs	$1,388,827
Salary of $82,000 replaced for 23 years. indexed for inflation at 0.00%	
Child Support Needs	
Child Care Needs	$65,073
College Fund Needs	$148,916
Debt Clearance Needs	$300,000
Estate Administration Costs	$25,000
Other Expenses *(Emergency funds, charitable gifts, etc.)*	$5,000
Additional Inheritance for Prior Children	$50,000
Total Death Benefit Needed	**$1,982,816**
Less Existing Insurance and Assets Set Aside for Death Needs	**$0**
New Life Insurance Need	**$1,982,816**

1. Trusts should be drafted by an attorney familiar with such matters in order to take into account income and estate tax laws, including generation-skipping tax applicable to beneficiaries who are more than one generation removed from you. Failure to do so could result in adverse tax treatment of trust proceeds.
2. Exceptions may occur when a life insurance policy has been transferred for valuable consideration.

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Maximizing the Estate Planning Value of Life Insurance

Maximizing the Estate Planning Value of Life Insurance

What is maximizing the estate planning value of life insurance?

Simply put, maximizing the estate planning value of life insurance means getting the most bang for your buck. That is, it involves keeping as much of the proceeds as possible away from the IRS and in the hands of your beneficiaries. When you die, all your worldly goods (e.g., your money, house, car, stocks, bonds, as well as your life insurance proceeds) become a pie. The pie is then cut into slices and served. One slice goes to your heirs and beneficiaries, one slice to the federal government, one slice to your creditors, and so on. The size of the slice that goes to the federal government can be as big as 40 percent (the rate for the estates of persons who die in 2013 and later years), and what goes to the federal government does not go to your heirs and beneficiaries. You need to plan now to make sure that the slice that goes to the federal government is as small as possible, leaving a bigger slice for your loved ones.

How is it done?

Understand how life insurance is taxed

If you want to reduce estate taxes, a good first step is to understand how the estate tax system works. Although this is a technical area best left to the experts, the basics can be grasped fairly easily and will give you some direction regarding how to make the wisest arrangements.

Arrange proper ownership of the policy

Who owns the policy and for how long can affect how life insurance is taxed for estate tax purposes. If you own a life insurance policy on your own life when you die, the proceeds of the policy are includable in your gross estate for estate tax purposes, regardless of who your designated beneficiaries are. If you own a policy and transfer it to another owner within three years of your death, the transfer is not recognized for estate tax purposes and the proceeds are therefore includable in your gross estate. However, if you transfer ownership of the policy to someone else more than three years before your death, the transfer is recognized for estate tax purposes and the proceeds will therefore not be included in your estate. Since insurance that you own on your death (or within three years of your death) is included in your estate and therefore may be subject to estate tax, someone other than yourself (or your spouse in a community property state) should own the policy if you wish to avoid subjecting the proceeds to estate tax. The owner of the policy can be another individual or a trust such as an irrevocable life insurance trust (ILIT) .

Designate the right beneficiary

Who your beneficiaries are can also affect how life insurance is taxed for estate tax purposes. For example, if the designated beneficiary of a policy on your life is your estate, the proceeds are generally includable in your gross estate for estate tax purposes even if you do not own the policy on your death (or did not own it within three years of your death). If the designated beneficiary is your executor or your estate, the proceeds may be includable in your gross estate.

The primary reason for not naming your estate or your executors as beneficiaries of policies on your life is that doing so subjects the proceeds to the expense of probate and claims of creditors. If you own the policy and name a third party as a beneficiary, the proceeds will be included in your estate for estate tax purposes but they will pass by operation of law outside of the probate process and will not be subject to the claims of creditors of your estate. Proceeds payable to your children are not subject to estate tax unless you own the policy on your death or within three years of your death. If you own the policy, the proceeds are includable in your estate (and therefore subject to the estate tax) regardless of who your beneficiaries are.

However, as noted above, if you name your children as beneficiaries they will receive a greater benefit from the policy than if you named your estate as the beneficiary and then directed that the proceeds be distributed from your estate to your children, because proceeds paid to your estate will be reduced by probate expenses and claims of creditors while proceeds paid directly to your children will not.

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ADVANCED PLANNING

The Impact of State Estate and Inheritance Taxes on Clients' Estate Plans

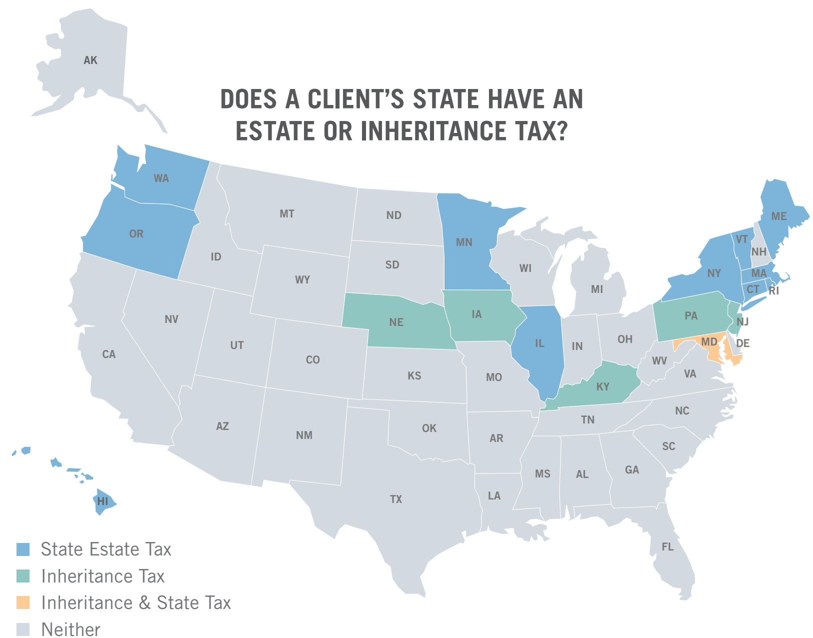
ARE CLIENTS OVERLOOKING THIS POTENTIAL CHALLENGE?

MANY DO. THEY SHOULDN'T.

Often clients may think that estate planning is only for the very wealthy. Even affluent clients might think they don't need an estate plan because of the high federal estate tax exemption. However, there are often two critical components to estate planning that clients are likely overlooking:

- **The federal estate tax exemption is subject to change** - With the passing of the Tax Cuts and Jobs Act of 2017, the federal estate tax exemption doubled to $11,400,000 in 2019. This increase is temporary, though, and the exemption is scheduled to revert to approximately $6.59 million in 2026*. Are clients who are aware of today's increased exemption thinking about what might happen when that drastic decrease occurs? Are they also taking the potential growth of their estates into consideration?
- **The impact of state estate taxes and inheritance taxes** - Even for clients for whom a decreased federal estate tax exemption will not be a concern, ask them to consider the impact state estate taxes and inheritance taxes might have on their wealth transfer plans. It may come as a surprise to them that currently there are 19 states that impose an estate or inheritance tax.

*Assuming 2% inflation



State	State Estate Tax Rates	Current State Exemption	Inheritance Tax Rates (Children)	Inheritance Tax Rates (Other)
Connecticut	7.2% – 12%	$3,600,000		
DC	12% – 16%	$5,700,000		
Hawaii	10% – 15.7%	$5,490,000		
Illinois	0.8% – 13.8%	$4,000,000		
Iowa			0.0%	10% – 15%
Kentucky			0.0%	6% – 16%
Maine	10% – 12%	$5,700,000		
Maryland	0.8% – 16%	$5,000,000	0.0%	10%
Massachusetts	0.8% -16%	$1,000,000		
Minnesota	13% – 16%	$2,700,000		
Nebraska			1.0%	13% – 18%
New Jersey			0.0%	15% – 16%
New York	0.8% – 16%	$5,740,000		
Oregon	10% – 16%	$1,000,000		
Pennsylvania			4.5%	12% – 15%
Rhode Island	0.8% – 16%	$1,561,719		
Vermont	0.8% – 16%	$2,750,000		
Washington	10% – 20%	$2,193,000		

States without estate or inheritance taxes:
AL, AK, AZ, AR, CA, CO, DE, FL, GA, ID, IN, KS, LA, MI, MS, MO, MT, NV, NH, NM, NC, ND, OH, OK, SC, SD, TN, TX, VA, UT, WV, WI, WY

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TWO TYPICAL ESTATE PLANNING STRATEGIES:

- **Strategy #1:** For smaller and simpler situations, pass all assets to the surviving spouse outright by the use of the unlimited marital deduction (“All to Spouse Will”).
- **Strategy #2:** For more sizable estates, consider establishing a “B” trust at the death of the first spouse to pass the unused federal estate tax exemption amount of the first spouse to die to the “B” trust.

Structuring the estates either way postpones any federal estate taxes until the death of the second spouse.

Both arrangements are feasible options, but the use of the “B” trust keeps the appreciation between deaths from being included in the surviving spouse’s estate.

Portability of the exemption of the first spouse to die, when available, should not be overlooked at the first death. And even when it is used at the federal level, it may not be available at the state level, resulting in clients having a different state planning need. This is illustrated in the following case study.

CASE STUDY

Meet Robert and Becky, a hypothetical married couple residing in New York:

- Robert, age 58, owns a small manufacturing company
- Becky, age 55, vice president of a local bank
- $10 million combined net worth
- Familiar with the federal estate exemption amount and don’t believe estate taxes are a concern, as their combined estate is below $22.8 million and would not be subject to federal estate taxes

NOT SO FAST

There are three potential problems:

1. The couple’s current net worth is $10 million, but what will it be at death when estate taxes would be payable?
2. The current federal exemption is $22.8 million per couple, but that is scheduled to be reduced to approximately $13.18 million in 2026 and $17.06 million in 20 years assuming 2% inflation.
3. Robert and Becky have ignored any state estate taxes that would be owed to the State of New York, which may be significant.

STAYING CLEAR OF THE CLIFF

As it turns out, Robert and Becky's state estate taxes would be significant. The New York estate tax threshold is $5.74 million in 2019 and will increase with inflation each year thereafter. For those with estates worth less than $5.74 million who die in 2019, no New York estate taxes are paid. New York also has a state estate tax "cliff" that must be considered. For estates that exceed the exemption amount by less than 5%, taxes are only owed on the amount over the threshold. Beyond the cliff, estates with a value of more than 105% of the annual exemption amount are then taxed on the entire estate value.

If we assume Robert and Becky's existing $10 million net worth increases at a conservative rate, in 20 years the estate's projected net worth would be an estimated $20 million.[1]

The following table below considers two different sets of scenarios of what could happen if Robert were to die unexpectedly today, in 2019:

- **Scenario #1:** Assumes an "all-to-spouse" will without portability of the federal exemption at the first death. Portability requires the timely filing of a federal estate tax return at the first spouse's death (IRS Form 706).
- **Scenario #2:** Assumes federal portability is elected at the death of the first spouse, and an amount equal to the New York exemption amount is transferred at the first death to a "B" trust.

TODAY'S ESTATE VALUE: $10,000,000
PROJECTED ESTATE GROWTH: $20,000,000 IN 20 YEARS

Scenario #1: All to spouse (Becky) at Robert's death today using unlimited marital deduction and no other planning

Planning	Gross Estate	NY Exemption per Spouse[2]	NY Taxable Estate	NY Estate Tax[3]	Federal Exemption per Spouse[4]	Federal Taxable Estate	Federal Tax (at 40%)	Total Taxes (Federal + NY)	Total to Heirs
First Death Today	$10,000,000	$5,740,000	$0	$0	$11,400,000	$0	$0	$0	**N/A**
Second Death in Year 20	$20,000,000	$8,530,000	$20,000,000	$2,666,800	$8,530,000	$8,803,200 (Gross estate minus federal exemption and NY estate tax)	$3,521,280	$6,188,080 (Federal estate tax plus NY estate tax)	**$13,811,920 (Gross estate minus federal and NY estate taxes)**

NOTE: The New York exemption is lost at the first and second deaths since the unlimited marital deduction is used at the first death and the estate is worth more than 105% of the exemption at the second death.

Scenario #2: Using New York exemption at Robert's death today to fund "B" Trust and portability (federal) of the remaining federal exemption[5]

Planning	Gross Estate	NY Exemption per Spouse[2]	NY Exemption Used to Fund "B" Trust	NY Taxable Estate	NY Estate Tax[3]	Federal Exemption per Spouse[4]	Federal Taxable Estate	Federal Tax (at 40%)	Total Taxes (Federal + NY)	Total to Heirs
First Death Today	$10,000,000	$5,740,000	$5,740,000	$5,740,000	$0	$11,400,000	$5,740,000	$0	$0	**N/A**
Second Death in Year 20	$8,520,000[6]	$8,530,000	"B" Trust Grows to: $11,480,000	$8,520,000	$0	$8,530,000 + $5,660,000 (DSUE[7])	$0 (Gross estate minus NY estate tax minus federal exemption minus DSUE)	$0	$0	**$20,000,000 (NY taxable estate minus NY estate tax, plus NY exemption to fund "B" trust.)**

As this hypothetical case study shows, by having the necessary planning conversations now and putting a strategy in place, Robert and Becky can eliminate their entire tax bill!

A Note About Asset Title

Many married couples own their homes and other assets as joint tenants with rights of survivorship. This simple and effective legal structure ensures that at the death of the first spouse, assets titled this way automatically pass to the surviving spouse outside of the probate process. However, for those who wish to take advantage of their federal and/or state estate tax exemption by funding a "B" Trust at death, assets titled with their spouse as joint with rights of survivorship may pose a problem to the adequate funding of the "B" Trust. Put simply, in most instances for assets to pass to a "B" Trust on the death of the first spouse, those assets must be owned solely by the first spouse to die or as tenants in common with their spouse. Remember that its not enough for your clients to just include a "B" Trust in their estate planning documents, their assets need to be properly titled so that the Trust can be properly funded.

Prudential is Here to Help You Close Your Next Case

Both basic and advanced estate planning strategies can be used to help reduce the taxable estate and efficiently plan for any amounts that clients may owe down the road. We're here to help. Contact your Prudential financial professional or Advanced Planning at 800-800-2738, option 4, to review a client's particular situation.

[1] For Robert and Becky's hypothetical case scenario, the assumed growth rate is 3.53% rounded. Additionally, please note that the surviving spouse's life expectancy is 20 years and the amount subject to estate taxes could be higher than the current rate. However, for the purpose of this case study, today's amounts are used.

[2] For those dying on or after January 1, 2019, the New York state tax equals the federal estate tax exemption prior to the 2017 Tax Act ($5,000,000), adjusted for inflation. Today the New York exemption is $5,740,000 and is projected to be equal to the federal exemption beginning 1/1/2026.

[3] State estate tax is a deductible expense in determining the federal taxable estate. The New York tax rates are variable and range from 3% to 16%.

[4] Assuming sunset of the Federal Estate Tax Exemption and 2% cost of living adjustment, the 20-year projected federal and New York exemptions may approximate $8,530,000. Represents amount for each spouse, but the exemption at the first death is lost for New York and may or may not be lost for federal tax, depending on whether portability is properly elected by the timely filing of IRS Form 706. Portability is not available for New York.

[5] The money placed in the "B" Trust grows outside of the surviving spouse's taxable estate, but is available for the spouse if needed.

[6] Gross Estate at second death in Scenario #2 equals $10,000,000 (Gross Estate at first death) minus $5,740,000 (amount used to fund "B" Trust). The difference was then projected at the same growth rate as the estate (3.53% rounded).

[7] Deceased Spouse's Unused Exemption (DSUE) is equal to $5,660,000 ($11,400,000 - 5,740,000 NY Exemption).

The state law information contained in this document is as of August 29, 2019. Please be aware that state laws can change.

New York state tax will equal the federal estate tax exemption prior to the 2017 Tax Act, adjusted for inflation, for those who die on or after January 1, 2019.

The Connecticut estate tax exemption is scheduled to increase to $5,100,000 in 2020; $7,100,000 in 2021; and $9,100,000 in 2022; and to be equal to the federal exemption starting January 1, 2023.

Hawaii offers portability (i.e., Deceased Spouse Unused Exemption).

For those who die on or after January 1, 2019, the Maryland estate tax is capped at $5,000,000. As of January 1, 2019, Maryland offers portability (i.e., Deceased Spouse Unused Exemption).

The Minnesota estate tax exemption increases to $3,000,000 for 2020 and thereafter.

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ESTATE STRATEGIES

The Five Levels of Estate Planning A Systematic Approach

BY JULIUS GIARMARCO, J.D., LL.M.

INTRODUCTION

There are essentially three general strategies for reducing estate taxes. A comprehensive estate plan for persons with large estates must incorporate one or more of these strategies. The first strategy is the leveraging of cash gifts through the purchase of life insurance in irrevocable trusts. The next strategy is to use techniques which reduce or shift the value of assets. The final strategy is to implement programs which take advantage of the income, gift, and estate tax deductions for transfers to charity.

ESTATE PLANNING SPECIALISTS WILL TELL YOU THAT THERE ARE TWO ESTATE TAX SYSTEMS—ONE FOR THE INFORMED TAXPAYER AND ONE FOR THE UNINFORMED TAXPAYER. THE LESS YOU KNOW, THE MORE THE IRS TAKES.

Estate planning specialists will tell you that there are two estate tax systems—one for the informed taxpayer and one for the uninformed taxpayer. The less you know, the more the IRS takes. This brochure is intended to help put you in the informed camp—to introduce you to the strategies mentioned above so that you can become a taxreducer instead of a taxpayer.

LEVEL ONE PLANNING

THE LIVING TRUST

Situation

No estate planning is in place, or present planning is outdated or inadequate.

Objectives

- Defer all estate taxes until the death of the surviving spouse.
- For married persons, take advantage of each spouse's $11.18 million estate tax exemption (for 2018).
- Avoid the delays, publicity, and cost of probate in the event of death or incapacity.
- Make certain that what you have goes to whom you want, when you want, and how you want.
- Prevent the intentional or unintentional disinheritance of children and grandchildren by the surviving spouse.
- Protect heirs from their potential inability to plan, their potential disability, their creditors, and their predators.
- Decide who will manage the estate (e.g., personal representatives, trustees, attorneys-in-fact, etc.) and be responsible for the distribution of the assets.
- Designate on a separate list who is to receive items of personal property, such as jewelry.

Tools & Techniques

- Pour-over will
- Revocable Living Trust
- Marital-Family Trusts
- Disclaimer Trusts
- Durable power of attorney for property
- Durable power of attorney for health care/living will
- Beneficiary-Controlled Trusts

Disadvantages

None, since the grantor maintains total control over his/her assets and all documents are amendable and revocable.

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THE TAX TRANSFER SYSTEM

In addition, since 1981 the tax laws have provided for an unlimited marital deduction, which allows married persons to leave any amount of property to their spouse (if a U.S. citizen) free from federal estate and gift taxes. The unlimited marital deduction was not affected by the Act.

The donee's basis in property received by gift is the same as the donor's basis (carryover basis). However, the beneficiary's basis in most property acquired from a decedent is equal to the property's fair market value at the date of death (stepped-up basis). Thus, before making gifts, consider the impact of capital gains taxes upon the subsequent sale of the gifted property.

MARITAL-FAMILY TRUSTS

A revocable living trust becomes irrevocable at death. Often, a married couple will each establish a revocable living trust so that the trust property is divided into two shares at the first death. The exemption amount (assume $11.18 million) is placed in a Family Trust (Trust B in the diagram on page 7). The balance of the trust property is placed in a Marital Trust (Trust A in the diagram on page 7). No taxes are due at the first death, because the $11.18 million exemption applies to the Family Trust, and the unlimited marital deduction applies to the Marital Trust. However, if the surviving spouse is not a U.S. citizen, special rules apply concerning the Marital Trust and the taxation of distributions to the surviving spouse.

Upon the surviving spouse's death, the assets in the Family Trust pass estate tax-free to the grantor's heirs under the terms established in the trust. The assets in the Marital Trust are taxable, but only to the extent they exceed the surviving spouse's estate tax exemption. Thus, a married couple can leave $22.36 million to their heirs federal estate tax-free (in 2018).

Prior to 2011, a married couple had to use Marital-Family Trusts to utilize both spouses' estate tax exemptions.

However, now the executor of the estate of the predeceased spouse can "transfer" any unused estate tax exemption to the surviving spouse (on a timely filed estate tax return—Form 706). To prevent "serial marriages," only the most recently deceased spouse's unused exemption may be transferred to the surviving spouse. This law is referred to as "portability."

NON-TAX ADVANTAGES OF A LIVING TRUST

- The grantor retains the right to revoke the trust, change its terms, and regain possession of the property in the trust. The grantor is typically the trustee of the trust during his/her lifetime.
- A living trust will minimize administration and probate costs arising at the grantor's death or incapacity, since property titled in the name of the trust avoids probate.
- The trust can also protect the grantor's heirs from potential creditors, including divorced spouses.

ADVANTAGES OF FUNDING A FAMILY TRUST AT FIRST SPOUSE'S DEATH IN LIEU OF PORTABILITY

Despite the relative simplicity of just letting the surviving spouse use the predeceased spouse's unused estate tax exemption, there are several reasons for using a Marital-Family Trust described above, including the following:

- The predeceased spouse's unused exemption is not indexed for inflation.
- The first predeceased spouse's unused exemption will be lost if the surviving spouse remarries and survives his/her next spouse.
- The appreciation in the assets in the Family Trust is removed from the surviving spouse's estate.
- The predeceased spouse (as opposed to the surviving spouse) controls the management and distribution of the assets in the Family Trust.
- There is no transfer to the surviving spouse of the predeceased spouse's unused generation-skipping transfer tax exemption (see page 13).

DISCLAIMER TRUSTS

A Family Trust does have some disadvantages. The surviving spouse's access to the assets in the Family Trust, albeit broad, is restricted. And there is no stepped-up basis at the surviving spouse's death for the assets in the Family Trust. The Family Trust also adds complexity to the surviving spouse's life in that separate records for the Family Trust must be maintained, and annual income tax returns (Form 1041) must be filed for the remainder of the surviving spouse's lifetime. Finally, if the first spouse to die has little or no assets other than an IRA, then for income tax purposes it's generally not advisable to use an IRA to fund a Family Trust (and forgo a spousal rollover).

Many couples with nontaxable estates, particularly those with children all from the same marriage, will prefer to simply leave their estate to the surviving spouse. But, for the reasons mentioned above, the same couples may want the ability to utilize a Family Trust. The solution may be a disclaimer trust. With a disclaimer trust, a married couple's revocable living trusts leave the deceased spouse's entire estate to the surviving spouse. The Family Trust is then funded only if the surviving spouse disclaims (refuses) part of the deceased spouse's estate. This enables the surviving spouse to decide how much to keep outright (to be taxed at the second death) and the amount to be allocated to the Family Trust (which is shielded from estate tax at the second death).

For married couples who live in states that have their own estate tax, postponing the federal estate tax until the death of the surviving spouse (by using a Marital-Family Trust) could result in a state death tax at the first spouse's death. This can occur if the state's estate tax exemption is less than the federal estate tax exemption. Another factor is whether state law provides for an unlimited marital deduction against the state death tax. By using a disclaimer trust, the surviving spouse, upon the advice of counsel, will be able to determine whether it is more or less advantageous to fully fund the Family Trust and pay any state death tax.

In making an informed decision to disclaim and how much to disclaim, one must examine the size of the combined estate, the surviving spouse's age and health (which impacts the spouse's need for funds), whether minor children will be beneficiaries of the Family Trust, the potential for appreciation in the assets not disclaimed, the status of the estate tax exemption, and the applicability of a state death tax.

The actual disclaimer must meet certain legal requirements and the surviving spouse must not accept any benefits from the assets to be disclaimed before making the disclaimer.

BENEFICIARY-CONTROLLED TRUSTS

Trusts are used to protect beneficiaries from their inability, their disability, their creditors, and their predators. Included under "creditors" are estate taxes and divorced spouses. Most traditional trusts distribute the assets when the beneficiary reaches a certain age or ages, with the last distribution terminating the trust. But, once the assets have been distributed to the beneficiary, they are no longer protected from creditors. In contrast, a multi-generational "dynasty trust" protects the beneficiary from creditors, while at the same time allowing the "primary beneficiary" to control the trust as a co-trustee. Such trusts are sometimes referred to as "beneficiary-controlled" trusts. Following are the design features of the typical beneficiary-controlled trust:

- The donor (i.e., parent or grandparent) is the grantor of the trust.
- The child and his/her descendants are the beneficiaries of the trust. However, the child is the "primary beneficiary" of the trust during his/her lifetime and, therefore, the child's needs take priority over the needs of his/her descendants.
- The trust has two trustees—the primary beneficiary (upon attaining the projected age of maturity) and an independent trustee. The independent trustee can be the primary beneficiary's friend or trusted advisor or a corporate fiduciary.
- The primary beneficiary has the power to remove and replace the independent trustee from time to time, thereby maintaining the beneficiary-controlled feature of this trust design.
- The trustees can distribute to the primary beneficiary (and his/her descendants) income and principal as needed for health, education, maintenance, and support.
- The trust agreement also allows the trustees to acquire assets for the primary beneficiary's use and enjoyment (without compensation), such as vacation homes, artwork, jewelry, etc. The trustee could also invest in a business that employs the beneficiary.
- The primary beneficiary can be given a broad nongeneral power to "re-write" the trust for future generations.
- At the primary beneficiary's death, the assets remaining in trust pass to his/her children, but in further trust. At that time, the grandchild becomes the new primary beneficiary of his/her separate trust, which now benefits the grandchild and the grandchild's descendants. This arrangement can be repeated for each successive generation for the maximum period permitted under state law.
- To the extent of the grantor's generation-skipping tax exemption (which is the same as the estate tax exemption), plus the future appreciation thereon, there will be no estate taxes due as the trust property passes from one generation to the next.

Beneficiary-controlled trusts can be created at the grantor's death as part of the grantor's living trust, or can be used in irrevocable trusts, including irrevocable life insurance trusts (see Level Two). But the benefits of the beneficiary-controlled trust are only available if someone else, such as a parent or grandparent, sets up the trust.

STEPS TO SUCCESSFUL ESTATE PLANNING		
STEP SIX: **PERIODIC REVIEW**	• Changes in tax laws • Changes in family situation	
STEP FIVE: **EXECUTION**	• Sign necessary documents • Purchase necessary insurance • Make revisions as needed	
STEP FOUR: **IMPLEMENTATION**	• Set goals • Select beneficiaries, trustees, agents, and patient advocates	
STEP THREE: **EXAMINE THE DATA**	• Determine if current needs are being met • Determine if future needs have been contemplated	
STEP TWO: **FACT FINDING**	• Assets/Liabilities • IRAs and Retirement Plans • Beneficiary Designations	• Life Insurance • Annuities • Deeds
STEP ONE: **SELECT A TEAM**	• Attorney • Accountant • Banker	• Financial Planner • Insurance Professional • Valuation Expert

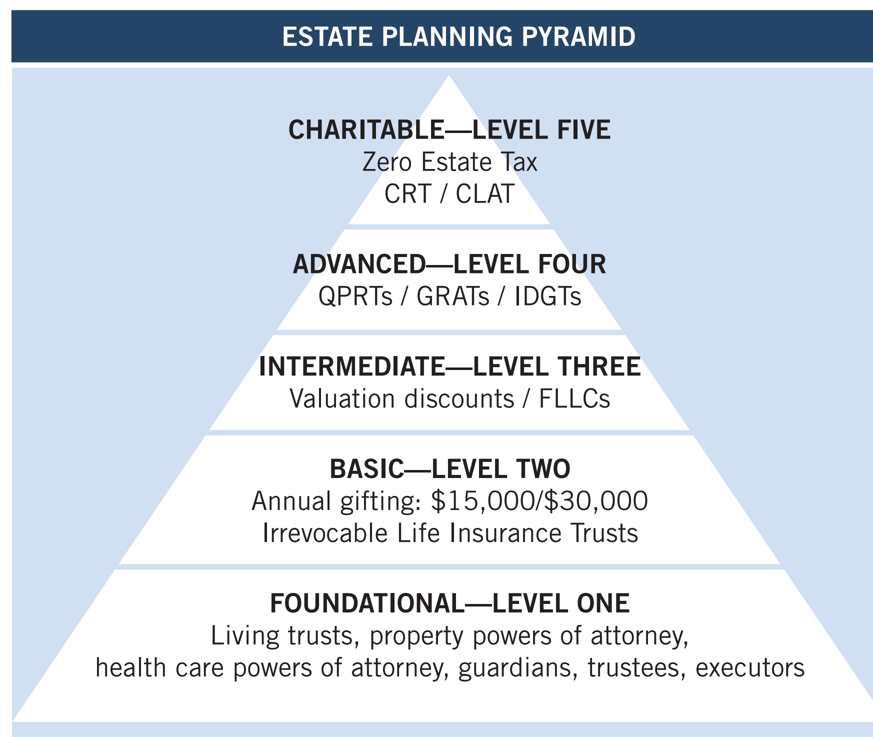
COMMON MISTAKES IN DESIGNING LIVING TRUSTS

People often execute revocable living trusts without really understanding their trust's provisions. For example, is the Marital Trust a so-called Qualified Terminable Interest Property (QTIP) Trust? If not, then the surviving spouse can intentionally or unintentionally disinherit the children. Does the Family Trust allow income to be "sprinkled" to children and grandchildren? If not, the opportunity to shift income to lower tax brackets is lost. Does the trust agreement permit the trustee to postpone distributions to beneficiaries (beyond their required distribution dates) for good cause? If not, it may be impossible to protect trust assets from the beneficiaries' creditors, including divorced spouses. Do the Marital and Family Trusts give the surviving spouse a testamentary limited power to appoint trust property among children and grandchildren? If not, considerable flexibility to reduce the income and estate taxes of the children is lost. For these and many other issues too numerous to cover here, it is advisable to have one's estate planning documents reviewed by an estate planning specialist periodically.

PLANNING FOR NON-TAXABLE ESTATES

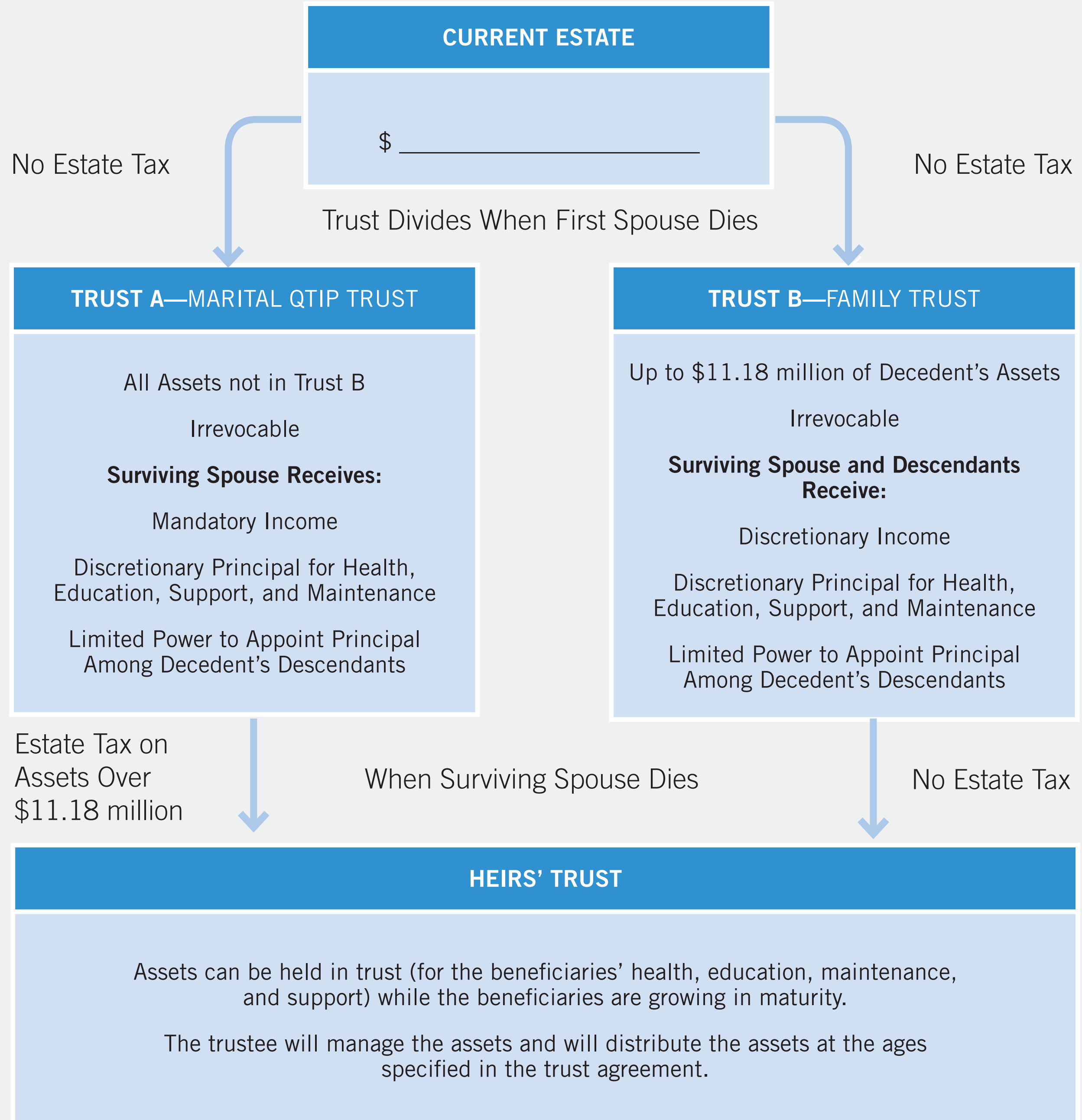
With the estate tax exemption set at $11.18 million (as adjusted for inflation each year), fewer decedents will have taxable estates. Nevertheless, there are many reasons for people to prepare wills, trusts, and powers of attorney beyond minimizing estate taxes. Estate planning is about people and their desire to provide for their loved ones, to provide for their favorite charities, to assure the survival of a family business, and to protect assets from creditors.

Titling assets in the name of a living trust avoids the costs, delays, and publicity associated with probate upon death or incapacity. Determining at what ages, and in what increments, minors and young adults will receive their inheritance is critical. Guardians for minor children must be named. Only with advanced planning can one deal with special circumstances such as blended families, elderly parents, special needs children, and family businesses. Advanced planning can also address end-of-life decisions, mental incapacity, and long-term care issues. Finally, life insurance will continue to play an important role in non-taxable estates, including providing capital to replace the income lost when a breadwinner dies prematurely (see page 8).



LIVING TRUST DIAGRAM

The Marital-Family type of trust is designed to make certain that the $11.18 million estate tax exemption (for 2018) of each spouse is used, while allowing the surviving spouse to have use of all of the deceased spouse's assets during the remainder of the surviving spouse's lifetime. The Family Trust (Trust B) is generally not taxed at either death. The Marital Trust (Trust A) is generally taxed at the surviving spouse's death (less the surviving spouse's estate tax exemption).



Special Section

USING LIFE INSURANCE IN NON-TAXABLE ESTATES

Estate planners commonly use life insurance as a method of creating liquidity to pay estate taxes. But with a $11.18 million estate tax exemption in 2018 ($22.36 million for married couples), for most decedents, the federal estate tax has been "repealed." Nevertheless, for the reasons described below, life insurance can still play a significant role in a non-taxable estate.

Replace Lost Income. Life insurance has long been used to protect young families from the disastrous effects of a breadwinner's untimely death.

Wealth Replacement. Charitable remainder trusts (CRTs) are often used by people who wish to sell highly appreciated assets without generating any immediate capital gains tax liability. A CRT is also a great tool for obtaining a charitable income tax deduction (see page 15). These benefits are derived from the fact that upon the death of the donor and the donor's spouse, the assets remaining in the CRT must pass to charity. A life insurance policy can be purchased for the benefit of the donor's heirs to "replace" the wealth passing to charity.

Estate Equalization. Most parents want to treat their children equally when dividing up their estate. But this may prove impossible with family businesses in which only the children active in the business are to receive the business. If the value of the business exceeds the active children's equal share of the estate, it is impossible to treat all the children equally. A simple solution is to use a life insurance policy as an estate equalizer. The non-active children (or a trust for their benefit) will be the beneficiaries of the policy.

Creditor Protection. The cash surrender value of a life insurance policy and/or the death proceeds from a policy may be protected from creditors. The availability of protection and any dollar limits thereon vary from state to state, and may be dependent upon who the beneficiaries of the policy are. For example, some states only protect a policy's cash surrender value and death proceeds if the insured's spouse and/or children are the beneficiaries of the policy.

Second Marriages. When children from a previous marriage are involved, estate planning becomes more complicated. Take the example of a second marriage in which the husband has children from a previous marriage. The husband establishes a living trust that, upon his death, provides his wife with income and principal as needed to maintain her accustomed standard of living, with the remainder passing to his children at his wife's subsequent death. This approach has two problems. First, the children have to wait until their stepmother's death to inherit their father's wealth. Second, as the remainder beneficiaries of the trust, the children have legal rights to challenge the distributions from the trust to their stepmother if those distributions exceed (in the children's opinion) the amount called for by the trust. A solution to these problems is life insurance on the husband's life. By naming his wife as the beneficiary of the life insurance, the husband can leave his estate to his children at his death (either outright or in trust).

Special Needs Children. Upon reaching age 18, a developmentally disabled individual is usually eligible for Supplemental Security Income (SSI), a federally funded program administered by the states. SSI eligibility generally is accompanied by eligibility for Medicaid, a state-administered federal program which primarily provides medical assistance. Many parents are skeptical about the future and/or level of the SSI and Medicaid programs. A solution to this potential problem is for the parents to purchase a second-to-die life insurance policy. The policy will be owned by the parents and will be payable to a "special needs trust" for the benefit of the disabled child at the surviving parent's death. A special needs trust is designed to "supplement" SSI and Medicaid without disqualifying the child from those programs' coverage. Upon the death of the disabled child before the complete distribution of the trust property, the assets remaining in the trust can pass to the other children.

[**Annuity Arbitrage.** Many people who are averse to the stock market's daily fluctuations prefer to invest in municipal bonds or certificates of deposit (CDs). In exchange for this security, the yield on these investments is quite low. A better alternative to municipal bonds and CDs in many cases is a single-premium immediate annuity contract. Not only is the annuity a safe investment (based on the strength of the carrier), it invariably will produce a significantly higher yield than muni-bonds or CDs. The problem with an annuity is that the payments cease when the annuitant dies. Accordingly, unlike the case with muni-bonds or CDs, the annuity owner's children will not inherit the annuity. The solution is to purchase a life insurance policy to "replace" the wealth lost when the annuitant dies. The cash to pay the premiums is generated from the increased cash flow from "converting" the muni-bonds and CDs into an immediate annuity.]

Medicaid Planning. For a person to become eligible for long-term care Medicaid benefits (i.e., nursing home care), income and assets must be below frightfully low levels. But what about those persons with substantial assets who are not financially eligible for Medicaid? What options are available to them to protect their assets from the high cost of nursing home care? Long-term care (LTC) insurance can be purchased to pay for such care. However, LTC insurance premiums increase dramatically for persons over age 65. A better answer may be to purchase life insurance. If the insured needs long-term care and, therefore, must use private funds to pay for such care, the insurance proceeds will eventually "replace" the assets spent on long-term care. Life insurance assures that the insured's heirs are not "disinherited" by the high cost of long-term nursing home care. In the event that the insured never requires long-term care, then, upon the death of the insured, the heirs will receive a larger inheritance.

Charitable Planning. Even without transfer taxes, many charitably-inclined persons will want to make lifetime gifts to their favorite charities. The advantages of naming a charity as the owner, beneficiary, and premium payer of a life insurance policy are numerous. First, the insurance proceeds eventually will provide the desired capital gift for a comparatively small outlay in the form of premium payments. Second, each year, if the donor-insured itemizes, he/she may be entitled to an income tax deduction equal to the premium payments gifted to the charity (subject to income limitations). Finally, because only the purchase of life insurance is involved, there are no complex details to be handled.

Avoiding Income Taxes on Traditional Retirement Plans. Contributing to a traditional retirement plan or traditional IRA is perhaps the best way to accumulate wealth because of the combination of tax-deductible contributions and tax-deferred savings. Such plans, however, are the worst way to distribute wealth because of the double tax (estate and income taxes) imposed on the distributions. Even without an estate tax, upon the death of the surviving spouse, the children must begin taking distributions and incurring income taxes. A better strategy for a charitably-inclined traditional IRA owner might be to withdraw cash from the IRA or pension plan, pay the income tax, and use the after-tax proceeds to purchase a life insurance policy for the benefit of the participant's heirs. The policy will have a face value equal to the IRA's projected value at the death of the participant. After the participant has died, the heirs will receive the insurance proceeds income tax-free, and the balance in the retirement plan could pass to charity or to a private foundation—income tax-free! For a married participant, a survivorship policy can be used. The only "loser" in this scenario is the IRS.

Conclusion. For the many reasons described above, life insurance is uniquely suited to handle many non-estate tax issues commonly confronted in estate [and financial] planning. Moreover, life insurance is likely to remain tax-favored and a good hedge if the insured does not live until his/her life expectancy. As such, life insurance deserves a place in one's overall asset allocation.

INSURANCE COMPARISON CHART

INSURANCE TYPE	PREMIUM	DEATH BENEFIT	ACCESS TO CASH VALUE?	MARKET PARTICIPATION?
LEVEL TERM INSURANCE	Relatively low; fixed	Fixed during the term, then zero	NO	NO
RENEWABLE TERM INSURANCE	Relatively low; increasing	Fixed	NO	NO
DECREASING TERM INSURANCE	Relatively low; decreasing	Decreasing during the term, then zero	NO	NO
WHOLE LIFE INSURANCE	Relatively high; fixed	Fixed minimum amount, some upside	YES	NO
UNIVERSAL LIFE INSURANCE	Relatively high; flexible	Variable	YES	NO
VARIABLE WHOLE LIFE INSURANCE	Relatively high; fixed	Fluctuates with investment performance	YES	YES
VARIABLE UNIVERSAL LIFE INSURANCE	Relatively high; flexible	Fluctuates with investment performance	YES	YES

Please Note: This chart is intended to assist the reader in selecting life insurance coverage and is not a recommendation.

LEVEL TWO PLANNING

THE IRREVOCABLE LIFE INSURANCE TRUST

Situation

The projected estate is larger than the estate tax exemption.

Objectives

- Remove life insurance proceeds from the insured's gross estate while still providing benefits to the surviving spouse and descendants.
- Take advantage of the $15,000/$30,000 for married couples) annual gift tax exclusion (per donee) as indexed for inflation.
- Leverage the annual gift tax exclusion through the purchase of life insurance, including second-to-die life insurance.
- Use the tax-free death benefit to provide liquidity to the estate through the purchase of assets from the estate or loans to the estate.

Tools & Techniques

- Irrevocable Life Insurance Trusts
- Dynasty Trusts

Disadvantages

- Grantor-insured cannot act as the trustee of an irrevocable trust.
- Trust is irrevocable and, therefore, cannot be amended or revoked.
- Grantor cannot directly reach trust property (i.e., cash values) during lifetime. However, the trustee can use cash values for the benefit of the grantor's spouse and descendants during grantor's lifetime.

THE "CRUMMEY" TRUST

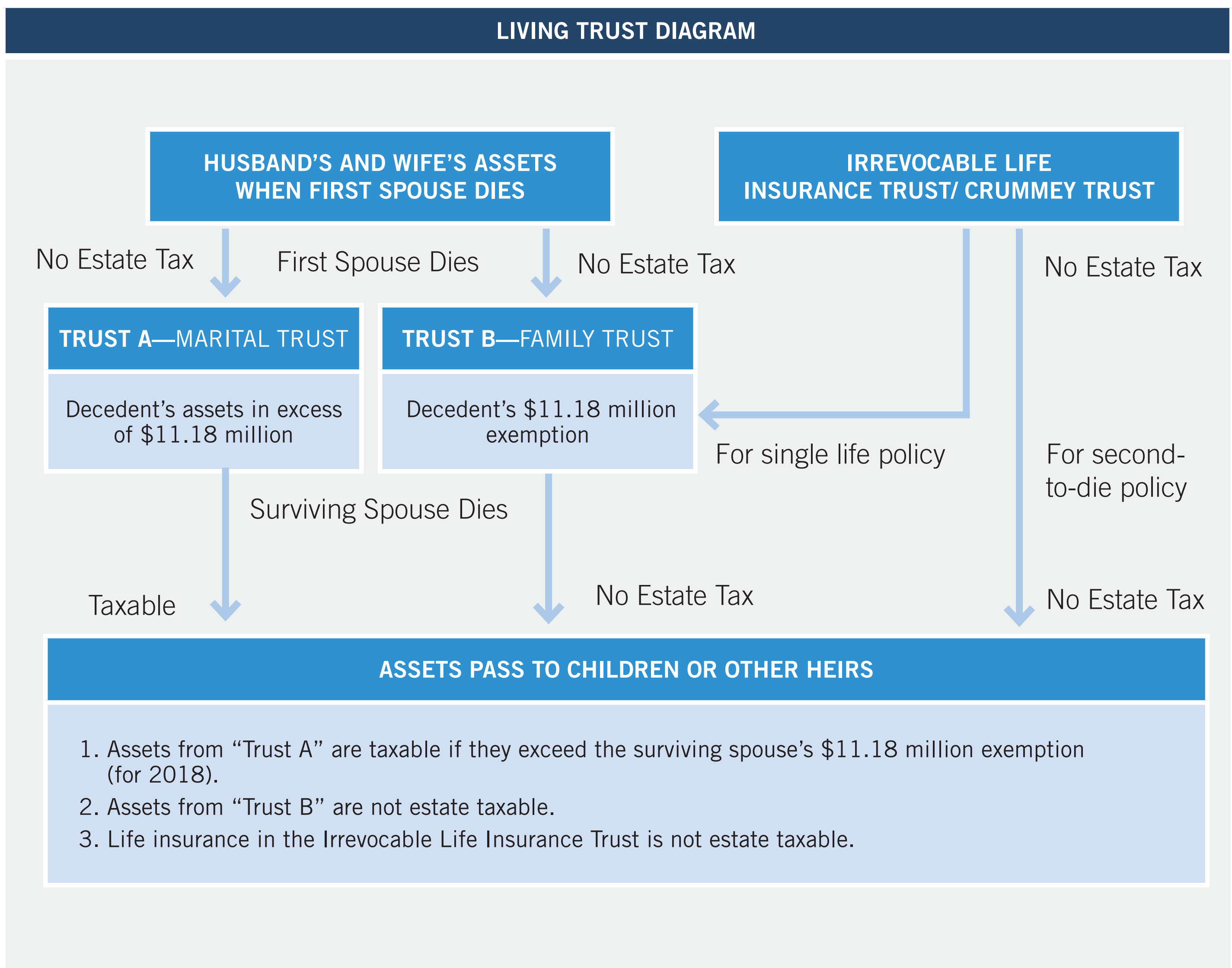
This type of irrevocable life insurance trust is a popular device used in making gifts that qualify for the $15,000/$30,000 gift tax annual exclusion. Most other forms of gifts that qualify for the annual exclusion require an immediate or at least a very early (i.e., age 21) distribution of the assets to the beneficiary. Since 1998, the gift tax annual exclusion has been indexed annually for inflation. The "Crummey" Trust takes its name from a court case upholding this type of trust and supporting its tax benefits.

Each time a contribution is made to a Crummey Trust, a temporary right (usually 30 days) to demand withdrawal of that contribution from the trust is available to the beneficiaries. If the demand right is not exercised, the contribution remains in the trust for management by the trustee.

Because the right of withdrawal is not usually exercised, the trustee may use the funds (income and/or principal) for some purpose desired by both the trust grantor and the beneficiaries. Paying premiums on insurance on the life of the grantor is its typical use. With a single life policy, when the grantor-insured dies, the insurance proceeds are used to provide benefits to the surviving spouse, children, and/or grandchildren. Properly structured, the insurance proceeds are not taxed in the estate of the grantor or in the estate of the grantor's spouse. Moreover, when both spouses have died, the insurance proceeds can then be used to help pay the federal estate tax that may be due. This is accomplished by having the Crummey Trust purchase assets from, or loan money to, the estate(s) of the grantor and/or the grantor's spouse as allowed in the trust agreement. A married couple with no need for liquidity at the first spouse's death can purchase a second-to-die policy to provide the liquidity to pay estate taxes at the surviving spouse's death.

The main advantage of an irrevocable life insurance trust is the reduction of the gross estate by the annual gifts to the trust and the exclusion of the death benefit from the estate. As long as the grantor-insured establishes an irrevocable trust and retains no powers over the policy or the trust that could be construed as ownership, the death benefit received by the trust will be excluded from the grantor's gross estate. For an existing policy transferred to the trust, the grantor-insured must survive at least three (3) years from the transfer of the policy to the trust. Otherwise, the death benefit will be included in the grantor's estate. This three-year rule can be avoided for a new policy by having the trust apply for the policy as the initial owner.

In funding the Crummey Trust, the vehicle of choice is invariably life insurance because: (i) it increases substantially in size upon the grantor-insured's death—generally, both federal income and estate tax-free; (ii) it can usually be funded with gifts qualifying for the $15,000/$30,000 gift tax annual exclusion (per donee); (iii) the cash value of a permanent policy permits funding flexibility since the cash values can be used to pay the premiums after a period of years; and (iv) the death benefit can eventually be used to provide liquidity to help pay the grantor's estate taxes. In essence, the Irrevocable Life Insurance Trust allows estate taxes to be paid *for* the estate rather than *from* the estate.



GENERATION-SKIPPING TRANSFER TAXES

A generation-skipping transfer ("GST") tax applies to lifetime or death-time transfers to a member of a generation more than one generation younger than the donor (i.e., grandchildren). The GST tax is in addition to the gift or estate tax. However, there is an exemption against the GST tax that is the same as the estate tax exemption ($11.18 million in 2018). The GST tax rate is the same as the highest estate tax rate (40%).

DYNASTY TRUSTS – LEVERAGING THE GST EXEMPTION

A Crummey Trust funded with life insurance can leverage a grantor's GST tax exemption. For example, a married couple can gift up to $22.36 million to a Crummey Trust using their $15,000/$30,000 annual gift tax exclusion (per donee), and their $22.36 million gift/GST tax exemption (for 2018). The trustee could, in turn, use these gifts to purchase a second-to-die life insurance policy on the grantors' lives.

Let's assume this results in a $10 million second-to-die life insurance policy being purchased on a couple's lives. Assume further that the premiums paid totaled $2 million and that the couple used their $30,000 annual gift tax exclusion to cover the premiums gifted to the Crummey Trust. Upon the death of the surviving spouse, the following benefits will be realized:

- The entire death benefit will generally be received by the Crummey Trust income tax-free.
- The entire death benefit will be estate tax-free because the grantors did not possess any "incidents of ownership" over the policy.
- There will be no GST tax because a portion of the grantors' $22.36 million GST tax exemption (for 2018) was used against the $2 million of gifts to make the trust 100% "GST tax exempt." Moreover, the couple will still have $20.36 million of GST exemption remaining.
- The beneficiaries will receive the income from the trust plus any principal needed for their health, education, maintenance, and support.
- Upon the death of the children, the trust property (including any appreciation) will pass estate tax-free to the grandchildren and perhaps to even more remote descendants depending upon state law.
- The assets in the Crummey Trust will be outside the reach of the beneficiaries' creditors, including divorced spouses.

DYNASTY/CRUMMEY TRUST

Assumptions: *The insurance shown is for illustrative purposes only.*

1. Amount of insurance at death of surviving spouse is $10 million.
2. Growth rate after taxes and distributions to beneficiaries is 4% annually.
3. One generation = 30 years.
4. Federal Estate Tax = 40%

The insurance shown above is for illustrative purposes only. The death benefit and premium are hypothetical and do not represent any particular company or product. Investment and insurance values are projections only, not guarantees.

Irrevocable Life Insurance Trust Without Generation Skipping	Irrevocable Life Insurance Trust With Generation Skipping
Children's Inheritance: $10,000,000	Children's Inheritance: $10,000,000
Grandchildren's Inheritance: $19,460,385	Grandchildren's Inheritance: $32,433,975
Great-Grandchildren's Inheritance: $37,870,658	Great-Grandchildren's Inheritance: $105,196,274

Special Section

THE THREE LEVELS OF BUSINESS SUCCESSION PLANNING

One of the chief concerns facing family business owners is how to effect an orderly and affordable transfer of the business to the next generation and/or key employees. Failure to properly plan for a smooth transition can result in monetary losses and even loss of the business itself. Following are ways to help keep the family business in the family.

There are essentially three levels to a business succession plan. **The first level is management.** The day-to-day management of the business may be left to one child, while ownership of the business is left to all of the children (whether or not they are active in the business).

The second level of a business succession plan is ownership. Business owners must assess the most effective means of transferring ownership and the most appropriate time for the transfer to occur. They must also examine ways to leave their businesses to those children who are active in the business, while still treating all of their children fairly (if not equally).

The third level is transfer taxes. Estate taxes alone can claim up to 40% of the value of the business, frequently resulting in a business having to liquidate or take on debt to keep the business afloat. To avoid a forced liquidation or the need to incur debt to pay estate taxes, there are a number of lifetime gifting strategies that can be implemented by the business owner to minimize (or possibly eliminate) estate taxes.

LEVEL ONE – MANAGEMENT.

In the typical family business, the future leader is likely to be one of the business owner's children. If so, steps must be taken to assure that the future leader has the support of the key employees. Among the commonly used techniques to assure that key employees remain with the business during the transition period are employment agreements, nonqualified deferred compensation agreements (a so-called "private pension plan"), stock option plans, and change of control agreements.

LEVEL TWO – OWNERSHIP.

Often, a major concern for family business owners with children who are active in the business is how to treat all of the children fairly (if not equally) in the business succession process. Other concerns for the business owner include when to give up control of the business and how to guarantee sufficient retirement income. Simultaneous with the gifting and/or selling of business interests, new owners should enter into a buy-sell agreement with current owners.

LEVEL THREE – TRANSFER TAXES.

The transfer tax component of business succession planning involves strategies to transfer ownership of the business while minimizing gift and estate taxes. The gift and estate-tax consequences deserve special attention. Unanticipated federal estate taxes can be so severe that the business may need to be liquidated to pay the tax.

For business owners with large estates, a gifting program can be used to reduce estate taxes. For lifetime gifts or a sale of the business, non-voting shares are usually used for two reasons. The first is to allow the business owner to retain control of the business until a later date (i.e., the owner's death, disability or retirement). The second reason is to reduce the gift tax value of the shares through possible valuation discounts for lack of control and marketability (see page 17).

Tax-free gifts of business interests up to $15,000/$30,000 for married couples) can be made annually to as many donees as the business owner desires. Beyond the $15,000 annual gift tax exclusion, the business owner can gift $11.18 million ($22.36 million for a married couple) in 2018 gift tax-free. While the use of the $11.18 million/$22.36 million gift tax exemption reduces (dollar for dollar) the estate tax exemption at death, such gifts remove the income and future appreciation on the gifted property from the business owner's estate. While a business owner can gift shares in the business outright, consideration should be given to making the gifts in trust to protect the children from creditors, ex-spouses, and estate taxes.
Life insurance plays an important role in a business succession plan. For example, some business owners will wait until death to transfer all or most of their business interests to one or more of their children. If the business owner has a taxable estate, life insurance can provide the children receiving the business the cash necessary for them to pay the estate taxes on the business. A business owner can use life insurance to provide those children who are not involved in the business with equitable treatment. Life insurance is also commonly used to informally fund the business's obligations under nonqualified deferred compensation plans for key employees. Finally, life insurance is usually the most economical way to provide the cash necessary for the business or the surviving owners to purchase a deceased owner's interest pursuant to the terms of a buy-sell agreement.

Special Section

CHARITABLE REMAINDER TRUSTS

A Charitable Remainder Trust ("CRT") enables an individual to make a deferred gift to charity(ies), usually of appreciated assets such as marketable securities, real estate, or closely-held stock, while retaining a lifetime right to payments from the CRT. Since the CRT is a tax-exempt trust, when it sells the appreciated assets it does not pay any capital gains tax. This results in increased cash flow to the donor (and the donor's spouse). Moreover, the donor is entitled to an immediate charitable income tax deduction resulting in further reduced taxes. Finally, upon the death of the donor (and the donor's spouse), the assets in the CRT pass to the designated charity(ies) estate tax-free!

The CRT can be a unitrust or an annuity trust. A unitrust's payments to the donor will vary since they are based on a set percentage (at least 5% but not more than 50%) of the CRT's annually revalued principal. Conversely, an annuity trust's payments to the donor will not vary as they are based on a set percentage (at least 5% but not more than 50%) of the initial value of the CRT. Either type of CRT can require that payments be made for the lives of the donor and one or more persons, such as the donor's spouse.

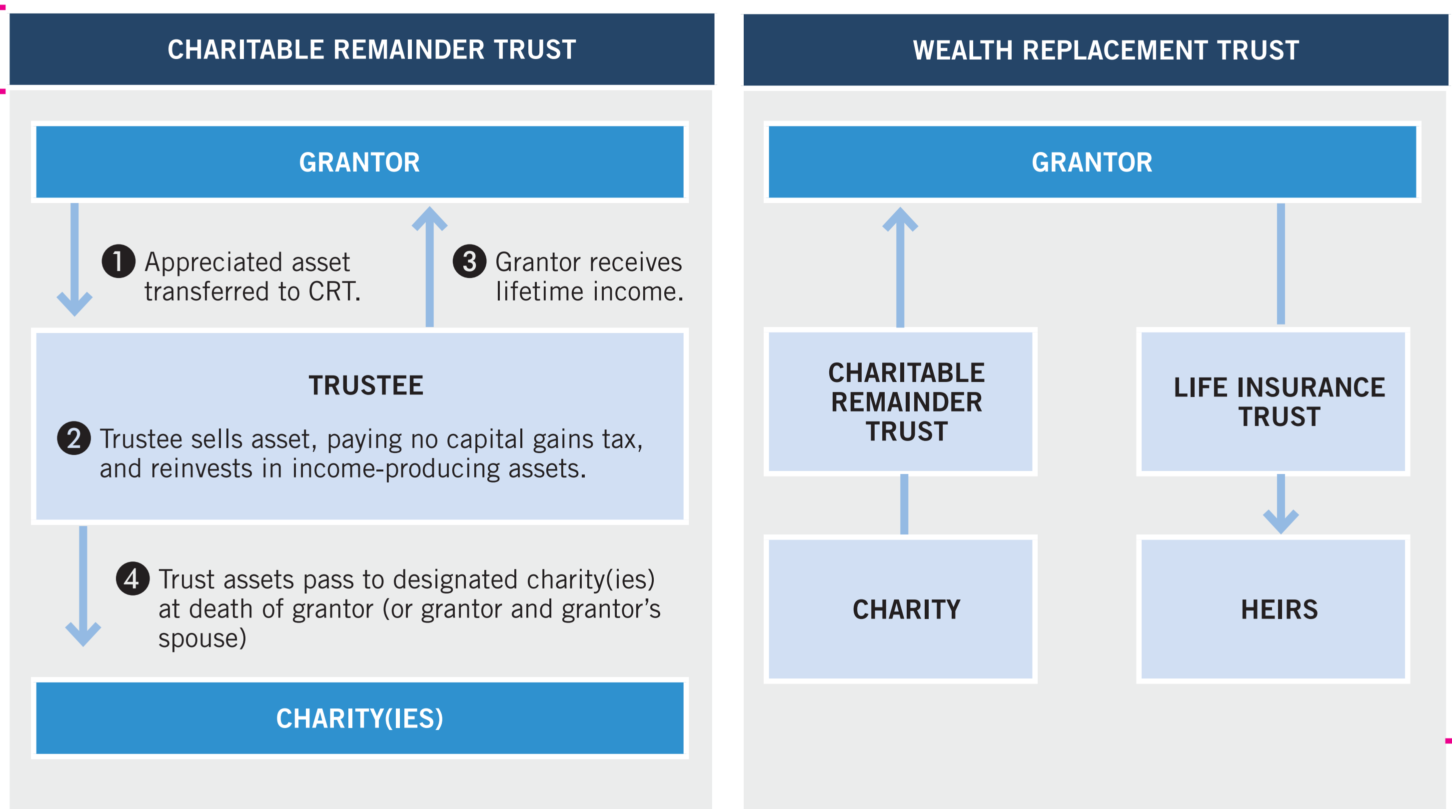
The donor (and the donor's spouse) can act as the trustee(s) of the CRT, and can control and manage the trust corpus. If non-marketable assets (i.e., land or closely-held business interests) are contributed to the CRT, an independent co-trustee is required. In managing the trust assets, the trustee(s) cannot be obligated by a pre-existing contract to sell the donated assets.

Property subject to verbal pre-existing contracts might also be viewed as obligating the trustee(s) to sell, and are generally not appropriate assets for a CRT. The trustee(s) has a fiduciary duty to manage the trust assets, not only for the benefit of the income beneficiaries (donor(s)), but also the charity(ies).

The income tax deduction is the present value of the remainder interest passing to charity (which must be at least 10% of the initial fair market value of the trust's assets), and is based on the age of the donor (and, if a beneficiary, the donor's spouse), the selected payout, the amount contributed to the CRT, and the IRS's assumed rate of return (published monthly). For example, an older donor and a smaller payout will result in a larger charitable income tax deduction, and vice-versa. Upon the death of the surviving spouse, assuming there are no other income beneficiaries, the balance in the CRT passes to the designated charity(ies) free of estate tax because of the unlimited charitable estate tax deduction. Thus, at first blush, it would appear that the donor's children are being disinherited. However, simultaneous with the creation of the CRT, the donor will usually establish an irrevocable life insurance trust for the benefit of his/her children. This is sometimes called a "Wealth Replacement Trust."

A married donor will typically use a second-to-die life insurance policy in his/her Wealth Replacement Trust. The donor will use the tax savings from the charitable income tax deduction and the increased cash flow resulting from the use of the CRT to make gifts to the Wealth Replacement Trust, thereby providing for the "replacement" of the property eventually passing to charity.

In summary, by using a CRT in conjunction with a Wealth Replacement Trust, the donor can increase spendable income; reduce or eliminate income, capital gains, and estate taxes; secure a tax-free inheritance for his/her heirs; and leave a lasting legacy.



LEVEL THREE PLANNING

FAMILY LIMITED LIABILITY COMPANIES AND VALUATION DISCOUNTS

Situation

There is a projected estate tax liability that exceeds the life insurance inside irrevocable trusts.

Objectives

- Use the federal gift tax exemption to make lifetime gifts. Thus, the future appreciation on the gifted property is effectively removed from the estate.
- Take advantage of valuation discounts (for lack of control and marketability).
- Maintain control over the gifted property.
- Shift income to children and/or grandchildren who may be in lower income tax brackets.

Tools & Techniques

- Family Limited Liability Companies ("FLLCs")
- Valuation Discounts

Disadvantages

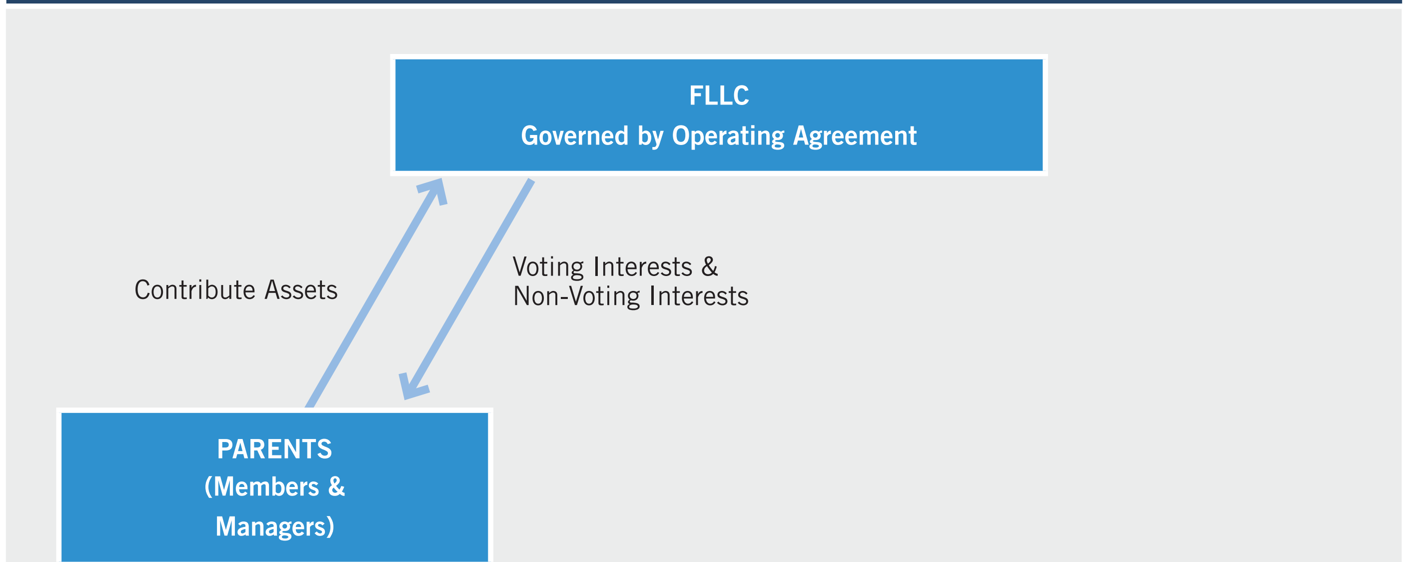
- Transfers to FLLCs are irrevocable.
- The donor loses the income allocable to the FLLC members.
- The donor's heirs lose the stepped-up basis on appreciated property transferred to the FLLC.

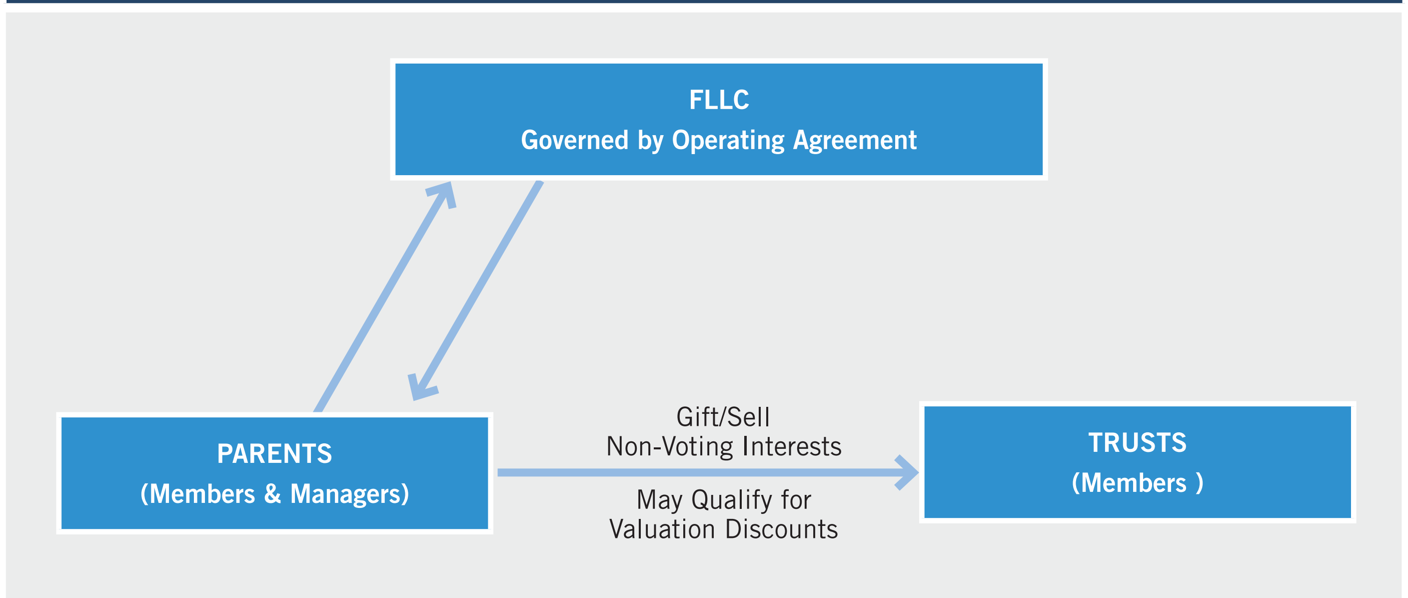
FAMILY LIMITED LIABILITY COMPANIES

A family limited liability company ("FLLC") is typically established as follows and will provide the following benefits:

- A donor transfers income-producing assets (e.g., building or equipment) to an FLLC. The donor may use multiple FLLCs to further limit liability (i.e., one FLLC for real estate, and another for marketable securities).
- The donor is the "manager" and, in that capacity, owns a small (1% – 5%) voting membership interest in the FLLC.
- The donor's spouse, children, and/or grandchildren (or trusts for their benefit) are gifted the non-voting membership interests, and, in that capacity, own the balance (95% – 99%) of the FLLC.
- The Tax Court recognizes a minority discount from the full value of the membership interests gifted to children and grandchildren because such interests do not have any control over the FLLC and lack marketability.
- Discounts of 25% to 40% are typical, but must be determined by a qualified appraiser.
- The FLLC can lease equipment or buildings to the donor's corporation (at fair market value), or to any other person or entity.
- As manager, the donor has exclusive control and management of the FLLC's business and assets. The operating agreement permits the manager to accumulate (as opposed to distribute) profits for business purposes, and the operating agreement also permits the manager to pay himself/herself a reasonable management fee.
- If the non-voting membership interests are gifted to an intentionally defective grantor trust established by the donor for the benefit of his/her descendants, then the donor/grantor will be responsible for paying the trust's income taxes. The donor/grantor's payment of the trust's income taxes is essentially a tax-free gift to the beneficiaries of the trust. (See page 21.)
- Only the value of the donor/manager's membership interest is included in his or her gross estate—despite the fact that he or she managed the FLLC.

- The initial assets transferred to the FLLC, plus any after-tax earnings and appreciation thereon, are removed from the donor/manager's gross estate (except to the extent of the donor/manager's membership interest).
- Assets in the FLLC are difficult for the creditors of a member to reach.
- The FLLC's profits are allocated to the members in proportion to their ownership interests, even if not distributed. If the members are in a lower tax bracket than the donor/manager, an income tax savings will result.
- The donor/manager's irrevocable life insurance trust can be made a member. Thus, the FLLC's cash flow can be used to pay life insurance premiums without having to use any of the donor/manager's annual gift tax exclusion, or gift tax exemption.





LEVEL FOUR PLANNING

QPRTs, GRATs, AND IDGTs

Situation

The further need to make gifts when the gift tax exemption has already been used for other transfers.

Objectives

- Remove property from the grantor's estate.
- Permit grantor (and grantor's spouse) to continue using the property or the property's income for a fixed term.
- Make substantial gifts at little or no gift tax cost.
- Freeze the value of the property transferred.
- Permit grantor to pay beneficiaries' income taxes (gift tax-free).

Tools & Techniques

- Qualified Personal Residence Trust ("QPRT")
- Grantor Retained Annuity Trust ("GRAT")
- Installment Sale to an Intentionally Defective Grantor Trust ("IDGT")

Disadvantages

- Trust is irrevocable.
- Grantor loses access to property at end of fixed term.
- Heirs lose stepped-up basis on appreciated property.
- With QPRTs and GRATs, if grantor dies during the fixed term, the property in trust is included in grantor's estate.

QUALIFIED PERSONAL RESIDENCE TRUSTS

A Qualified Personal Residence Trust ("QPRT") is typically established as follows and provides the following benefits:

- The grantor's residence (or second house) is transferred to a trust, but the grantor retains the right to use the residence for a specified number of years.
- After the fixed term ends, the property passes to the beneficiaries named in the QPRT, usually the grantor's children.
- The creation of the QPRT involves a gift to the grantor's children of only the remainder interest. IRS valuation tables are used to compute the present value of the grantor's right to remain in the residence for a certain number of years, and the value of that retained interest is subtracted from the value of the residence.
- For example, assume a vacation home owned by a grantor age 70 is worth $3,000,000 and the IRS's assumed interest rate is 2.6% for the month of the transfer.

  If the grantor establishes a 15-year QPRT for his or her children, the total value of the grantor's retained interest is $2,059,200. Thus, the taxable gift is only $940,800 ($3,000,000 – $2,059,200). The reason for the reduced gift is that the children are not receiving the residence for 15 years. This taxable gift can be offset by the grantor's $11,180,000 gift tax exemption (for 2018).

  Assuming the grantor survives the 15-year term, and the residence appreciates at 5% per year to $6,236,785, the potential estate tax savings at a 40% tax rate will be $2,118,394! (See diagram on page 23.)

- The longer the term for the grantor's retained interest, the smaller the gift to the grantor's children and/or grandchildren. However, if the grantor does not survive the fixed term, the fair market value of the residence is included in the grantor's gross estate just as if the QPRT had not been created.
- If the grantor wants to continue using the residence after the fixed term expires, the grantor can lease it from his or her children at fair market rental rates, which saves more estate tax by removing additional funds from the grantor's estate. While the rent would be taxable income to the children, the net effect is that the grantor is transferring assets (i.e., rent) to his/her children at potentially lower income tax rates.
- However, if the trust is a "grantor" trust for income tax purposes, the rent will not be taxable income to the children (nor to the grantor). Essentially, the rent payments would be tax-free gifts to the children.
- A QPRT works best for a primary residence and/or second residence that the grantor expects to hold for the foreseeable future or replace if sold.
- A common hedge against death during the term is to insure the grantor's life for an amount equal to the estimated estate tax on the value of the residence. An insurance policy held by an irrevocable life insurance trust is an ideal hedging strategy.

GRANTOR RETAINED ANNUITY TRUSTS

A grantor retained annuity trust ("GRAT") is typically established as follows and provides the following benefits:

- Either Subchapter S stock that pays significant dividends, or a partnership or LLC interest with good cash flow, is transferred to a GRAT. However, virtually any asset can be used.
- The GRAT pays the grantor a fixed payment (an annuity), at least annually, for a fixed term of years.
- After the fixed term ends, the trust property (plus the appreciation thereon) passes to the beneficiaries named in the GRAT, usually the grantor's children.
- Only the present value of the remainder interest is subject to gift tax. The value of the remainder interest and, therefore, the value of the gift can be reduced by a longer term, a larger annuity, an older grantor, or a lower assumed interest rate (published monthly by the IRS).
- For example, if a 70-year-old were to transfer $5,000,000 to a GRAT with a term of 10 years, and retain a 10% annuity interest ($500,000 per year) during the term of the trust, the taxable gift (assuming the IRS's interest rate is 2.6% for the month of the gift), will be only $646,500. The reason for the reduced gift is that the children are not receiving the trust property for 10 years. This taxable gift can be offset by the grantor's $11,180,000 gift tax exemption (for 2018). If the assets in the GRAT generate 2% income and 6% growth during the 10-year term, there will be $3,590,793 remaining in the GRAT after the term. (See diagram on page 23.)
- If the grantor dies during the GRAT term, the IRS's position is that a portion of the GRAT assets are included in the grantor's estate. The portion so included is the amount necessary to produce the retained annuity in perpetuity (as if the annuity amount were the annual income of the GRAT's assets) using the IRS's assumed interest rate in effect in the month of death. Generally, if a GRAT's assets have substantially appreciated, there will be some tax-free transfer of wealth even if the grantor dies during the term.
- A common hedge against death during the term is to insure the grantor's life for an amount equal to the estimated estate tax on the value of the property in the GRAT. An insurance policy held by an irrevocable life insurance trust is an ideal hedging strategy.

INSTALLMENT SALES TO INTENTIONALLY DEFECTIVE GRANTOR TRUSTS

An installment sale to an intentionally defective grantor trust ("IDGT") can provide valuable income, gift, and estate tax benefits. If the assets sold produce a total return (income and appreciation) in excess of the interest rate on the note, substantial wealth can be removed from the seller's gross estate—gift and estate tax-free. The IDGT is one of the most effective wealth transfer planning techniques being used today.

Design.

Following is a summary of the basic structure of an installment sale to an IDGT (see diagram on page 23):

- The grantor creates an irrevocable trust for the benefit of his/her descendants. The trust is specifically designed so that the grantor is taxed on the trust's income, but the trust assets are not taxed in the grantor's estate. In other words, the grantor owns the trust assets (and income thereon) for income tax purposes, but not for estate tax purposes.
- The grantor makes a gift to the IDGT. For estate tax purposes, this gift (or so-called "seed" money) should be equal to at least 10% of the value of the assets to be sold to the trust. This gift will use up a portion of the grantor's $11.18 million ($22.36 million for married couples) gift tax exemption for 2018. The gift can be made in cash or with the same assets to be sold to the IDGT.
- If the IDGT is designed as a generation-skipping trust, the grantor must allocate a portion of his/her generation skipping transfer (GST) tax exemption to the trust to cover the amount of the seed money gift. The GST tax exemption is the same amount as the estate tax exemption, and the allocation is reported on a gift tax return (Form 709). (See page 13.)
- The grantor then sells assets to the IDGT that are expected to outperform the interest rate on the note. Typically, there is no down payment, interest is payable annually on the note, and a balloon payment will be due at the end of a set term ranging generally from 9 to 20 years. Ideally, the assets sold to the trust will generate income (to make the interest payments) and may also qualify for valuation discounts for lack of control and lack of marketability. For example, nonvoting interests in a family LLC or a Subchapter S corporation are often good assets to sell to a grantor trust. (A grantor trust is also an eligible Subchapter S stockholder.)
- The interest rate on the note is fixed for the entire note term at the lowest rate allowed under the tax law. This rate is known as the Applicable Federal Rate ("AFR") and is published monthly by the IRS. There are rates for loans of three years or less, for loans between three and nine years, and for loans over nine years. The nine-year rate is the most common one used.

Tax Advantages.

Following is a summary of the tax benefits this technique provides:

- The grantor recognizes no gain or loss on the sale. However, the trust's basis in the assets purchased is not the purchase price paid for the assets, but instead the grantor's basis.
- The grantor is not taxed separately on the interest payments the grantor receives. Instead, the grantor is taxed on all of the trust's income. In essence, the grantor is making a tax-free gift to the trust's beneficiaries by paying the trust's income taxes. Moreover, if the trust makes payments in kind (by returning some of the assets purchased), the grantor recognizes no gain.
- If the total return on the assets sold to the trust exceeds the interest rate on the note, assets are transferred tax-free to the trust's beneficiaries. The transfer tax benefits are enhanced by the grantor's payment of the trust's income taxes. These "excess" trust assets can be reinvested as the trustee decides, including purchasing life insurance on the grantor and/ or grantor's spouse's lives.
- If designed as a generation-skipping trust, the assets in the trust can escape estate taxation in the estates of the grantor's children, grandchildren, and possibly more remote descendants, depending on state law.
- The future growth (equity) in the trust provides additional equity with which to support future installment sales within the 10% guideline referred to above.

[GRATs VS IDGTs.

The IDGT has several advantages over a GRAT. With a sale to an IDGT, there is no mortality risk. With a GRAT, the death of the grantor prior to the expiration of the term causes the assets in the GRAT to be included in the grantor's estate. Another advantage of a sale to an IDGT is that the interest rate is lower for a nine-year installment note (i.e., the mid-term applicable federal rate as opposed to 120% of the mid-term applicable federal rate). Since the grantor receives a lower rate of return, more value is ultimately passed on to the beneficiaries. The sale to an IDGT is also a better vehicle for generation skipping, since the GST tax exemption cannot be allocated to a GRAT until the expiration of its term (see page 13). Finally, whereas a GRAT generally requires equal annual annuity payments, a sale to an IDGT allows for interest only with a balloon payment. Thus, more value remains in the trust longer.

The GRAT, however, offers three important gift tax advantages. With a GRAT, the annuity can be expressed in terms of a percentage so that any undervaluation is automatically corrected. In comparison, with a sale to an IDGT, an incorrect valuation may result in an unintended gift tax. In addition, a sale to an IDGT generally requires the grantor to make a seed gift of 10% of the value of the property sold. With a GRAT, it's possible to "zero-out" the gift by setting an appropriate term and annuity amount. Finally, a GRAT is a statutory technique whereas an IDGT is not.]

Special Section

"STRETCH-OUT" IRAs

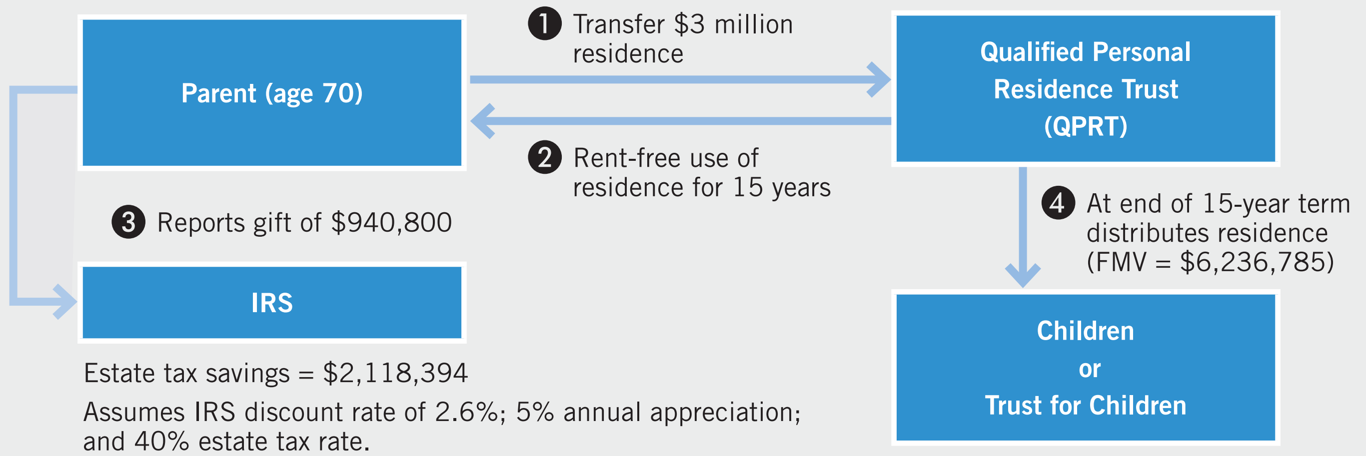
When a traditional IRA account owner dies, the assets in his/her IRA will usually be subject to federal and state income taxes, and federal and state estate taxes. Substantial sums (i.e., 70% to 75% of the IRA assets) can be lost to these taxes if the IRA's beneficiary designation has not been carefully planned. The IRA account owner's objective should be to postpone, for as long as possible, the distribution of funds from the IRA (provided such funds are not needed to live on). This allows IRA assets to grow income tax-deferred, thereby taking full advantage of the power of income tax-free compounding.

Usually, naming the IRA owner's spouse as primary beneficiary affords the greatest flexibility in prolonging the distribution period after the owner's death. This is because upon the IRA owner's death, the spouse can elect to roll the IRA into his/her own IRA—both income and estate tax-free! The spouse can then select new beneficiaries for the rollover IRA, such as his/her children and/or grandchildren. The surviving spouse can then defer distributions from the rollover IRA until he/she reaches age 70½. Thereafter, required minimum distributions (RMDs) must be taken based on the spouse's life expectancy using the new (and improved) Uniform Table. If the surviving spouse is not a U.S. citizen, special planning will be required.

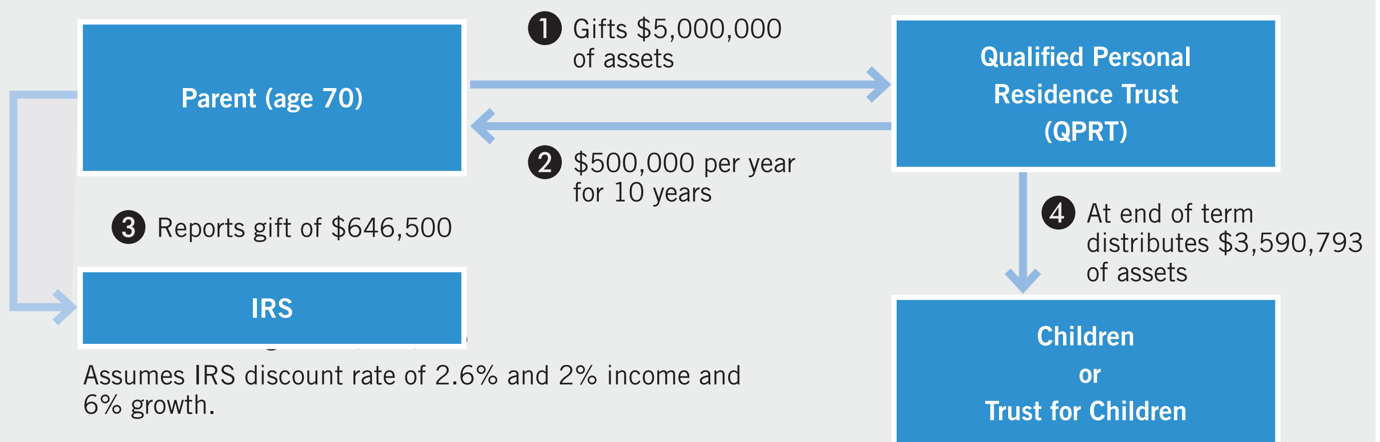
Upon the death of the surviving spouse, the children/grandchildren can withdraw the balance in the IRA over their life expectancies. This approach makes it possible for the children/grandchildren to continue enjoying income tax-deferred compounding for several decades after the surviving spouse's death.

The "stretch-out" IRA described above—deceased spouse to surviving spouse, surviving spouse to children/grandchildren—is usually the most effective (and popular) way to defer income taxes and thereby create wealth. However, there must be sufficient liquid assets in the surviving spouse's estate (outside of the IRA) to pay the estate tax that will be due on the IRA assets at the surviving spouse's death. Otherwise, the assets in the IRA will have to be distributed to the beneficiaries to pay the estate tax. In such case, the income tax deferral will be lost. Frequently, funds with which to pay the estate tax on IRA assets are provided through gifts to an Irrevocable Life Insurance Trust (see page 11).

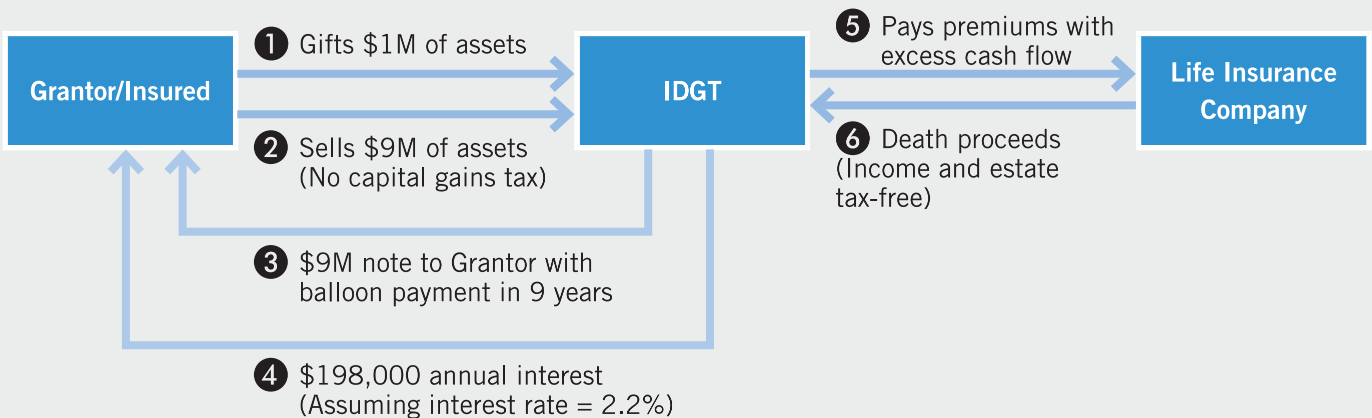
QUALIFIED PERSONAL RESIDENCE TRUST



GRANTOR RETAINED ANNUITY TRUST



INSTALLMENT SALE TO IDGT



LEVEL FIVE PLANNING

CHARITABLE PLANNING

Situation

Desire to disinherit the IRS, and to choose children and charity over Congress.

Objectives

- Avoid being an "involuntary philanthropist" (i.e., paying estate taxes and letting Congress control those funds), and instead become a "voluntary philanthropist" (i.e., not paying estate taxes and letting the heirs control those funds).
- Make entire estate available to the surviving spouse during his or her lifetime, while providing the children and grandchildren with a desired minimum inheritance.

Tools & Techniques

- Use Crummey/Dynasty Trust funded with a second-to-die life insurance policy to provide children and grandchildren with desired inheritance—generally, federal income and estate tax-free.
- Use Marital-Family Trust to provide for surviving spouse.
- Upon death of surviving spouse, distribute that portion of the estate over the couple's combined estate tax exemption to charity.

Disadvantages

- Grantor-insured cannot act as the trustee of an irrevocable trust.
- Crummey/Dynasty Trust is irrevocable and, therefore, cannot be amended or revoked.
- Grantor cannot directly reach trust property (i.e., cash values) during lifetime. However, the trustee can use cash values for the benefit of the grantor's descendants during grantor's lifetime.

[THE "ZERO ESTATE TAX PLAN"

The "Zero Estate Tax Plan" is an approach to estate planning which results in no federal or state death taxes being paid. There are several ways to achieve a zero estate tax, including using the Charitable Lead Annuity Trust described on page 28. Following is an example of the simplest zero estate tax plan. Assume a married couple, both age 60, with a $40 million estate and no growth or depletion of their estate. Also assume that the estate tax exemption is $11.18 million per spouse, with a 40% estate tax rate.

Diagram I on page 25 illustrates the standard Marital-Family Trust (described on page 2 of this brochure). Diagram II on page 26 illustrates how the children can receive the same $32.94 million they inherit in Diagram I, but with no estate taxes being paid. By gifting $2.6 million ($130,000 annual exclusion for 20 years) to a Crummey/Dynasty Trust (described on page 11 of this brochure) funded with an $11 million second-to-die life insurance policy, it is possible to leave the children $33.36 million while leaving charity $15.04 million. The unlimited estate tax deduction for charitable bequests leaves the IRS out of the picture.

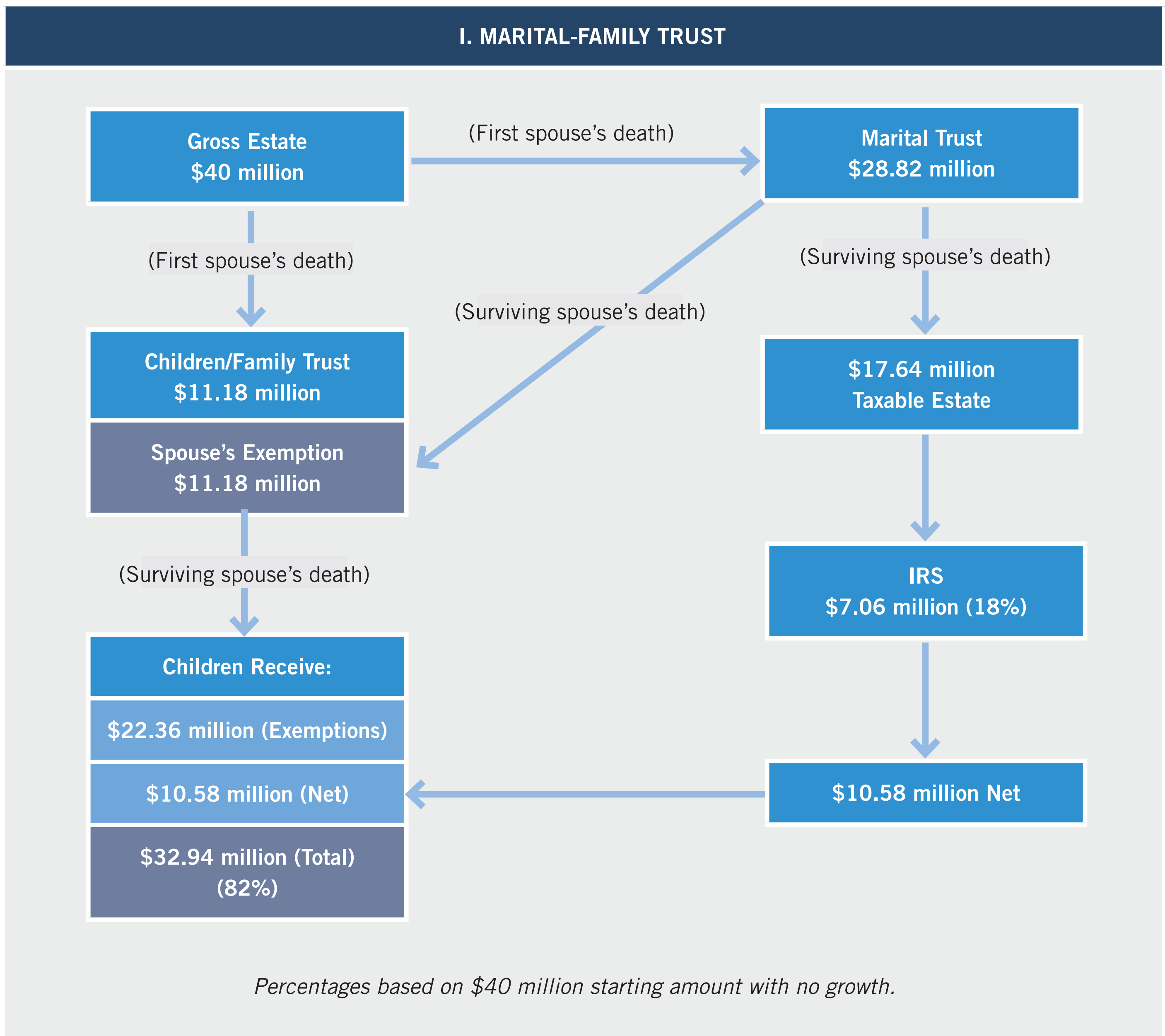
In Diagram III on page 27, by increasing the gift to the Crummey/Dynasty Trust to $4 million ($200,000 annual exclusion for 20 years), the entire $40 million passes to the children, while $13.64 million goes to charity and, most importantly, no estate taxes are due.

In summary, by implementing the Zero Estate Tax Plan (Diagram III versus Diagram I), the children receive $40 million instead of $32.94 million; charity receives $13.64 million instead of nothing; and the IRS receives nothing instead of $7.06 million! Moreover, the inheritance the children receive in Diagram I (net of their own exemptions) will be taxed again at their deaths; whereas, most of the $40 million the children receive in Diagram III will not be taxed in the estates of the children and possibly more remote descendants, depending on state law (if GST exemption is allocated to the gifts made to the Crummey Dynasty Trust).]

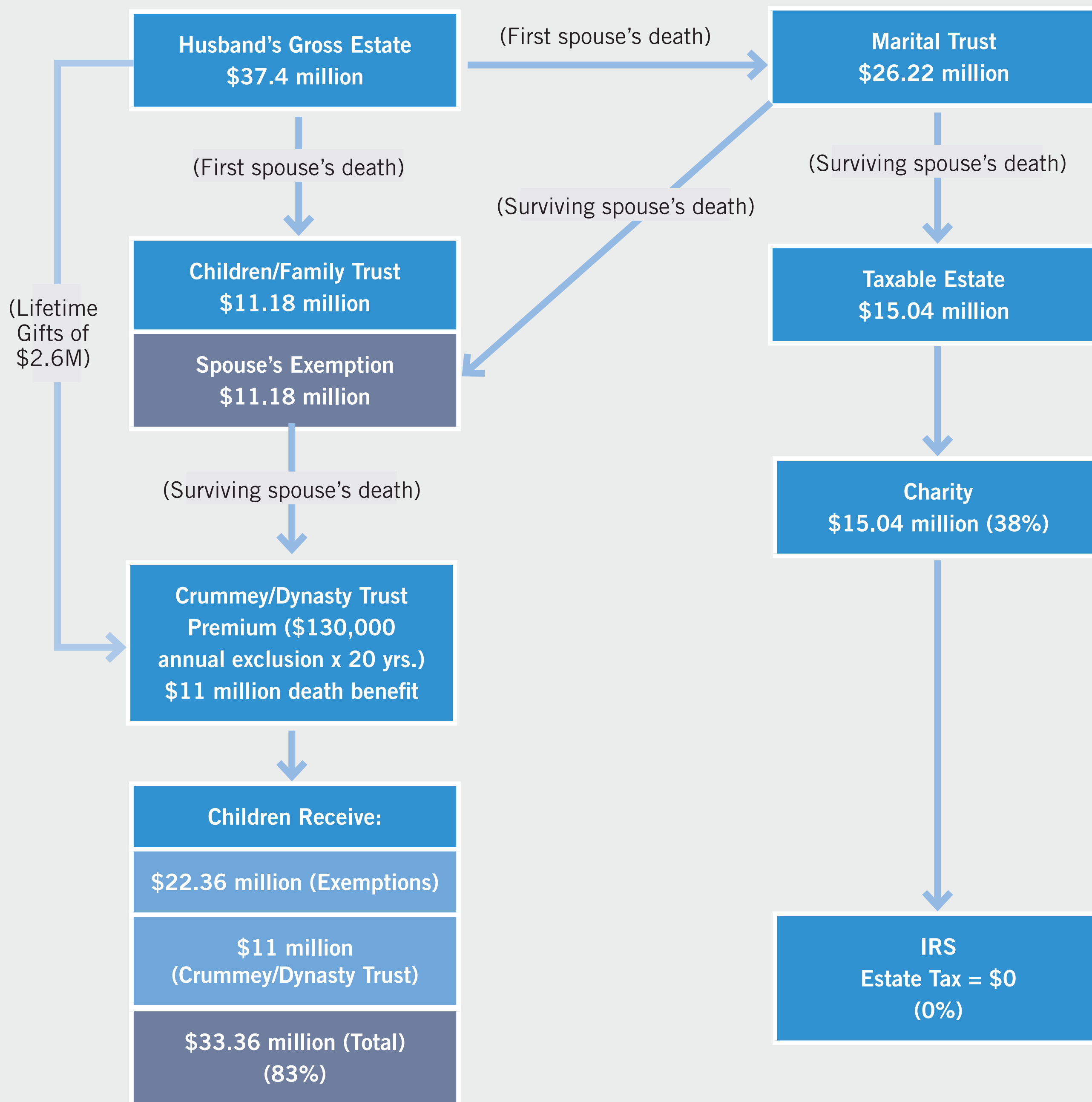
THE CHARITY OF CHOICE: PRIVATE FAMILY FOUNDATIONS

While the Zero Estate Tax Plan works with any qualified charity, the charity of choice is typically the donor's own private family foundation. In the context of the Zero Estate Tax Plan, upon the death of the surviving spouse, the private family foundation will receive that portion of the estate in excess of the estate tax exemption. The foundation will carry the name of the donors and can be managed (in perpetuity) by the donors' descendants.

The private family foundation must make only minimum disbursements (i.e., 5% of its value) each year to qualified charities. As such, the foundation will likely grow in value over the years. As directors of the foundation, the donors' descendants will learn to be altruistic and philanthropic, and will enjoy the self-esteem and public recognition that comes from benefiting charity. Finally, the directors are entitled to reasonable and customary salaries for carrying out the administrative duties of the foundation.



II. ZERO ESTATE TAX PLAN



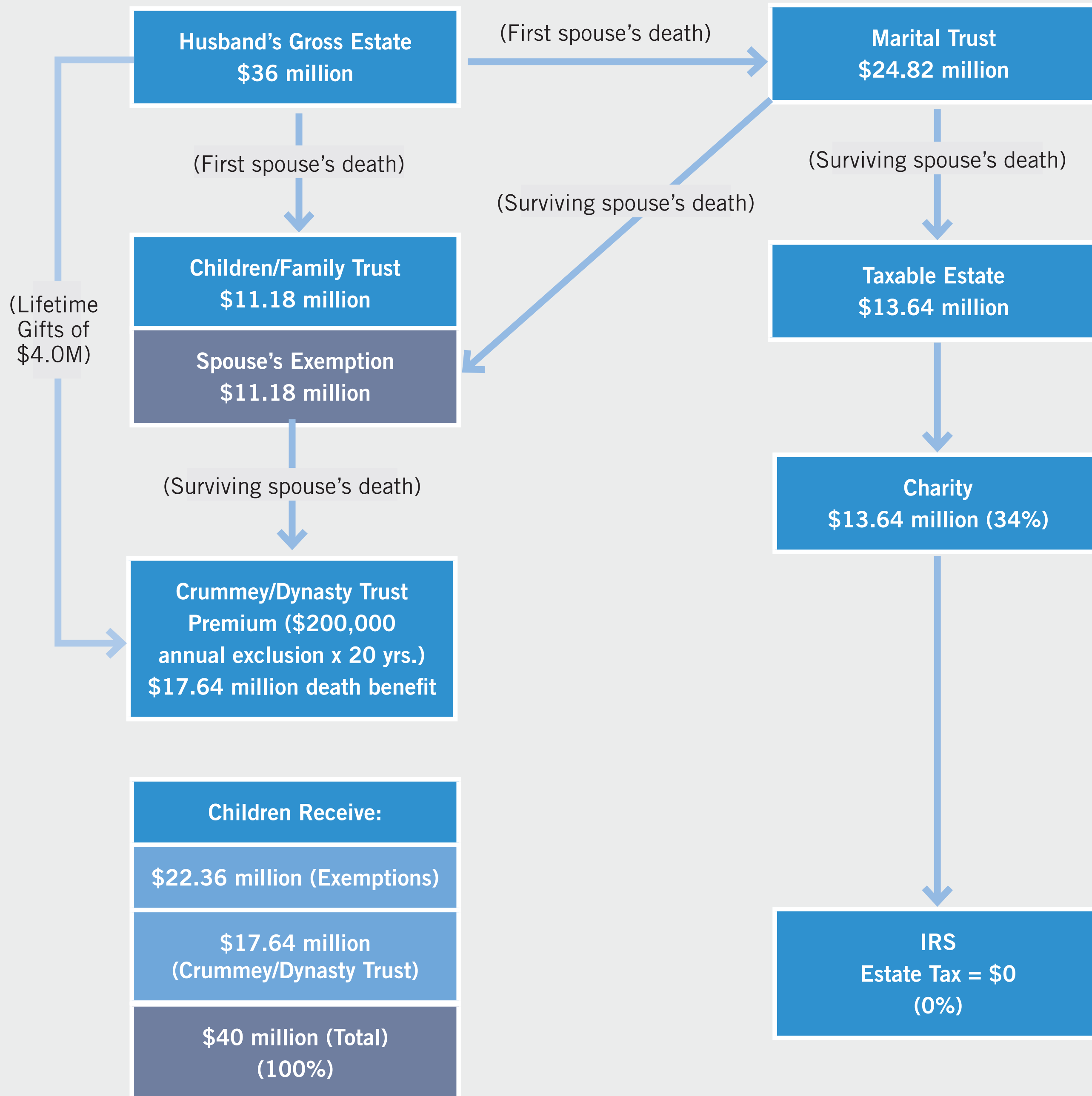
The insurance shown above is for illustrative purposes only and assumes annual exclusion gifts/premiums of approximately $130,000 for 20 years and will vary depending on medical underwriting.

The death benefit and premium are hypothetical and do not represent any particular company or product.

Investment and insurance values are projections only, not guarantees.

Percentages based on $40 million starting amount with no growth.

III. ZERO ESTATE TAX PLAN



The insurance shown above is for illustrative purposes only and assumes annual exclusion gifts/premiums of approximately $200,000 for 20 years and will vary depending on medical underwriting.

The death benefit and premium are hypothetical and do not represent any particular company or product.

Investment and insurance values are projections only, not guarantees.

Percentages based on $40 million starting amount and zero growth.

[Special Section

CHARITABLE LEAD ANNUITY TRUSTS

A Charitable Lead Annuity Trust ("CLAT") is somewhat the opposite of the Charitable Remainder Trust discussed on page 15. A CLAT created at death pays a fixed dollar amount to the grantor's private family foundation or to one or more public charities for a set term of years. When the term of the CLAT ends, the remaining assets (i.e., the remainder interest) are then distributed to members of the grantor's family (usually the grantor's children).

Since the charity's income stream is deductible, only the value of the remainder interest is included in the grantor's taxable estate. The value of the remainder interest is based upon the term of the CLAT, the amount payable each year to charity, and the monthly IRS-prescribed interest rate. For example, assume a married couple with a $31.5 million estate leaves their children their $22.36 million estate tax exemption (for 2018), and leaves the remaining $9.14 million to a CLAT. If the CLAT pays the couple's favorite charity (or private family foundation) a 6.24% annuity (i.e., $570,336 per year) for 20 years, and assuming the IRS's prescribed interest rate is 2.2%, the taxable remainder interest will be zero! This technique gained prominence when used by Jacqueline Onassis in her Last Will and Testament.

Since the grantor's assets receive a full stepped-up basis on the grantor's death, there is no capital gain to the CLAT upon the sale of the assets. Moreover, if the CLAT earns more than it pays out to the charitable beneficiary, the future growth in the value of the CLAT passes to the grantor's family without further estate or gift taxes (but after income taxes). For example, if the CLAT grew at 10% (after tax) per annum during those 20 years, there will be nearly $29 million in the CLAT passing to the grantor's family. Therefore, a CLAT works particularly well for assets expected to appreciate significantly.

A testamentary CLAT can be used to achieve a zero estate tax. However, the drawback is that the grantor's children may have to wait 20 years or longer after their parents' deaths to receive their inheritance. One solution is for the parents to make lifetime gifts of cash to an irrevocable life insurance trust funded with a second-to-die life insurance policy. Upon the death of the surviving parent, the trust can then provide the children with income and principal to maintain their standard of living until the term of the CLAT ends.

It should be noted that if the grantor's grandchildren are the beneficiaries when the term of the CLAT ends, the transfer will be subject to the generation-skipping tax discussed on page 13. Nonetheless, a CLAT should always be considered by charitably inclined persons looking to reduce or even eliminate estate taxes.]

CONCLUSION

With a $11.18 million estate and gift tax exemption per person and $22.36 million per couple (indexed for inflation), the Act has effectively eliminated the estate tax for over 99% of Americans. The increased estate tax exemption may encourage some people to cancel their life insurance. But it's important to keep in mind that the estate tax laws can change, particularly considering the government's likely need to raise taxes in the future.

Equally key to what is in the Act is what is not in the Act. As seen in Level Three Planning, valuation discounts are often used with various estate planning techniques (such as family LLCs). While the Administration has proposed to limit the ability to discount the value of assets in estate planning transactions, the Act does not include such limits. As a result, valuation discount planning continues to be an effective estate planning tool, and individuals may want to take advantage of such techniques now in case Congress limits them in the future.

[Another Administration proposal would have instituted a minimum 10-year term for Grantor Retained Annuity Trusts ("GRATs"), discussed in Level Four Planning. This would have greatly reduced the planning opportunities associated with GRATs by increasing the mortality risk. However, no such provision was included in the Act. Thus, short-term GRATs (e.g., two to three years) appear likely to be viable, at least for the immediate future.]

The Administration also proposed to subject GST trusts, discussed in Level Two, to estate taxes after 90 years, and to limit the benefits of Intentionally Defective Grantor Trusts, discussed in Level Four, neither of which proposals made it into the Act. But Congress could embrace any or all of these ideas almost at any time. Thus, high-net-worth individuals are well advised to take advantage of these techniques while they are still available.

In summary, the Act brings opportunity, complexity, and uncertainty that can be managed with advanced planning. With proper planning, perhaps now more than ever, it is possible to "disinherit" the IRS.

TRANSFER TAX CHART

ANNUALLY	OVER LIFETIME			
TRANSFER OF WEALTH EXCLUDED FROM ANY GIFT TAX	TRANSFER OF WEALTH THROUGH GST, ESTATE, AND GIFT TAX EXEMPTIONS	TRANSFER OF WEALTH UTILIZING DISCOUNT STRATEGIES	TRANSFER OF WEALTH UTILIZING FREEZE STRATEGIES (APPRECIATION-ONLY GIFTS)	TRANSFER OF WEALTH THROUGH TAXABLE GIFTS
• $15,000 per individual ($30,000 gift splitting with spouse) per donee • Direct payments to educational institutions and health care providers[1] • Irrevocable life insurance trusts (ILIT)[2]	• Gift tax exemption of up to $11.18M per individual[3] • GST and estate tax exemptions of $11.18M per individual[3] • Generation-skipping transfer trusts	• Family limited partnership (FLP) • Family limited liability company (FLLC) • Non-voting shares in family corporation (C or S corporation)	[• Grantor retained annuity trust (GRAT)] • Intentionally defective grantor trust (IDGT) • Qualified personal residence trust (QPRT) • Intra-family loan	• Pay gift tax now rather than paying estate tax later • Converting traditional IRA to Roth IRA[4]

CHARITABLE PLANNING

CHARITABLE REMAINDER TRUSTS AND CHARITABLE LEAD TRUSTS

[1] To qualify for exclusion, gifts of tuition and medical expenses must be made directly to the provider.
[2] Often can be structured to use annual exclusion gifting.
[3] Adjusted annually for inflation ($11.18M for 2018).
[4] Paying the income tax in converting a traditional IRA to a Roth IRA is essentially a tax-free gift.

About the Author

Julius H. Giarmarco, Esq. is a partner in the Troy, Michigan law firm of Giarmarco, Mullins & Horton, P.C. where he is chair of the firm's Trusts and Estates Practice Group. Julius received his law degree (J.D.) from Wayne State University, and his master of laws (LL.M.) from New York University. His primary practice areas include estate planning, business succession planning, wealth transfer planning, and life insurance applications. Julius is a former instructor in both the Chartered Life Underwriter (CLU) and Certified Financial Planner (CFP) programs. He also lectures frequently on a national basis, including speeches before the American Law Institute – American Bar Association (ALI-ABA), the International Forum, the Association for Advanced Life Underwriting (AALU), Million Dollar Round Table (MDRT), the Financial Planning Association, and numerous life insurance companies, brokerage firms, and trade associations. Julius has published a number of articles on estate planning appearing in professional journals such as the Estates, Gifts and Trusts Journal (BNA), The Practical Tax Lawyer (ALI-ABA), the Journal of Practical Estate Planning (CCH), the Michigan Bar Journal, and Advisor Today magazine. Julius is a featured columnist on estate planning topics for producersweb.com. He is the author of the chapters on succession planning in Advising Closely Held Businesses in Michigan and The Michigan Business Formbook published by the Institute of Continuing Legal Education (ICLE). Julius has also been selected by his peers as a Michigan "Super Lawyer" in estate planning; as one of the "Best Lawyers in America" in Trusts and Estates; and as a "Top Lawyer" by dbusiness magazine.

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Life insurance policies and annuity contracts contain exclusions, limitations, reductions of benefits, and terms for keeping them in force. Life insurance death benefits are generally received income tax free pursuant to IRC Section 101(j). Loans and withdrawals will reduce the policy's cash value and death benefit, and may have tax consequences. An annuity is a long-term investment designed to create guaranteed income in retirement. Annuities, like many investments, are not FDIC insured, and returns of variable annuities may fluctuate, and the principal value may be worth more or less than the total purchase payments. Annuities have fees, expenses, annual administration, and insurance charges. Annuities may also have limitations and withdrawal charges. Withdrawals may be subject to ordinary income tax and a 10% federal income tax if taken prior to 59½. CDs are FDIC insured and may have a penalty for early withdrawal. Your financial professional can provide you with costs and complete details. The availability of other products and services varies by carrier and state.

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Investment and Insurance Products:
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John Hancock
LIFE INSURANCE

SALES STRATEGY

ESTATE PLANNING | Advanced Markets

Estate Equalization

Distributing Assets Fairly and Equitably

Deciding what, and how much, to leave to heirs will be among a client's basic considerations in developing an estate plan. What if dividing certain assets equally among heirs will be difficult, due to the nature of the asset or otherwise? Life insurance can provide a solution.

The Concerns

Certain assets, such as a residence or a business, can present administrative and practical challenges for multiple owners. With a family business, for example, multiple-ownership might lead to conflict, especially if some heirs are more active in running the business than others. On the other hand, leaving a single asset entirely to certain heirs is almost sure to create inequality unless the estate has sufficient liquidity to balance inheritances. In circumstances like those, liquidating the asset and distributing the proceeds can seem like the only option if good relations are to be maintained.

The Solution

Liquidity in an estate is an important factor in achieving a distribution of assets among heirs in the proportions that the client might like. Because a life insurance death benefit offers a pool of liquidity at exactly the time liquidity is needed, it can facilitate estate planning goals, helping to give each heir the inheritance the client would want them to receive.

How it Works

The first step is to identify and determine the clients' intent for distributing assets. For example, the client may want to leave their business to one child, and their real estate to another. The second step is to figure out how they want to equalize the estate. There are two options:

1) **Equal Share:** This approach ensures that each heir gets at a minimum an amount equal to their share of the *existing* estate.
2) **Equal Amounts:** This approach will increase the total estate so that each heir gets an identical amount based on *future* growth.

Based on inheritance allocations, growth factors, and equalization method, a recommended minimum share per heir is determined and an analysis can illustrate where life insurance can be used to help make things fair or equitable. The client (or their trust)[1] would purchase a life insurance policy on the client's life. Using life insurance helps balance out the value of a "hard-to-divide" asset that is left to some heirs but not to others.

Benefits

- **Liquidity** — Life insurance can help provide cash to equalize inheritances among heirs, as well as help protect a family's income in the event of premature death.
- **Return on Premiums** — Heirs may receive more money and a better return on the premiums than if those dollars had been invested in a taxable asset.[2]
- **Income-Tax-Free Death Benefit** — Life insurance death benefit proceeds are generally income tax-free (exceptions may include when life insurance has been transferred for valuable consideration).
- **Cash Value** — The cash values of a life insurance policy grow tax deferred, and tax-free withdrawals are permitted when structured properly.[3]
- **Source of Premiums** — It may be possible to tap into income and/or stock from a family business as a source of premiums.

Considerations

- **Reasonable Projections** — Selecting an appropriate level of death benefit protection for estate equalization will be affected by the projected values of assets for a chosen focus year. Consult qualified professionals to determine reasonable projections. Consider potential future heirs, such as those who come to the business after estate planning is completed.
- **Insurance** — Life insurance eligibility will be based on financial and medical underwriting. Sufficient resources will be needed to meet premiums for the desired level of death benefit protection.

How it Works

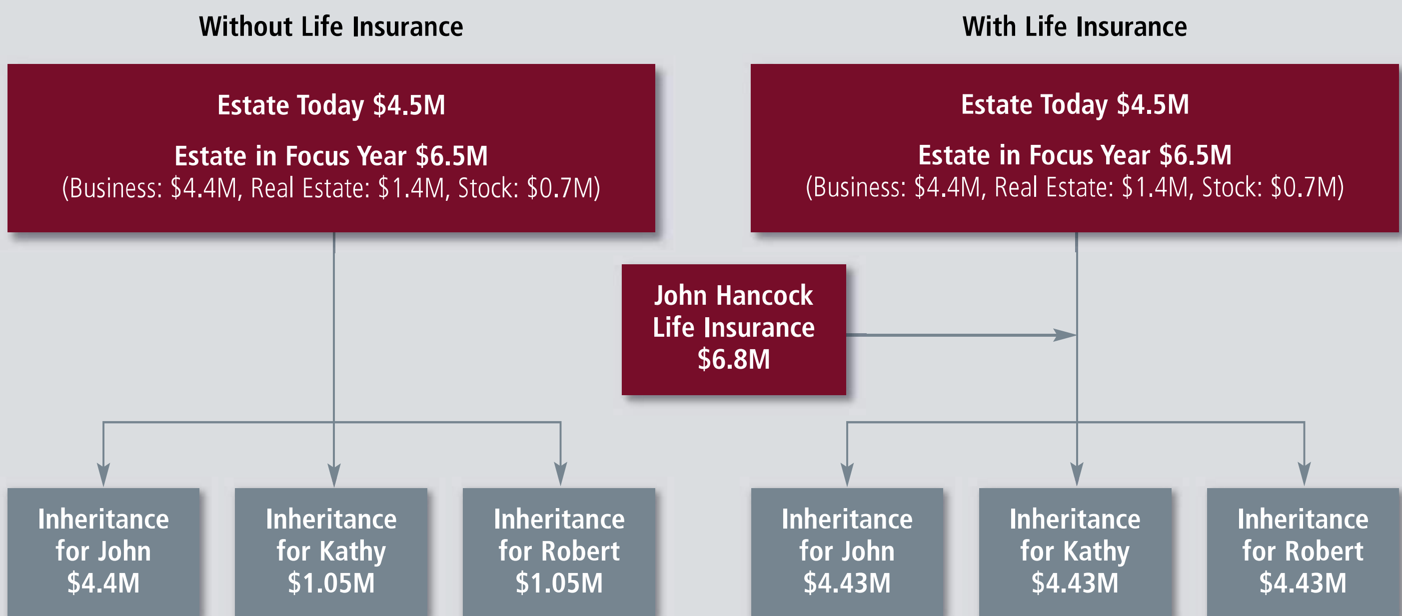
CASE STUDY: JOHN AND LILY EAMES

John and Lily Eames are ages 58 and 57, respectively, both Preferred Non Smokers, with a $4.5M estate. The jewelry business they began ten years ago has done well, with the help of John Jr., one of their three children.

At their death, they plan to leave the business to John Jr., and divide the rest of their estate between their two other children, Kathy and Robert.

Let's consider how that would work, using year 10 as the focus year. Their advisors project the business and securities will continue to grow at 4% a year, with their real estate increasing in value at 3% annually. At those rates, they anticipate that their estate will be valued at about $6.5M 10 years from now. A distribution like John and Lily anticipate would leave John Jr. with a business worth over $4.4M. Kathy and Robert would inherit about $1M each.

John and Lily purchase a John Hancock survivorship universal life policy with a death benefit of around $6.8M and annual premiums of approximately $50k. By the time their estate has to be distributed, this policy would help ensure each of the three children receive inheritances of equal value, and play an invaluable role in maintaining good family relations.



The figures used in this case study are hypothetical, for discussion purposes only, are not guaranteed and may not be used to project or predict results. Actual results may be more or less favorable. Specific product and policy elements would be found in a policy illustration provided by an insurer. With any decision regarding the purchase of life insurance, a client would need to determine which type of life insurance product is most suitable for their specific needs.

SUMMARY

By providing a pool of liquid assets at exactly the time it is needed, the death benefit from a life insurance policy may offer an important advantage in maintaining good relations among heirs while promoting estate planning goals at the same time. Use our JH Solutions module on Estate Equalization to demonstrate this technique to your client(s).

For additional information, please contact your local John Hancock Representative or the Advanced Markets Group at 888-266-7498, option 3.

1. Trusts should be drafted by an attorney familiar with such matters in order to take into account income and estate tax laws (including the generation-skipping transfer tax). Failure to do so could result in adverse tax treatment of trust proceeds.
2. The Rate of Return on death benefit is equivalent to an interest rate at which an amount equal to the illustrated premiums could have been invested outside the policy to arrive at the net death benefit of the policy.
3. Loans and withdrawals will reduce the death benefit, cash surrender value, and may cause the policy to lapse. Lapse or surrender of a policy with a loan may cause the recognition of taxable income. Policies classified as modified endowment contracts may be subject to tax when a loan or withdrawal is made. A federal tax penalty of 10% may also apply if the loan or withdrawal is taken prior to age 59½. Cash value available for loans and withdrawals may be more or less than originally invested.

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AN INTRODUCTION TO CONCEPTS AND STRATEGIES

Wealth Transfer: Leaving a Legacy

Life Insurance

Prudential
Bring Your Challenges®

The Prudential Insurance Company of America

1000982-00001-00 Ed. 05/2018

HOW PRUDENTIAL CAN HELP

This brochure provides a general discussion of some of the possible tools and strategies involved in the wealth transfer planning process. It is not meant to suggest a course of action, to serve as legal or tax advice, or to replace professional advice. The Prudential Insurance Company of America and its affiliates cannot provide tax or legal advice.

Prudential offers a wide range of insurance products that can help your family meet not only the liquidity needs of your estate, but also other potential family financial needs. Whether you have estate tax obligations or other wealth transfer concerns, Prudential can help.

The Importance of Wealth Transfer

SAVING, PROTECTING, INVESTING.

One of the reasons you work so hard is for the benefit of people you love and organizations that have meaning for you. That's why it's important that they continue to benefit, even when you die. You want to see to it that your wishes for them come to fruition, creating a lasting legacy for future generations. You can help to do this by deliberately preparing for the transfer of your assets.

Wealth transfer is fundamentally about transferring your assets to the people and organizations of your choosing when and how you'd like. It is about building a strategy that can continue your legacy.

No matter at what stage you are in your financial life, it is never too early or too late to explore the effects of wealth transfer, your financial strategy's final component. Thinking about your will, trusts, competency issues, and transfer-tax consequences and the role they will play can help you successfully meet your financial goals for you and your family.

No matter at what stage you are in your financial life, it is never too early or too late to explore the effects of wealth transfer.

WHAT IS A WEALTH TRANSFER STRATEGY?

The objective of a wealth transfer strategy is to conserve and transfer your assets through a logical process that helps reduce legal entanglements and taxes while increasing the wealth transferred to your beneficiaries. A wealth transfer strategy can include, but may not be limited to, any of the following:

- Will.
- Trust.
- Power of attorney.
- Living will.
- Life insurance or other funding source.

An effective wealth transfer strategy is an ongoing process and includes these key steps:

- Setting goals and objectives.
- Assessing your current situation.
- Selecting strategies to transfer your wealth and reduce or eliminate unnecessary expenses, delay, publicity, taxes, risk, or other challenges.
- Determining income and liquidity needs for your beneficiaries.
- Executing your plan.

A common misconception about a wealth transfer strategy is that it is only for the wealthy.

While the wealthy may require more involved wealth transfer techniques, the process is beneficial to everyone who has assets to transfer upon death. Depending on your age, family status, and assets, the process could be:

- No more involved than establishing a will or revocable trust and identifying or providing the necessary liquidity for debts, beneficiary needs, and potential taxes. Taxes can consist of federal estate taxes, state estate and inheritance taxes, and income in respect of a decedent (IRD).
- As complex as establishing and funding various trusts, and setting in place a variety of tax-reducing strategies.

FOR SMALL BUSINESS OWNERS

If you are a small business owner, creating a strategy for your business is also an important process. Points to consider in your strategy include:

- Should business ownership be transferred to beneficiaries or new owners, perhaps current key employees?
- Is there a current business continuation agreement in place? Is it funded? If so, how?
- Will the business assets be liquidated and distributed? Is there a ready market?
- How would selling the business while you are alive affect your estate?

Basic Wealth Transfer

Wealth transfer can begin with such tools and strategies as wills, trusts, and powers of attorney. From there, you can choose from among various types of trusts and consider facets of setting them up and naming trustees and beneficiaries. Charitable giving and life insurance may also be a part of your strategy.

WILLS

A will is a legal instrument, usually written, that lists your wishes for the distribution of your property after death and identifies who will manage the distribution and who will care for your children. If you die without a will, state laws (called intestacy statutes) will dictate how those matters are handled. The requirements for a valid will vary from state to state. In many jurisdictions, you may change a will by amending your existing will or revoke the current will by executing a new one that indicates your intention to revoke the old will.

Without a will, intestacy laws will determine the distribution of your assets and guardianship of your minor children. The outcome may not be what you intend. Even with a will, your estate will go through the probate process. If you are a single person with assets of less than $11.18 million in 2018, consider establishing a simple will that distributes your assets as you choose, after debt obligations are satisfied. Many married couples write wills that leave all assets to each other and establish contingency instructions if both spouses die simultaneously.

The new tax rules and your estate

The Tax Cuts and Jobs Act of 2017 (TCJA) made temporary changes to estate, gift, and generation-skipping transfer (GST) taxes. Some estate related highlights are that it:

- Doubles the base estate, gift, and generation-skipping tax applicable exclusion amounts. This change expires on January 1, 2026.
- Changes the method of indexing the applicable exclusion amount for inflation. This change is permanent. In 2018, the exclusion is $11.18 million, or $22.36 million for a married couple.
- Maintains the maximum rate for estate, gift, and generation-skipping tax at 40%.
- Permanently maintains the portability provision that makes any applicable exclusion amount remaining unused after the death of the first spouse available to the surviving spouse, unless she or he remarries. A timely filed federal estate tax return is required, even if no taxes are due, to qualify portability of the decedent’s unused applicable exclusion amount.

The unlimited marital deduction. Due to the unlimited marital deduction, a surviving spouse can inherit the entire estate without estate tax liability, depending on the date of death. The surviving spouse must be a U.S. citizen to qualify for this deduction. If the surviving spouse is not a U.S. citizen, a special trust known as a Qualified Domestic Trust can be used. However, for 2018, if more than $11.18 million is bequeathed from either spouse's estate to someone other than the surviving spouse, then the estate could be subject to an estate tax liability. As with all matters of a tax or legal nature, be sure to consult with your own tax or legal counsel for advice.

LIVING WILLS AND POWERS OF ATTORNEY

If you have children, there are additional considerations you may want to discuss with your attorney, such as your wishes for custody of any minors and what each child will receive through a potential inheritance and when. There are other personal considerations you may make when preparing your estate, including creating a living will and naming a power of attorney for health care and financial decisions:

- **A living will** allows you to make decisions about prolonging your life through various means prior to a time when you may be incapable of making such decisions, relieving your family of the burden of making these decisions.
- **Naming a health care power of attorney or health care proxy** places medical decisions in trusted hands.
- **A durable power of attorney** is a written document authorizing another person (the "attorney in fact") to act on the principal's behalf. A power of attorney authorizes another individual to enter into and discharge virtually all legal obligations on behalf of the principal.

NAMING AN EXECUTOR

All wills require an executor. Often people name a family member as executor since such a person is familiar with the family's situation and may be more sensitive to their needs.

However, naming a corporate executor may have advantages as well, including knowledge and objectivity. Many banks offer this service through their trust departments. You may also name co-executors. Many events can result in the need for updating an existing will. It is generally a good idea to review your will regularly with an attorney to determine whether any changes are needed.

GIFTING

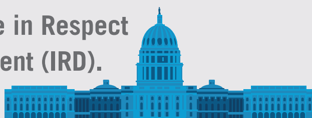
Gifting is one "simple" mechanism that can be used to reduce the size of an estate. An individual donor can currently gift annually up to $14,000 per person, as long as the gift qualifies as a gift of a present interest. A present interest gift is one in which the recipient of the gift has an immediate right to use, possess, and enjoy the property that was gifted.

EXAMPLE: Jeff and Marlene, husband and wife, have five children and want to gift assets totaling $1.5 million. They could each gift $15,000 of assets to each of their five children in one year, resulting in a total gift by them of $150,000. If they repeat this process annually for 10 years ($15,000 gift x 5 children x 10 years from each spouse), they accomplish their goal.

Gift tax exclusion amounts. In addition to the gift tax annual exclusion amount, each individual has a lifetime federal gift tax exclusion amount of $11.18 million (in 2018). As long as no individual donee receives more than $15,000 from an individual donor in a calendar year, no portion of the donor's $11.18 million gift tax exclusion is utilized. However, any use of the applicable exclusion amount during life reduces the applicable exclusion amount available at death. Therefore, if a person makes a lifetime gift of $1 million, that person's applicable exclusion amount at death is reduced by the same $1 million (and so, it would be reduced to $10.18 million if the death occurred in 2018).

TAXES

Under the provisions of TCJA, many estates will not be susceptible to federal estate taxes, with an exemption of $11,180,000 (2018 tax year) per spouse (as indexed) and portability of the decedent's applicable exclusion amount. Many states continue to have state estate and/or inheritance taxes. Qualified retirement assets and gains on non-qualified deferred annuities will be susceptible to income tax when distributed to your beneficiaries. These amounts and other untaxed income are Income in Respect of a Decedent (IRD).



TRUSTS

A trust is a legal arrangement, usually created by a written document, under which one party (the trustee) manages property for the benefit of others (the beneficiaries). A trust can be one of the most powerful and flexible tools you can use to help pass assets to future generations, reduce estate and income taxes, safeguard yourself in case of incapacity, and potentially reduce the costs and delays of probate. The trust provisions specify:

- Whether it is revocable or irrevocable.
- The rules of operation of the trust.
- The powers of the trustee.
- How the trustee is to divide the income and principal among the beneficiaries.

THE BASICS OF FOUR COMMON TRUSTS AND ESTATE ISSUES THEY CAN HELP ADDRESS

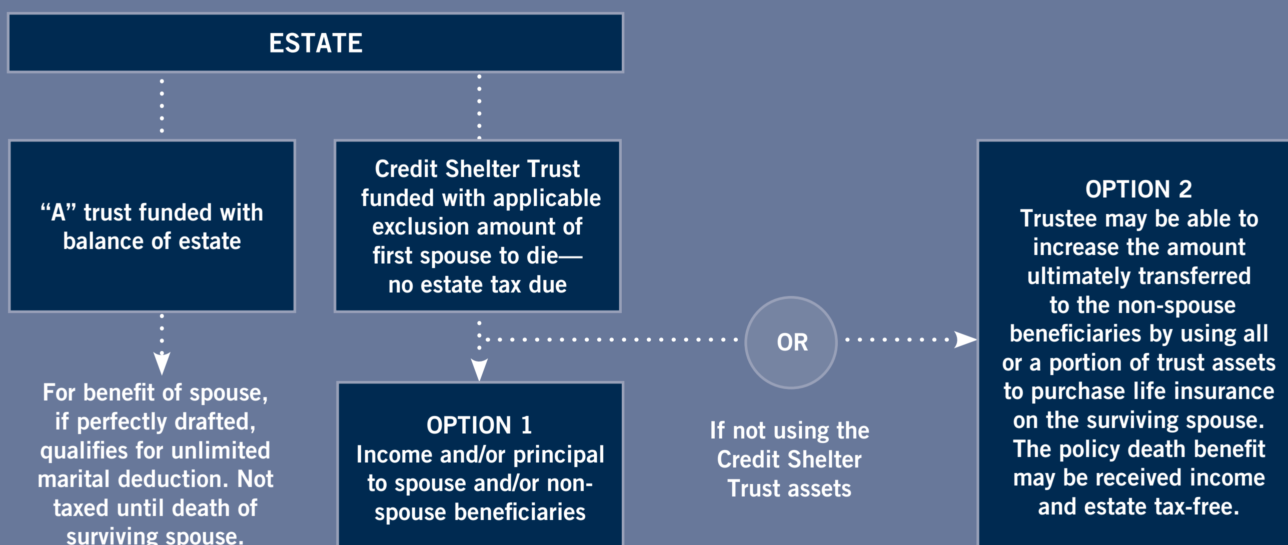
Revocable Living Trust

A **Revocable Living Trust** contains instructions for the management of an individual's assets during the individual's life and in the event of disability. It also, similar to a will, contains instructions for the disposition of the individual's assets after death. You should consult with your attorney for the tax implications of naming yourself rather than someone else as trustee of your living trust, as well as for any implications of transferring the titles of your assets to the trust. If properly constructed and funded, a living trust can reduce or eliminate the time and possible expense of probate and retain privacy for the family.

The probate process is public, while transfers through a living trust can remain private. Only assets titled to the trust avoid probate. Consult your attorney to find out what will work best for your situation.

Irrevocable Life Insurance Trust (ILIT)

If you are planning to use life insurance as a means of funding your estate settlement costs, a properly drafted **ILIT** can remove the death benefit proceeds from your estate for federal estate tax purposes. Refer to "The Role of Life Insurance" in this brochure for more on the structure and benefits of an ILIT.



Credit Shelter Trust (CST)

"Credit Shelter Trust (CST)," "B Trust," "Bypass Trust," "Family Trust"—by any name, this tried-and-true estate strategy device is known to most financial professionals. It allows the first of a wealthy couple who dies to direct assets equal to his or her estate tax applicable exclusion to a trust for the survivor's benefit. When properly structured, the trust shields assets from being included in the estate of the surviving spouse, potentially reducing the estate tax incurred at the second death.

Under the provisions of TCJA, any unused federal estate tax applicable exclusion at the first spouse's death is portable to the surviving spouse. The surviving spouse can now add the unused applicable exclusion amount of the deceased spouse to his or her own applicable exclusion amount, automatically creating tax benefits similar to some of those that a Credit Shelter Trust is designed for. On top of that, with portability the survivor has complete control over all the assets the couple enjoyed together, unlike a Credit Shelter Trust, which limits control based upon the terms of the trust.

More about a Credit Shelter Trust (CST)

- Appreciation of the assets in the CST escape further estate taxation.
- Generation-skipping tax allocations are not portable.
- Asset protection can be provided with a CST.
- The deceased spouse's unused applicable exclusion may be limited if the surviving spouse remarries and survives his or her next spouse.

Qualified Terminable Interest Property (QTIP) Trust

Through a **QTIP Trust**, a person can provide for a surviving spouse's lifetime and define the ultimate beneficiaries of the assets upon the death of the spouse. Couples who use an all-to-spouse will and have children may face an extra challenge if the surviving spouse remarries.

Imagine that a surviving wife, for example, brings her deceased husband's assets to a new marriage. What if that couple then establishes a simple spousal will and the wife predeceases her new husband? The first husband's assets are ultimately transferred to her new husband, diluting or even eliminating any inheritance to the children of the first marriage. The issue can become even more complicated if the second marriage produces children, too.

The QTIP Trust is one approach to avoiding this potentially complex situation. Thus, a couple can take comfort in knowing that they have provided for a surviving spouse while protecting the ultimate interests of the children, regardless of future relationships.

NAMING A TRUSTEE

An important component of any trust is naming the trustee. Based on the trust and the goals you want to accomplish, you may or may not be advised to name yourself, your spouse, or your children as trustees. Additionally, professional trustees are available to lend expertise and help avoid any potential conflicts of interest.

Trustee responsibilities include:

- Implementing the trust's terms.
- Distributing or reinvesting any returns.
- Providing accounting services for the trust, including:
  - Tracking principal and income.
  - Filing tax returns.
  - Tracking cost bases.
  - Arranging payment of any of the trust's debt obligations.

The Role of Life Insurance

Life insurance is a popular and effective tool in helping to meet estate strategy goals due to its tax advantages.

Regardless of estate tax laws, life insurance plays a pivotal role in transferring wealth. Life insurance is a popular and effective tool in helping to meet estate goals due to its tax advantages. You use a portion of your assets to pay your life insurance premiums, purchasing death benefit coverage. When you die, the death benefit is paid to beneficiaries, generally income tax-free, as provided in Internal Revenue Code Section 101(a). If you maintain ownership, the proceeds can then be used to pay your estate tax bill and other expenses. When compared with other funding options, such as borrowing or liquidating high-yielding assets, life insurance can be an extremely cost-effective means of funding estate expenses.

Like all components of your estate strategy, there are special considerations for your life insurance choice. If you are the owner of the policy, the death benefit will be included in your estate for federal estate tax purposes. As a result, life insurance purchases for estate strategies are typically made through an Irrevocable Life Insurance Trust (ILIT).

Using an ILIT. The ILIT is the owner and the beneficiary of the life insurance policy. You make gifts to the ILIT to cover the premium costs. The ILIT then purchases the life insurance. Since a properly drafted ILIT is not part of your federally taxable estate, the death benefit proceeds are generally received free of both income and estate taxes. There

may be federal gift tax consequences associated with the funding of an ILIT. In addition, gifts made to the trust to cover premium payments reduce the value of your taxable estate and any accumulation of the life insurance account value occurs outside the estate, as well.

LIFE INSURANCE CAN BE AN IMPORTANT TOOL IN HELPING TO ACCOMPLISH A NUMBER OF WEALTH TRANSFER OBJECTIVES:

- **Maintain heirs' lifestyles.** Your death may result in a significant reduction of your family's current income. Life insurance proceeds can help to replace your lost earning power.
- **Provide immediate liquidity.** The death benefit can help pay debts, mortgages, and expenses such as fees and probate, funeral, or final medical costs. Even large estates are often cash poor if they are composed primarily of assets such as closely held business interests, real estate, or collectibles.
- **Purchase assets from, or loan funds to, your estate.** Under current tax law, an estate above a certain financial threshold can be significantly reduced by federal and state death taxes that can approach 25% to 45% of its value at death. Life insurance can help provide liquidity for tax liabilities.
- **Equalize estate distributions.** The death benefit can be used as a means to help balance inheritances among heirs. If one child, for example, inherits the family business, the life insurance death benefits of approximately equal value can go to the other children.
- **Increase bequests.** Because the premium payments for a life insurance policy are often much less than the death benefit purchased, you may be able to give a larger gift to charities or family members.

A WORD ABOUT ADVANCED ESTATE PLANNING

If your assets in 2018 total more than $11.18 million ($22.36 million if married) or whatever the current applicable exclusion amount is in the year of your death, a more advanced estate strategy is generally necessary. Be aware that many people underestimate the size of their estates. Your estate includes all of your assets, both liquid and illiquid. This includes your investment portfolio, bank accounts, real estate, business interests, life insurance you own on your own life, qualified plan balances, IRAs, automobiles, jewelry, and even collectibles. A proper estate review with a qualified financial professional, attorney, and tax advisor can help ensure that any tax liability is not greater than you may perceive.

Depending on when you die, estate taxes could still consume up to 25% to 45% of your estate. An effective strategy now can save your heirs potential future issues. For instance, without a proper strategy, your beneficiaries may be forced to liquidate assets, potentially at a loss. If there is an estate tax liability, it usually must be paid to the federal government within nine months of death, and state taxes are possibly due even sooner.

Revisiting Your Strategy

Creating an estate strategy is not something you can do once and then forget about. Your life can change, tax laws change, and your needs and priorities may change. Your estate strategy is too important to put on autopilot. It is a good idea to conduct an annual review of your entire strategy with any financial, tax, and legal professionals you have involved. However, you should review your strategy more frequently when you experience certain events, such as:

- Moving to a new state.
- Death of a spouse or any stated beneficiary.
- Marriage or divorce.
- Birth or adoption of a child.
- Change in the value of assets.
- Change in asset structure, such as shifting from stocks to real estate.
- Any beneficiaries marry, divorce, or have children.
- Tax law changes.

A proper estate strategy should be flexible enough to be able to adjust to change, but it is important that you review it regularly to identify what and when any action may need to be taken.

Some means of funding your estate tax bill

- **Cash on hand:** Some estates may have enough cash available to cover estate expenses.
- **Liquidating assets:** This could include the sale of such things as securities, real estate, collectibles, or business assets.
- **Borrowing:** A loan may be secured to cover the expenses, buying time at the cost of interest.
- **Life insurance:** This option uses a portion of the estate now to pay life insurance premiums to provide the death benefit proceeds to cover estate liabilities.

Wealth Transfer Strategy at a Glance

STEP ONE: Setting your goals and objectives

- Who should inherit your assets?
- What assets should they inherit?
- When and how should they inherit the assets?

STEP TWO: Assessing your current situation

- Identify assets and assemble all related paperwork: titles, recent statements, tax filings, etc.
- Designate property ownership and beneficiaries.
- Assemble any necessary professionals.
- Identify:
  - Estate value and asset types (liquidity analysis).
  - Retirement needs.
  - Federal and state estate tax liability.
  - Income in respect of a decedent (IRD).
  - Funding sources.

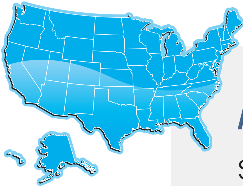
STEP THREE: Selecting strategies to transfer your wealth

- Last will and testament.
- Living will.
- Health care power of attorney.
- Durable power of attorney.
- Potential trust strategies.
- Portability vs. Credit Shelter Trust.
- Assets greater than the applicable exclusion amount: transfer outright vs. marital trust vs. QTIP trust.
- Gifting: annual exclusion gifts first, then advanced strategies using lifetime gift exclusion amount.
- Irrevocable Life Insurance Trust (ILIT).
- Charitable giving.
- Business transfer issues, if applicable.

Getting Started

A simple way to begin is by completing the Wealth Transfer Checklist on the following page. After you have completed this questionnaire, meet with your financial professional to discuss your particular insurance and financial needs. Insurance and financial products offered by The Prudential Insurance Company of America and its affiliates can help you protect and preserve what you have spent years building so that you may provide a legacy for those you love.

Your financial professional can provide you with insurance and investment products and services that can complement the wealth transfer strategy that you choose with your legal, tax, and other advisors. Be sure to seek the advice of qualified legal and tax advisors before implementing any wealth transfer strategy.



A NOTE ON COMMUNITY PROPERTY STATES

Several states (AK, AZ, CA, ID, LA, NV, NM, TX, WA, and WI) have adopted some form of community property laws. Since community property laws affect the ownership of assets, living—or having lived—in a community property state will come into play in your estate strategy process. In community property states, ownership of a married couple's assets is defined based on how and when the assets were obtained. Generally:

- Assets obtained prior to marriage are owned as separate property by the spouse who obtained them.
- Assets obtained by gift or inheritance during marriage belong to the person who received them.
- Other assets obtained during marriage are owned equally by both spouses, regardless of who obtained them.

The rules of community property are extremely important when calculating estate tax liability. When a person living in a community property state dies, that person's estate consists of 100% of his or her separate property and 50% of the value of assets owned as community property. Many community property states allow spouses to enter into agreements that transfer property from individual or community ownership to the other. If you are a community property resident, as in most estate strategy situations, professional advice from your tax and legal advisors can help you achieve your goals within your individual circumstances.

Take the Next Step

WEALTH TRANSFER CHECKLIST		
1	Do you have a will?	☐ YES ☐ NO
2	Is your state of residence the same as it was when your wealth transfer strategy was developed?	☐ YES ☐ NO
3	Is your family's status the same as when your wealth transfer strategy was developed?	☐ YES ☐ NO
4	Does your will name a guardian for your children in the event both you and your spouse are deceased?	☐ YES ☐ NO
5	Are you comfortable with the executor(s) and trustee(s) you have selected?	☐ YES ☐ NO
6	Have you made sure that your property ownership and beneficiary designations are coordinated with your wealth transfer documents?	☐ YES ☐ NO
7	Is the value of your estate generally the same as when your wealth transfer strategy was developed?	☐ YES ☐ NO
8	If you have a revocable living trust, have you changed the title of your assets to the name of the trust?	☐ YES ☐ NO
9	Have you executed a durable power of attorney and the appropriate health care documents?	☐ YES ☐ NO
10	If either spouse is a resident but not a citizen of the United States, have you considered including QDOT (Qualified Domestic Trust) provisions in your wealth transfer strategy?	☐ YES ☐ NO
11	If your estate will be subject to estate tax, do you and your spouse each own enough assets to take advantage of your full estate tax applicable exclusion amounts?	☐ YES ☐ NO
12	If each spouse owns enough assets to take advantage of the estate tax applicable exclusion amount, are both your wealth transfer strategy and your spouse's designed to take advantage of this amount?	☐ YES ☐ NO
13	Have you considered taking advantage of the annual gift tax exclusion?	☐ YES ☐ NO
14	Will your estate have sufficient liquid assets to pay the debts and taxes that become due at death?	☐ YES ☐ NO
15	Does your wealth transfer strategy provide sufficient income for your surviving spouse to maintain his or her lifestyle?	☐ YES ☐ NO
16	Are you certain your wealth transfer strategy is up-to-date and takes into account potential tax-saving strategies?	☐ YES ☐ NO

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ESTATE PLANNING CHECKLIST

Estate planning is often thought of as something that only applies to the very wealthy. In reality, there are several fundamental components of estate planning that everyone should consider to ensure their loved ones are cared for and their legacy lives on as intended. Use the checklist below to help ensure proper planning.

① DO YOU HAVE AN UPDATED WILL?

60% of U.S. adults do not have a will, and only 36% of parents with children under 18 have a will.[1] If you die without a will, your estate will be probated which can be timely, expensive and public. Even if you have a will, you should review and update it at least every 5 years.

② HAVE YOU CHOSEN A GUARDIAN FOR YOUR CHILDREN AND IS IT REFLECTED IN YOUR WILL?

This is difficult to think about and a difficult decision to make, but it's critical that you identify the person(s) who will care for your children in the event something happens to you and your spouse. The guardian you've chosen should be identified in your will.

③ HAVE YOU EXECUTED DOCUMENTS ENABLING OTHERS TO MAKE DECISIONS IF YOU CANNOT?

The following documents are important for you (and adult children over age 18) to have:

- A Durable Power of Attorney enables someone to make financial decisions.
- A Healthcare Proxy (or Durable Power of Attorney for Healthcare) enables someone to make health care and treatment decisions.
- A "Living Will" or advance directive makes clear your preferences on end-of life treatments and any continuation of medical care.[2]

④ HAVE YOU REVIEWED THE TITLING OF YOUR ASSETS, INCLUDING ANY TRUSTS?

Many assets are co-owned by spouses. However, there can be situations where individual or trust ownership may be more appropriate.

⑤ HAVE YOU REVIEWED YOUR BENEFICIARY DESIGNATIONS?

Some common assets, including life insurance and annuities, transfer to the specific individual(s) identified in the contract (the beneficiary). Beneficiaries of other assets, such as retirement plans (IRAs, 401(k)s) and brokerage accounts, are identified through other processes. They all generally supersede what your will may say, making it critical that they are reviewed regularly and updated as needed.

⑥ DO YOU HAVE ALL OF YOUR RELEVANT DOCUMENTS PROPERLY STORED IN ONE SAFE PLACE?

These include wills, deeds, birth and marriage certificates, banking and investment account numbers, and contact information for your financial advisor, attorney and accountant. They should be secured and shared with a trusted individual.

⑦ HAVE YOU PROPERLY PLANNED FOR ANY CHILDREN OR LOVED ONES WITH SPECIAL NEEDS?

Establishing a Special Needs Trust can help care for children or loved ones with special needs.

⑧ HAVE YOU ESTABLISHED A STRATEGY TO PROVIDE FOR A FAVORITE CHARITY?

You can make plans to give to a favorite charity during your lifetime or after you're gone.

⑨ HAVE YOU ACCOUNTED FOR STATE AND FEDERAL ESTATE AND INHERITANCE TAXES?

Your plan should be reviewed regularly to ensure that you are addressing tax law changes and maximizing exemptions (like the gift tax exclusion, unlimited marital deduction and federal estate tax exemption) in order to leave more for your loved ones. If you're in a community property state, there may be additional laws and regulations.

⑩ IF YOU OWN A BUSINESS, HAVE YOU DONE PROPER SUCCESSION PLANNING?

Be sure to establish a plan that accounts for both your expected and unexpected needs.

Benefits of Proper Estate Plannings

Proper estate planning can help ensure that your loved ones are protected and your assets are handled according to your wishes, and can also help you:

- Manage probate costs
- Prepare for potential loss of capacity
- Protect against potential creditor issues
- Plan for care of minors and individuals with special needs
- Protect against the mismanagement of funds
- Manage estate taxes

Life Insurance Can Help Ensure Success

Life insurance can be a very effective tool in the estate planning process and can help you:

- Ensure any outstanding debts are paid
- Provide funds for college/higher education
- Fund a Special Needs Trust
- Fund an Irrevocable Life Insurance Trust (ILIT)
- Provide liquidity to help pay any estate taxes that may be due
- Manage estate taxes

Meet with your financial professional

to learn more and discuss your individual financial and insurance needs.

[1] Caring.com "More Than Half of American Adults Don't Have a Will"; Princeton Survey Research Ass. Intl.; January 2017.

[2] A living will should also include a Health Insurance Portability and Accountability Act (HIPAA) authorization to allow healthcare professionals to speak to your chosen representative about your protected medical information.

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