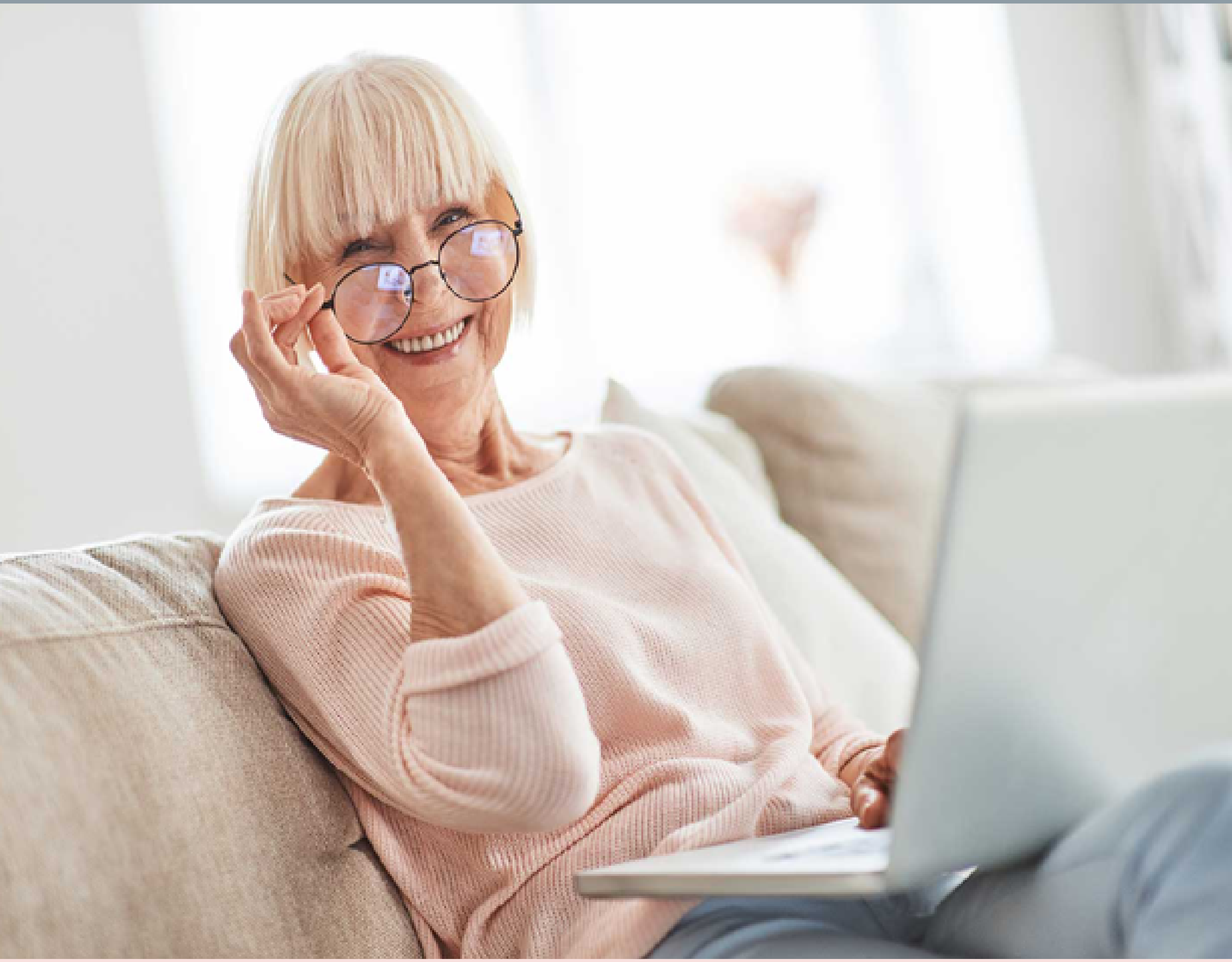
Retirement & Estate Planning

SALES KIT



In this kit:

Social media images | Sales ideas | Producer guides | Client flyers | Discussion questions

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Retirement & Estate Planning

Social Media Posts & Sharable Graphics

Text for Posts

Post this text with any of the images linked on the following 2 pages.

Prepare today for a tax-efficient future! Don't wait to find out how taxes will affect you when you retire. Contact me today to help plan for your tomorrow!

Plan now to keep more of your money later! Contact me today to learn how cash value life insurance can help you reach your legacy and retirement goals.

Now's the time to talk to a financial professional if you want to pass down your legacy without passing a big tax bill. Contact me today to secure your loved ones' future.

Now is the time to learn how taxes will impact you when you begin to spend your savings during retirement. Want to maximize your retirement savings? Contact me today to learn how!

Keep more of what you earned! I'll show you how adding cash value life insurance to your portfolio can help protect savings and provide more opportunities for you and your beneficiaries.

Are you married and looking to protect yourself and your spouse from outliving your income? Contact me today to learn about life insurance with cash value accumulation potential.

Healthier lifestyles and medical advances are helping Americans live longer. Is your financial strategy keeping pace? Contact me today to learn how life insurance with cash value accumulation can protect you and your spouse from outliving your income.

Looking to supplement your income in retirement? I can help! Contact me today to learn how life insurance can help with retirement planning.

Do you have a loved one with special needs? I can help you ensure that they are taken care of financially and their government benefits remain protected. Contact me today to learn more.

Social Media Images

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Retirement & Estate Planning

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RETIREMENT RELATED FACTS TO SHARE WITH CLIENTS

One of the greatest areas to find business is in retirement planning. Anyone nearing retirement has a million questions and needs to feel they are receiving the information they need to make decisions. With life insurance and annuities, American National can provide your clients the products they need to complete a successful retirement. After all, we sell INCOME!

The two greatest questions future retirees have are: where will I get my cash flow from and will I have enough to retire on?

The federal government released a study in 2019 that studied retirement related issues such as are people prepared for retirement at various ages. Let's go over what they found as these are facts from the government, we can replay to our clients who are thinking about retirement or who should be thinking about retirement. Always keep in mind as well that clients should start at an early age to put money away for retirement to benefit from the magic of compounding. Waiting to start until you are 55, means you will need to put away considerably more money to reach your objectives by age 67 or even 70 if that is possible.

This information was gathered in the fall of 2018 with the report called "Report on Economic Well-Being of U.S. Households in 2018" from the Fed.

- 44% of non-retired adults say they are not on-track with their retirement plan
- 25% of non-retired adults have no retirement assets or savings
- 36% of non-retired adults say they are on track to retire

RETIREMENT RELATED FACTS TO SHARE WITH CLIENTS

- Only 2 of 10 non-retired adults under age 45 are on-track for retirement based upon their age
- Nearly half of retirees retired prior to age 62
- 8 in 10 adults have at least one credit card and of those, 47% pay their card in full each month
- 27% carry a balance throughout the year

When talking about retirement with clients there are several areas that should be covered. See below:

- Help your client define their retirement goals
- Detail what family obligations the client will have such as education, weddings etc.
- Review health care expenses now and in the future
- Will the home be paid off in retirement in that debt increases risk in retirement?
- Plan cash flow and savings together
- Any Charitable intent that needs to be planned for
- Will the client work in retirement? If not, what hobbies will they pursue and what will be the cost of such activities

Experts talk about needing 80% of your earned income in retirement due to the fact that retirement has become another life stage that can go on for 30 years or more. Experts also talk about needing $80,000 per year to have a comfortable retirement.

There is no one answer that will fit everyone, so it is important that you gather sufficient information to know what your client's situation is and what they need to do. Most individuals think that their 401k will suffice to provide them retirement income along with social security. Typically, that will not be enough to get them through this chapter of their life and individuals will need to find other sources of income from non-qualified assets such as annuities and life insurance.

For questions and more information, contact the Advanced Sales Department at 888-504-2550 ext. 5767.

Download the SUPPLEMENTAL RETIREMENT INCOME Strategic Planning Tools brochure.

PACIFIC LIFE *Insights*

Thought Leadership in Action for Life Insurance

Selling Life Insurance in Inflationary Times

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While inflation is top of mind for everyone, your current and prospective clients don't experience inflation in the same ways. So, don't lose sight of individual nuances, and remember each life insurance client will likely be impacted and react differently.

For many, the economy may be better than it was during the pandemic. Others may have gotten new jobs with better paychecks.

Still, others could be hurting badly because of inflation. Some people saw inflation first in the cost of used cars. Others noticed it at the gas pump. And, everyone noticed it at the grocery.

Energy and food prices are rising. The annual inflation rate stands at 8.3%,[1] more than twice as high as the general expectation of 3% inflation.

How inflation affects life insurance buying behavior

Inflation can lower people's general economic perception—both large-scale and personal. This may make people more pessimistic. After all, inflation reduces the purchasing power of your dollar as the price of goods and services keep rising.

All the buzz about inflation may cause consumers to rethink many financial decisions. Some may see life insurance as an optional expense to cut to pay for more immediate expenses.

1 Consumer Price Index Summary, U.S. Bureau of Labor Statistics, September 13, 2022, https://www.bls.gov/news.release/cpi.nr0.htm.

Potentially, the number of people who buy life insurance is shrinking because of inflation. Some people, feeling hurt by inflation, may surrender their life insurance policies to steer that money into more immediate needs.

Keep in touch with your customers. Make sure they know about the options they have and highlight the importance of life insurance, even in inflationary times. Help them see life insurance not as an expense but as a safety net for their future.

Who is most affected?

Unsurprisingly, inflation is hurting lower-income Americans (those earning less than $40k per year) the most.[2] After all, many of them often lack a security net of savings to absorb some of the rising costs.

Two-thirds of people with lower incomes say today's inflation is hurting them.[2] A higher portion of their incomes is going towards the rising costs of energy and food, exposing them to the most volatile of inflationary markets. About half of middle-income and one-third of upper-income Americans say inflation hurts them, too.[2]

Millennials may feel the effects of inflation harder than Generation X or Baby Boomers.[3] They are especially concerned that inflation may hurt not only their ability to buy necessities but also their ability to save for short- and long-term goals. This can especially affect their feelings towards life insurance.

People are more strongly guided by their personal (or household) inflation rate. This rate is the total cost of your expenses in the past 12 months divided by your expenses. That means people are making individual decisions more than collective ones. When you speak with your clients, keep this in mind.

2 Jones, Jeffrey , "Americans Expect Inflation to Persist Over Next Six Months," Gallup, January 26, 2022, Americans Expect Inflation to Persist Over Next Six Months (gallup.com).

3 "Rising Inflation Seen As Biggest Risk To Americans' Retirement Plans in 2022," Broker World, January 1, 2022, Rising Inflation Seen As Biggest Risk To Americans' Retirement Plans In 2022 | Broker World. (brokerworldmag.com).

Opportune time for policy reviews

"As your clients witness their money's value shrinking due to inflation, it can be an ideal time to set up a life insurance policy review."

As your clients witness their money's value shrinking due to inflation, it can be an ideal time to set up a life insurance policy review. Their loved ones may be less protected as the life insurance payout may not go as far with the dollar devalued due to inflation. Now can be a good time to rethink how much life insurance they need.

Have that conversation with clients to check if their current coverage is still in sync with their life insurance goals and needs. For example, additional coverage may be needed to help compensate the loss of purchasing power. Ask your clients how their circumstances may have changed and recommend adjustments accordingly. Use our policy review resources to help you initiate and then conduct that important conversation with your clients.

Offer Affordable Coverage

With inflation driving the costs of competing expenses higher, affordability of a quality life insurance coverage is more important than ever. Tap into the practical needs of today's buyers and help them get financial protection that fits their budget. You can bring up the option of paying monthly premium payments, which may be more palatable to some buyers right now, instead of doing a lump sum.

Focus on the long-term value that life insurance brings. And because buying life insurance is essentially a promise to pay out the death benefit, choosing a company that keeps its promises is paramount.

For resources to help ensure clients' life insurance policies meet their current needs, visit https://cloud.email.pacificlife.com/plpromise-practicemanagement.

The primary purpose of life insurance is to protect the policy beneficiaries from the adverse financial consequences of the insured’s death.

Pacific Life is a product provider. It is not a fiduciary and therefore does not give advice or make recommendations regarding insurance or investment products.

THE POWER OF PACIFIC LIFE

At Pacific Life, putting customers first has allowed us to serve families and businesses successfully for over 150 years. As part of a mutual holding company structure, we have no publicly-traded stock, so we can focus on long-term strategies, financial strength, and the best interest of our policyowners.

You and your clients, our policyowners, are at the heart of the business decisions we make.

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Pacific Life Insurance Company is licensed to issue insurance products in all states except New York. Product/material availability and features may vary by state.

Life insurance is subject to underwriting and approval of the application and may incur monthly policy charges.

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SIGNATURE WHOLE LIFE INSURANCE

AMERICAN NATIONAL

Using Signature Whole Life in Estate Planning Situations

Many overlook the importance of estate planning. However, settling affairs after death could have a long-lasting—and costly—impact on loved ones. Creating a clear estate plan with two main objectives in mind can minimize the risk of assets being taxed after death as well as take care of estate expenses that can quickly stack up.

Estate Planning Objectives

1. Avoid Conflict

Conflicts can occur when assets are passed to family members in a complex manner. Other conflicts can arise when there lacks a clear and concise estate plan.

2. Have Available Cash to Pay Estate Expenses and Obligations

Potential expenses that can occur from an estate owner's death can add up to a disturbingly long list:

- Federal and State Taxes
- Funeral and monument expenses
- Unpaid medical expenses
- Debts of the decedent
- Executor's fees
- Attorney's fees
- Court costs
- Appraiser's fees
- Costs of insuring and protecting estate property

A comprehensive estate liquidity strategy is necessary to provide the executor the cash flow needed to pay these types of estate obligations.

Hypothetical Example

Let's assume Jimmy Hardy is 50 years old and has a $1,000,000 estate. He does not expect to ever have a taxable estate given that, as of 2020, the estate tax only kicks in when an estate value hits $11,580,000.

However, Jimmy owns real estate including a home and two rental properties; he also owns a 401(k) plan and some other IRAs and thus has limited liquid assets. If something happens to Jimmy, his named or court-appointed executor will need to probate his estate due to the asset structure. There are several costs that could prove prohibitive for the executor of Jimmy's estate without liquid assets.

- Payments towards Jimmy's home and rental properties need to stay current to maximize the value the estate receives upon sale.
- Appraisers will need to be hired to appraise personal property and any real estate that is not sold.
- Creditors may come forward to make a claim which needs to be paid.
- Outstanding end-of-life medical bills and any other debts of the deceased.

If Jimmy wants to make the process easier for his executor and loved ones, he can take out a modest life insurance policy for $100,000 with the Insured's estate as beneficiary. This would allow the executor to file a claim upon Jimmy's death, which could be used as the liquid funds needed to keep Jimmy's assets solvent while the estate is settled.

The annual premium for a $100,000 Signature Whole Life policy would be $2,166 per annum. If Jimmy wanted to have a paid-up policy at age 65, the annual premium would be $3,465 per year through age 65. At that time, Jimmy would have a paid-up policy for $100,000 providing his estate the liquidity it needs to carry out an orderly distribution while maximizing the value of estate assets for beneficiaries.

For questions and more information, contact the Advanced Sales Department at 888-504-2550 ext. 5767.

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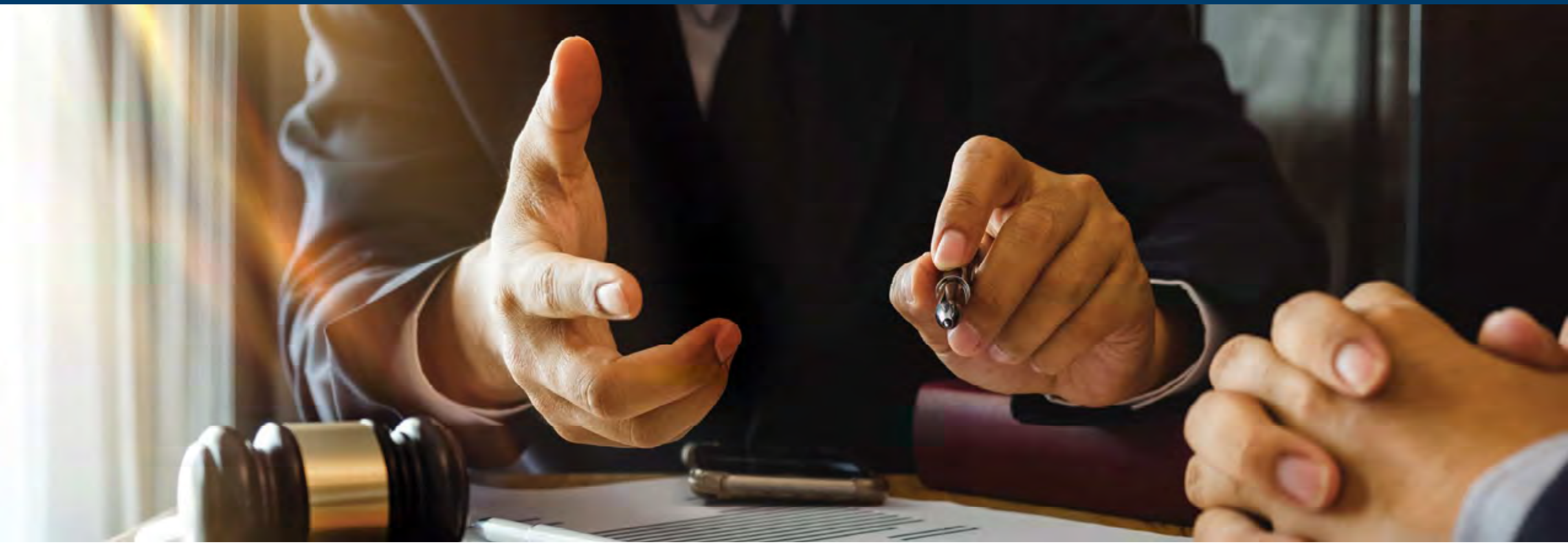

Case Study: Estate Planning

OVERVIEW

The Need

Anthony, a financially conservative client, needs to cover the federal tax liability of his large estate while not reducing the inheritance he wants to provide his children after his death.

The Solution

Purchase a Signature Whole Life insurance policy held by an irrevocable life insurance trust with a face amount large enough to cover the cost of the federal estate tax.

The Benefit

A Signature Whole Life policy provides Anthony with a competitively priced and stable method to cover the cost of his expected federal estate tax liability while respecting his risk tolerance.

Anthony Depaolo was 50 years old and on top of the world. He recently sold his company to a large conglomerate for $10,000,000. As part of the closing at sale, Anthony's attorney advised him to have his will revised and to take out life insurance now that he had a taxable estate estimated at $13,370,000. Anthony was divorced but had three children and wanted to make sure they inherited the full value of his estate.

When Anthony visited his attorney to have his will updated, he was advised that, if federal tax rates remained the same, the amount of his estate valued over his total unified credit for estate and gift tax of $11,580,000 would likely be taxed at 40%. In other words, Anthony found himself with an expected federal estate tax liability of $716,000 plus probate expenses. To help offset this tax liability so that his children could receive the full value of the estate, his attorney recommended that Anthony have an Irrevocable Life Insurance Trust drawn to hold a $1,000,000 life insurance policy on his life.

With this plan, when Anthony passes, the tax on his $13,370,000 estate would be $716,000, with the remainder passing on to his three children, according to the terms of his will. The trust, as the beneficiary of the life insurance policy, would receive the entire $1,000,000 death benefit outside the estate to be held for the benefit of Anthony's children. Anthony liked the idea and immediately made an appointment to meet an insurance agent.

SIGNATURE WHOLE LIFE INSURANCE

The insurance agent talked with Anthony to identify his risk tolerance and market experience in financial matters. Anthony's current assets from the sale of his business were in a bond portfolio and he was comfortable with that setup. He did not want to take on risk and wanted to preserve what he had so he could pass it on to his children.

The agent showed Anthony a brochure on American National's Signature Whole Life Insurance. The agent told Anthony that this policy:

- Was very competitively priced
- Had premiums guaranteed to stay the same for the life of the policy
- Had a guaranteed death benefit, as long as he paid his annual premiums as scheduled
- Had cash value that would grow at a guaranteed rate
- Had the potential to pay dividends

The agent showed Anthony that the premium for $1,000,000 of Signature Whole Life insurance would be $20,340 per year. Anthony would be able to use present interest gifts of up to $15,000 per beneficiary per year to fund the trust thereby preserving his total unified credit for estate and gift tax of $11,580,000 that would shelter his estate from paying more estate tax at his death. Anthony liked that idea and the agent had Anthony sign the application to get the process started.

Anthony had now offset his current estate tax liability and ensured his children would inherit the full $13,370,000 estate he had worked so hard to accumulate.

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SOCIAL SECURITY HIGHLIGHTS

SECURITY MUTUAL LIFE
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Hedging Your Social Security Bet: How Life Insurance Can Help

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During a recent conversation with one of our leading agents about Social Security, he shared an interesting approach on how he handles this subject when talking with his clients. He said that essentially, he uses life insurance to help ease his clients' worries about when to claim Social Security.

To understand his approach, we need to first review the basics. When you talk to a client about Social Security, it often comes down to one simple question: when should I collect?

The answer isn't so simple. You first need to understand what your client's options are. Let's say they're going to reach age 60 this year. That means that their Full Retirement Age (FRA) is age 67.

When they look at their statement provided by SSA.gov, it tells them that their "Primary Insurance Amount," or PIA, is $3,000. This means that if they start collecting at age 67, they will get $3,000 per month.

Based on this they can figure out what their basic options are. They can start this year when they turn 62 and collect roughly 70 percent, or $2,100 per month. So they're starting five years before their Full Retirement Age, but they're taking a lower monthly benefit for the privilege of doing so.

Another possibility would be to delay collecting to an age beyond FRA. If they wait until age 70, they will collect 124 percent, or $3,720 per month. That means they've lost out on those earlier payments, but they're making up a piece of that lost income every month.

One quick note: we are assuming in this example that they are actually retiring from their job if they collect before FRA. If not, the so-called "Earnings Test" would likely make it impractical to work and collect at the same time, at least until they reach FRA.

Keep in mind that their options are not just 62, 67 and 70. They can choose to collect at any time in between if that's what they want. But there's absolutely no reason to wait beyond age 70. At age 71 they would get the same benefit they would at age 70 (not including any COLA increases, which apply either way). So if they wait too long, they're giving up income and getting nothing in return.

Getting back to the basic question, their assumed options are 62, 67 and 70. When should they collect?

For many people it comes down to a simple breakeven analysis. If they start at 62 they can collect $2,100, vs. $3,000 at age 67. With option 1, they're already ahead by a cumulative total of $126,000 by the time they reach age 67. But with option 2, starting at age 67, they begin cutting into that advantage a little bit at a time, that amount being $900 per month. By the time they reach age 78, they're actually slightly ahead if they chose option 2.

When they look at it this way, it all boils down to one question: do they think they're going to live past age 78? If they think they will, they would be inclined to wait. If they think not, they will probably want to collect early.

They can do the same thing with age 70. If they do the math, the breakeven between age 62 and 70 is about age 80. And between 67 and 70 it's age 82. Note that the amount of the benefit doesn't really matter here. The concept is the same whether their PIA is $500, $1,000 or $3,000.

If they are fortunate enough to live well into their nineties, they would collect significantly more money by waiting until 70.

Summary Breakeven Analysis

	$25,200 at Early Retirement		$36,000 at FRA		$44,640 at Delayed Retirement	
Age	Annual	Cumulative	Annual	Cumulative	Annual	Cumulative
62	25,200	25,200				
63	25,200	50,400				
66	25,200	126,000				
67	25,200	151,200	36,000	36,000		
70	25,200	226,800	36,000	144,000	44,640	44,640
71	25,200	252,000	36,000	180,000	44,640	89,280
77	25,200	403,200	36,000	396,000	44,640	357,120
78	25,200	428,400	36,000	432,000	44,640	401,760
79	25,200	453,600	36,000	468,000	44,640	446,400
80	25,200	478,800	36,000	504,000	44,640	491,040
81	25,200	504,000	36,000	504,000	44,640	535,680
82	25,200	529,200	36,000	576,000	44,640	580,320
83	25,200	554,400	36,000	612,000	44,640	624,960
84	25,200	579,600	36,000	648,000	44,640	669,600
85	25,200	604,800	36,000	684,000	44,640	714,240
86	25,200	630,000	36,000	720,000	44,640	758,880

Note that this approach has its limitations, one of the biggest being the so-called "time value of money." In order to do a fair comparison, they really need to factor in the idea that a dollar earned today is worth more than a dollar earned tomorrow, if for no other reason than they could potentially invest today's dollar and end up with more money than they would with the dollar you earn tomorrow.

But consumers rarely do that; it's simply too difficult to figure out. Of course, our software program, *SML's Social Security Evaluator*, gives you, as an SML life insurance advisor, the ability to perform this more sophisticated analysis.

So now let's get back to the method used by one of our leading agents. It is the uncertainty of this whole exercise that makes life insurance an attractive option. They may *think* they've got a good chance of seeing your 90th birthday, but what if they're wrong? If they decide to collect at age 70, then die at 69, they could lose out on up to $200,000 of cumulative Social Security benefits that could otherwise have been collected and enjoyed.

Life insurance is a great tool to "hedge" against this risk. If they're healthy at age 62, they could purchase a policy for $200,000 on their life. That way, if something were to happen to them, there would be some additional money for their heirs to replace the Social Security income they chose to forego. And better yet, it would likely come to the heirs on a tax-free basis. If they do indeed make it well past age 70, they'll end up with better Social Security income, along with an extra $200,000 legacy for their heirs.

How much would something like that cost? Using SML's Security Designer WL4U3 LP121, a male age 62 with preferred underwriting could get a guaranteed death benefit of $200,000 for an annual premium of $13,053 for 10 years. And of course, there are lots of creative ways to adjust that premium if desired.

Getting back to the Social Security benefit, just remember that this whole exercise becomes much more complicated when you include a spouse or divorced ex-spouse. If that is the case, you will need to look and spousal and/or survivor benefits, which could change the math considerably. *SML's Social Security Analyzer* can help you navigate this.

But either way, the concept is the same: your decision on when to collect is essentially a bet. And life insurance can help you hedge your bet.

Social Security **Evaluator**

To learn about your Social Security options, contact your Security Mutual life insurance agent. Using the Security Mutual Life Social Security Evaluator, your agent can provide you with an easy-to-understand illustration showing your various options, and then help you evaluate those options based on your personal financial needs and goals.

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The Company That Cares.®

Carry your legacy forward

Private premium financing for ultra-high-net-worth estate planning

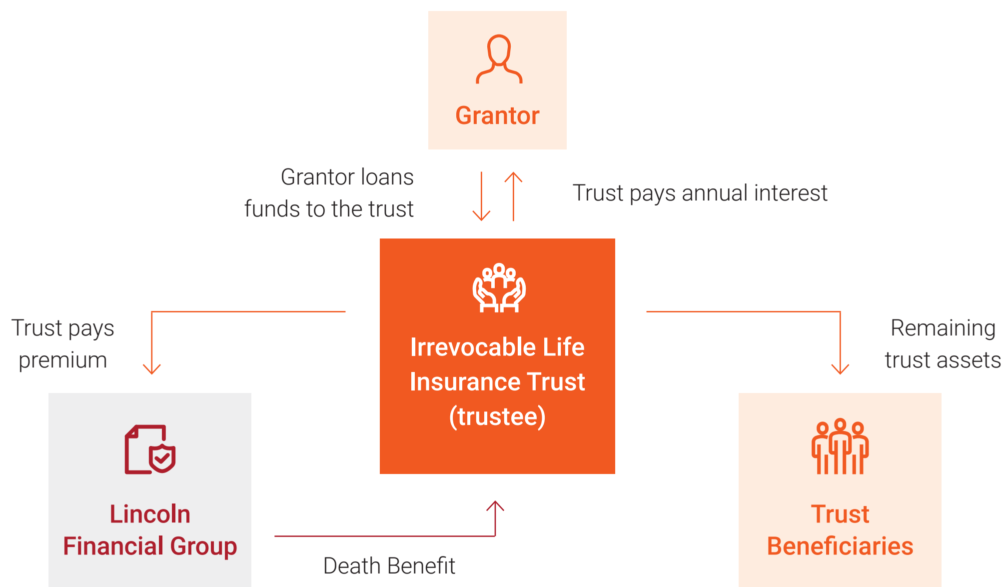
Today's historically low interest rates offer ultra-high-net-worth individuals and families a tremendous opportunity to tap into the estate protection benefits of life insurance using a **private premium financing** strategy.

Private premium financing empowers you to fund an irrevocable grantor trust (IGT) to minimize or eliminate the need for annual or lifetime gifts, and reduce estate taxes. This means you can focus on what matters most — preserving your hard-earned wealth for your heirs and beneficiaries.

How it works

Simply put, an IGT is established to purchase a life insurance policy designed to carry your legacy into the future.

You, as the trust's grantor, loan funds to the IGT to pay life insurance premiums. The IGT covers the premiums — while paying you annual loan interest and principal — and later provides a tax-advantaged death benefit to your beneficiaries.



To fund your IGT and life insurance policy, the two most popular options are:

1. Using proceeds from a one-time lump-sum sale of assets
2. Paying annual premium payments

A one-time sale of investment assets enables you to "lock in" today's low interest rates for any time period, up to your life expectancy. Paying an annual premium allows you to maintain your current cash flow and investment assets.

Let's explore each option to see what works best for you.

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May go down in value

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1. One-time sale of assets

The one-time sale of assets strategy is particularly attractive in a time of near-record low interest rates. With an IGT, no gain is recognized on the sale of the assets to the trust. Additionally, all interest on the note received is free from income taxes. The grantor will continue to pay the tax on income generated by the assets.[1]

You'll want to apply this strategy using investment assets producing significant annual cash flows to achieve your ideal outcome. Here's an example:

The grantor sells $10 million of investment real estate to the trust in exchange for a $10 million note. The assets are expected to produce 7% cash flow ($700,000) per year.

Using the July 2020 long-term AFR (1.17%), the trust pays the loan interest of $117,000 annually to the grantor.

This leaves $514,000 of available cash flow each year for life insurance premiums.

The amount of life insurance the $514,000 of premium could produce depends on the age and health of the insured as well as how many years the grantor wants to continue the arrangement.

All income and appreciation in excess of the assumed 7% return remains in the trust outside the grantor's taxable estate.

2. Paying annual premiums

Those looking to maintain current asset levels may prefer to loan needed premiums to the IGT each year with, or without, capitalized loan interest. In this arrangement, the loan would be repaid from the policy's death benefit. For younger individuals and families, using a cash accumulation life insurance policy may make it possible to repay the loan from policy values after 15 to 20 years.

As many ultra-high-net-worth clients have discovered with commercial premium financing, there may come a time when the annual gifting needed to pay the commercial financing loan interest exceeds the available annual exclusions.

However, unlike commercial loans, there's no restriction on capitalizing loan interest on private financing arrangements. Having said that, as the loan balance increases, it may result in less and less of the policy death benefit remaining in the irrevocable trust.

Take action before current laws expire

The low interest rate environment creates exciting opportunities for you to benefit from private premium financing. Private financing also provides flexibility to make gifts by forgiving loan interest and principal, now or in the future. This can help you to take advantage of the current $11.58 million lifetime gift and estate tax exemption. But it's important to act now.

Rates could rise again, and the lifetime estate tax exclusion law expires in 2026. And since 2020 is an election year, estate laws could be rewritten by a newly elected legislature in 2021. Additional pressures include the potential of higher taxes to offset unprecedented federal spending in response to COVID-19.

Speak with your financial professional today. Private premium financing may help you protect the wealth you've built for the next generation.

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[1] Most estate planners recommend that when investment assets are sold to the trust, the grantor should make a gift of 10% of the assets and take back a note for 90% of the value of the assets. If that trust already has assets, or another trust is willing to guarantee 10% of the debt, then no seed money may be necessary. Also, if only cash is loaned to the trust, then no seed money is needed.

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Survivorship standby trusts

Control and flexibility

Summary

This technique allows both access to policy account values during lifetime and exclusion of death proceeds from the estate. The spouse with the shorter life expectancy (spouse 1) applies for a survivorship policy on himself or herself and spouse 2. Spouse 1 is the initial owner of the policy, with an irrevocable life insurance trust (ILIT) named as the contingent owner — spouse 1 pays all premiums from separate funds (be careful in community property states) and has access to policy account values.

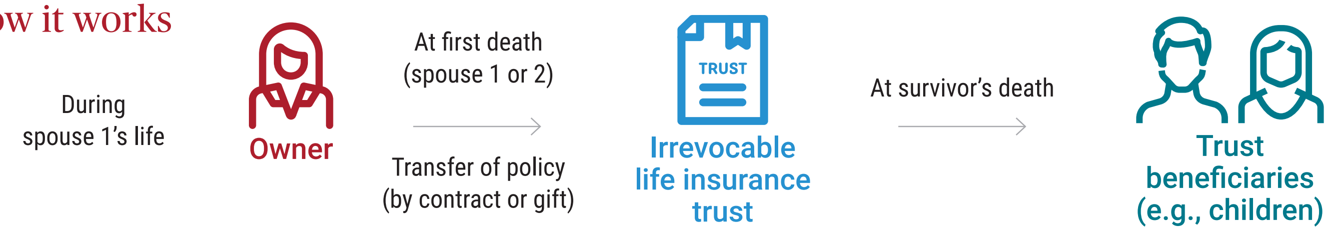
If spouse 1 dies first, the policy passes to the ILIT and the proceeds are outside spouse 2's estate at death, since spouse 2 never had any incidents of ownership in the contract. The policy's account value at spouse 1's death is included in his or her estate.

If spouse 2 dies first, spouse 1 immediately transfers the policy to the ILIT. This is a taxable gift, and the policy would be included in spouse 1's estate should he or she die within three years of the transfer to the ILIT. However, if spouse 1 survives the three years after the transfer, the policy proceeds are outside the estate.

PLANNING TIP:

Survivorship standby trusts are designed to permit a couple to retain control of a life insurance policy generally until the death of an owner or spouse when the policy is gifted to an irrevocable trust.

How it works



Tax considerations

- Premium payments made by spouse 1 are not gifts, because he or she owns the policy.
- Spouse 1 has access to the policy values during his or her lifetime.
- If spouse 1 dies first, the policy value is included in the estate.
- If spouse 2 dies first, the policy is transferred to the trust as a taxable gift and the three-year rule applies.

How to implement

- Spouse 1 applies for the policy using separate funds.
- Spouse 1 is the owner of the policy; the irrevocable life insurance trust is the contingent owner.
- The irrevocable life insurance trust may be drafted either during spouse 1's lifetime or at the death of the first spouse. The trust cannot be named as the contingent owner until it is drafted and signed.

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Not FDIC-insured
Not insured by any federal government agency
Not guaranteed by any bank or savings association
May go down in value

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Ask your financial professional how you can protect more wealth in today's tax environment.

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Advanced Sales

Grantor retained annuity trusts

Irrevocable trusts for transferring assets to the next generation

PLANNING TIP

- A GRAT is: an irrevocable trust funded by a grantor with appreciating assets
- The grantor retains rights to income from the trust for a term of years
- The assets are transferred to named beneficiary at the end of the trust term

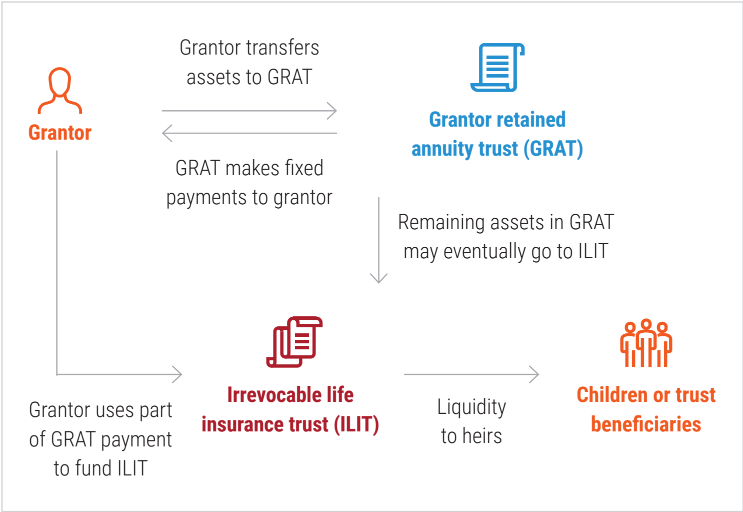
A grantor retained annuity trust (GRAT)[1] is an irrevocable trust designed to transfer an asset to the next generation at a reduced gift tax value. The grantor gifts property (for example, stock in the family business) and receives a stream of fixed payments over a limited number of years. At the end of the term, the ownership of trust assets shifts to the next generation.

GRATs are typically designed to pay the grantor the largest fixed payment stream possible in order to reduce the gift's value to near zero. If the asset grows faster than the IRS discount rate, the value of the trust will increase over time. Thus, a GRAT is a gift of an asset's future appreciation. If the grantor dies before the end of the term, part or all of the trust assets may be included in his or her taxable estate. To enhance the results of a GRAT, the grantor gifts all (or a portion) of the GRAT payments to an irrevocable life insurance trust to purchase an individual or survivorship life insurance policy.

What to consider

Here are a few important things to consider before implementing a GRAT.

- If the grantor outlives the GRAT, the asset's appreciation is removed from his or her estate. No additional taxes are due when the children receive the asset.
- If the grantor dies during the term of the GRAT, part, or all, of the value of the trust assets are included in his or her estate and an independent appraiser may be required to value the assets.
- The gift does not qualify for the annual gift tax exclusion and the beneficiaries of the GRAT do not receive a step-up in basis.
- The trustee cannot make discretionary distributions of the principal or income to the grantor.



Note: Specific tax and legal questions should be referred to your tax professional or legal counsel.

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How to implement

Before establishing a GRAT, consult a qualified attorney to draft trust documents and determine which assets are suitable for a GRAT. A grantor can then establish an irrevocable trust that qualifies as a GRAT. With life insurance held in an irrevocable life insurance trust (ILIT), the grantor can cover the risk of inclusion of the asset in his or her estate due to premature death. The grantor can also establish an irrevocable life insurance trust (usually a separate trust) to provide liquidity to the heirs if the he/she dies during the term of the GRAT.

Speak with your financial professional today to see if a GRAT may benefit you and the legacy you're building.

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PDF 2/21 **Z06**
Order code: LIF-GRAT-FLI001

[1] For a GRAT, the starting point in the calculation of the present value is the requirement that you start with 120% of the mid-term Applicable Federal Rate (AFR). The IRS publishes this rate each month, and for August 2020, 120% of the mid-term AFR is 0.49%. The next step is to round the rate to the nearest 0.2%, or 0.40% for August.

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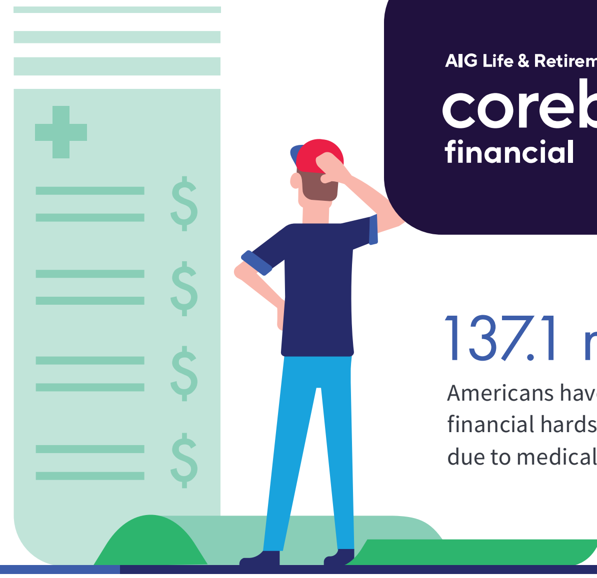
RISING COSTS OF HEALTH CARE

AIG

Americans are underprepared for future health care expenses

Health care expenses eventually affect a large majority of older adults. Plan ahead so years-long illnesses and their associated costs won't slow down your family's future.



AIG Life & Retirement now corebridge financial

137.1 million

Americans have faced financial hardship this year due to medical costs.[1]

How are serious illnesses affecting Americans?

5.8 million

Americans are living with Alzheimer's disease.[2]

Heart disease is the #1 cause of death in the U.S.[3]

7 million

adults have had a stroke.[4]

76.7%

of patients survive a first-time stroke for longer than six months, requiring long-term care.[5]

6 in 10

Six in ten Americans live with at least one chronic disease.[6]

What are the financial ramifications?

$213 billion

estimated annual U.S. costs of cardiovascular disease and stroke.[4]

$350,174

approximate lifetime cost of care for an individual living with dementia.[2]

A healthy couple retiring at 65 can expect health care costs upwards of **$360,000.**[7]

Be prepared for unexpected health care expenses

Modern life insurance policies offer cash accumulation and living benefits that can help minimize the financial strain by providing funds while living. With a chronic illness rider on your life insurance policy, you can access income tax–free life insurance benefits if diagnosed with a qualifying condition.

Looking forward to a bright future

Do you know the coverage that's right for you or how much life insurance you need? We can help make sure you and your loved ones are protected with living benefits.

Who is it for?

Those who know they need life insurance to protect themselves and their families. Whether you have experienced a recent health care event or are in good health, you know it's best to have your options open in the event your health deteriorates later.

How does it work?

It's not a "use it or lose it" policy. Your benefits are paid no matter what, and it's up to the policy holder to decide how the funds are used.

With a living benefit rider on your life insurance policy, you can access income tax–advantaged life insurance benefits if diagnosed with a qualifying condition.

For information on how life insurance can help with future health care expenses, contact your financial professional.

[1]Journal of Internal Medicine, Prevalence and Correlates of Medical Financial Hardship in the USA; May 2019.
[2] Alzheimer's Association. 2019 Alzheimer's Disease Facts and Figures. January 2019.
[3] Heart.org. Cardiovascular diseases affect nearly half of American adults. January 2019.
[4] American Heart Association. Heart Disease and Stroke Statistics—2019 Update: A Report From the American Heart Association.
[5] Journal of Education and Health Promotion. Factors related to 6-month mortality after first-ever stroke. September 2018.
[6] CDC. National Center for Chronic Disease Prevention and Health Promotion. January 2020.
[7] CNBC. Retiring this year? How much you'll need for health-care costs. July 2019.

IMPORTANT CONSUMER DISCLOSURES REGARDING ACCELERATED BENEFIT RIDERS
An Accelerated Death Benefit Rider (ABR) is not a replacement for Long Term Care Insurance (LTCI). It is a life insurance benefit that gives you the option to accelerate some of the death benefit in the event the insured meets the criteria for a qualifying event described in the policy. The rider does not provide long-term care insurance subject to California insurance law, is not a California Partnership for Long-Term Care program policy. The policy is not a Medicare supplement.

ABRs and LTCI provide different types of benefits. An ABR allows the insured to access a portion of the life insurance policy's death benefit while living. ABR payments are unrestricted and may be used for any purpose. LTCI provides reimbursement for necessary care received due to the inability to perform activities of daily living or cognitive impairment. LTCI coverage may include reimbursement for the cost of a nursing home, assisted living, home health care, homemaker services, adult day care, hospice services, or respite care for the primary caretaker, and the benefits may be conditioned on certain requirements or meeting an elimination period or limited by type of service, the number of days, or a maximum dollar limit. Some ABRs and all LTCI are conditioned upon the insured not being able to perform two or more of the activities of daily living or being cognitively impaired.

This ABR pays proceeds that are intended to qualify for favorable tax treatment under section 101(g) of the Internal Revenue Code. The federal, state, or local tax consequences resulting from payment of an ABR will depend on the specific facts and circumstances, and consequently advice and guidance should be obtained from a personal tax advisor prior to the receipt of any payments. ABR payments may affect eligibility for, or amounts of, Medicaid or other benefits provided by federal, state, or local government. Death benefits and policy values, such as cash values, premium payments, and cost of insurance charges if applicable, will be reduced if an ABR payment is made. ABR payments may be limited by the contract or by outstanding policy loans.

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WILL YOU HAVE ENOUGH MONEY FOR RETIREMENT?

Supplement your retirement assets for a comfortable future

Use your retirement assets the way you intended by supplementing them with funds from your life insurance policy.

A healthy 65-year-old couple is expected to spend more than

$600,000

on lifetime medical expenditures.[1]

Longer life spans

The current average life expectancy for a 65-year-old man is

83 years.[2]

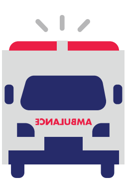
The current average life expectancy for a 65-year-old woman is

85.5 years.[2]

Unexpected expenses

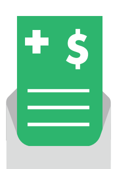
Since 2004, the proportion of people 62+ with financial debt has been increasing steadily.[3]

retire earlier than expected due to job loss, health issues, caring for an aging parent, or other issues.[4]



45%

of U.S. adults are concerned that a major health event could lead to bankruptcy.[5]



Older Americans have pulled an estimated

$22 billion

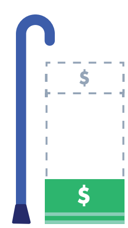
from long-term savings to pay for their health care over the course of a year.[5]

Adequately funding retirement

To maintain their standard of living in retirement, the typical working American needs to replace roughly **85% of pre-retirement income.**[6]

77%

of Americans fall short of their retirement savings target by age 67.[6]



80%

of working age individuals have retirement savings of less than one year of income.[6]

Effective retirement planning

Life insurance is an important part of financial and retirement planning. But beyond calculating how much coverage you need, what type of policy, and who your beneficiaries will be, there's something else life insurance can help you with—tax-deferred living benefits.

Life insurance can be an important part of your retirement plan

Modern day life insurance provides options to access cash while you're living. Access to these funds can be an important part of your overall financial plan and can be used for a variety of purposes. Additionally, these funds are tax-advantaged, making them even more critical for your retirement portfolio.

Supplement and protect retirement assets

These tax-deferred funds are an ideal resource for unexpected expenses like those related to dramatic health changes and long-term illnesses. You could apply these additional funds to health care costs which you haven't planned or budgeted for while still meeting your financial goals for the future.

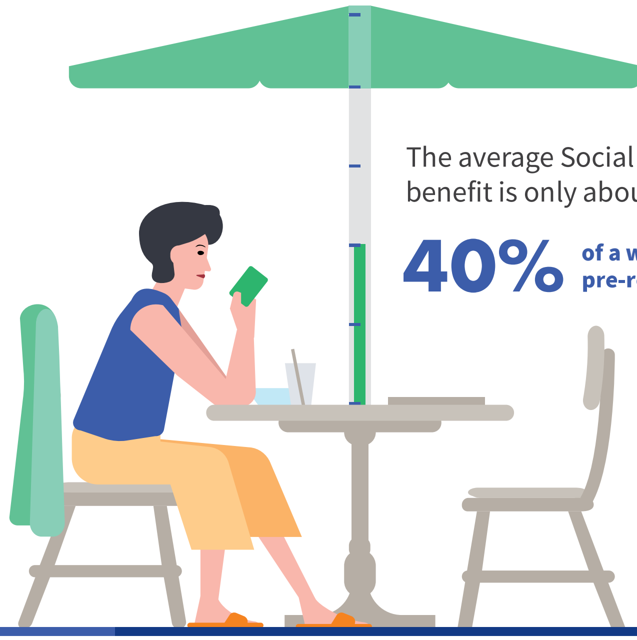
For information on how life insurance can help supplement your retirement, for a comfortable future, contact your financial professional.

Name
Title
(555) 555-5555
Email

[1] HealthView Services. 2019 Retirement Healthcare Costs Brief. December 2019.
[2] National Center for Health Statistics, Centers for Disease Control. Health, United States, 2018.
[3] Center for Financial Security, Debt Stress and Mortgage Borrowing in Older Age: Implications for Economic Security in Retirement. 2019.
[4] Nationwide, Nationwide Retirement Institute Tax Efficient Retirement Income. November 2019.
[5] West Health and Gallup. The U.S. Healthcare Cost Crisis – Executive Summary. April 2019.
[6] National Institute on Retirement Security. Retirement in America: Out of Reach for Working Americans?. September 2018.

Bridging the Social Security income gap

Planning ahead for retirement is more essential than ever. Let's look at the realities of Social Security today.



The average Social Security benefit is only about **40%** **of a worker's pre-retirement income**[1]

Retirement expenses are greater than Social Security benefits

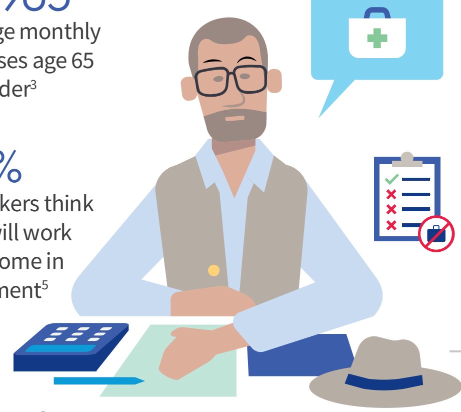
$1,520 average monthly Social Security payment per month[2]

$3,965 average monthly expenses age 65 and older[3]

39% of retirees spend more than **$750/month** on health care alone[4]

72% of workers think they will work for income in retirement[5]

You may retire earlier than expected



47% of workers retired early due to a health problem[5]

64% of men sign up for Social Security benefits before full retirement age[6]

36% of workers retired early due to changes in the skills required[5]

69% of women sign up for Social Security benefits before full retirement age[6]

Buying power isn't what it used to be

30% loss of Social Security benefits value since 2000[4]

252% increase in prescription drug costs since 2000[4]

99.3% increase in cost of goods and services purchased by retirees since 2000[4]

174% increase in homeowners insurance since 2000[4]

129% increase in real estate taxes since 2000[4]

Supplement Social Security income with life insurance

Count on affordable life insurance options that help bridge the income gap. Access flexible, tax-advantaged money from your policy you can use while living.

Look forward to a comfortable retirement

Protecting loved ones with valuable death benefits is a primary reason to choose life insurance. Get more from today's products that also offer attractive benefits while you are living. They have tax advantages, making them an important part of your retirement portfolio.

Supplement and protect

Life insurance with living benefits can be applied to health care costs which haven't been planned or budgeted for. It's ideal for unexpected expenses like critical or long-term illnesses.

Guaranteed benefits

It's not "use it or lose it." Your benefits are paid no matter what, and it's up to the policy holder to decide how and when to use the money. If benefits are not used during your lifetime, they will be passed on to help secure the financial future of your loved ones.

For more information about how life insurance can help supplement your Social Security income, contact your financial professional.

Name
Title
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Email

1. https://www.ssa.gov/benefits/retirement/learn.html#h2
2. https://www.ssa.gov/policy/docs/chartbooks/fast_facts/2020/fast_facts20.html#benefits
3. https://www.bls.gov/cex/tables/calendar-year/mean-item-share-average-standard-error/reference-person-age-ranges-2020.pdf
4. https://seniorsleague.org/social-security-benefits-lose-30-of-buying-power-since-2000-no-cola-likely-for-2021/
5. https://www.ebri.org/docs/default-source/rcs/2021-rcs/2021-rcs-summary-report.pdf?sfvrsn=bd83a2f_2
6. https://money.usnews.com/money/retirement/social-security/articles/the-most-popular-ages-to-collect-social-security

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BYPASS TRUST

Program Highlights

TRANSAMERICA®

Trusts play an important role in estate planning by allowing you to direct how your assets will be distributed after death.

Did You Know?

Under current estate tax law, a married person who passes away may transfer an unlimited amount of property to his or her spouse estate tax-free; the couple's cumulative estate will not be liable for any estate taxes until the survivor passes away. This benefit is called the unlimited marital deduction. In addition to this benefit, in 2015, each person — married or single — is allowed to pass up to $5.43 million worth of assets to loved ones on an estate tax-free basis. This benefit is known as the federal estate tax exemption.

While the unlimited marital deduction provides that any property you leave to your surviving spouse will pass federal estate tax–free, you should know that this exemption only postpones — and does not reduce — federal estate taxes. Rather, the remaining assets of both spouses will be included in the estate of the surviving spouse, but there will be only a single $5.43 million estate tax exemption to minimize estate taxes unless steps are taken to preserve the deceased spouse's unused estate tax exemption (as described in "Portability" below). So instead of leaving your loved ones with a financial legacy, you may inadvertently leave your loved ones with a sizable estate tax bill.

Portability

Portability was made permanent by the American Taxpayer Relief Act of 2012 (ATRA 2012). Portability allows a deceased spouse's unused exemption amount (DSUEA) to be carried over to the surviving spouse so that it is not wasted in situations where no planning has been done. The DSUEA may only be applied to the estate or lifetime gifts of the surviving spouse if the executor files a timely estate tax return for the decedent spouse's estate.

Even with permanency of the portability provision, married couples should still consider including a bypass trust in their estate plans. A bypass trust may provide advantages for a married couple that include:

- Appreciation of assets in the bypass trust is not included in the estate of the surviving spouse.
- A bypass trust may provide protection against creditors, bankruptcy, lawsuits and divorce settlements.
- Portability only applies to the last deceased spouse. If a surviving spouse remarries, and the subsequent spouse passes away, the DSUEA of the first deceased spouse is lost.
- A bypass trust designates the remainder beneficiaries, usually the children.
- A bypass trust can preserve the generation skipping transfer tax exemption, which is not included in the portability provision.

Traditional Estate Plan Including Bypass Trust

With proper estate planning, you can build and preserve your wealth. By establishing a living trust that includes two sub-trusts—the marital and bypass trusts—you can benefit the surviving spouse and minimize estate taxes. Upon the passing of the first spouse, the deceased spouse's estate is poured into the bypass trust in the amount of the estate tax exemption—$5.43 million in 2015. No estate taxes are paid on this amount. The remaining assets are then poured into the marital trust, becoming a part of the surviving spouse's estate. This amount qualifies for the unlimited marital deduction and passes free of federal estate taxes upon the passing of the first spouse. When the survivor passes away, his or her estate tax exemption will be applied, sheltering another $5.43 million (2015) from estate taxes.

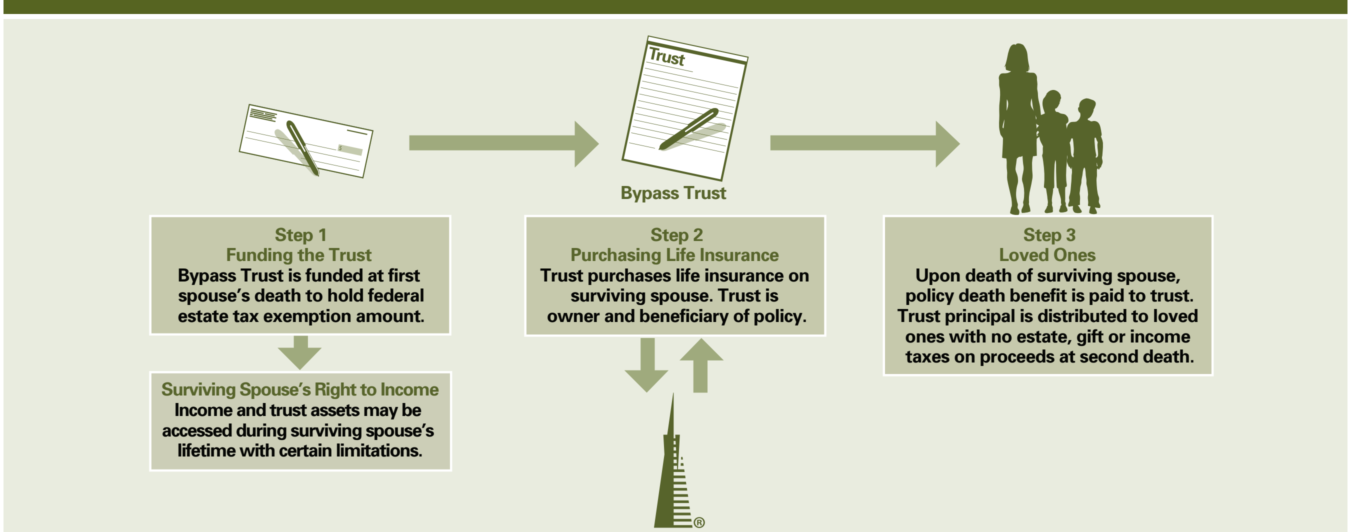
A bypass trust minimizes estate tax liability and preserves wealth by allowing each spouse to take full advantage of the federal estate tax exemption. However, the appeal of this arrangement is not only the estate tax savings, but also certainty of using the deceased spouse's estate tax exemption and the flexibility that it offers the surviving spouse. Although the money placed in the bypass trust is generally earmarked for the couple's children, the surviving spouse typically enjoys a limited right to access trust assets.[1]

How Does It Work?

You can use a variety of assets to fund the bypass trust and, thereafter, the trustee can decide how to manage these assets for the surviving spouse, children, and other beneficiaries. Often, the income needs of the surviving spouse will shape how the trustee manages trust assets. In many cases, the surviving spouse may have adequate income from other sources and will therefore need little, if any, income from the trust. In that case, the trustee might want to find ways to enhance the value of the trust for the benefit of the other beneficiaries, presumably the couple's children.

By purchasing a life insurance policy within the bypass trust on the surviving spouse's life, the trustee may be able to greatly enhance the value of the trust. In addition, since a life insurance policy's cash value grows tax-deferred, the trustee may reduce the trust's income tax liabilities.

Bypass Trust with Life Insurance



[1]The surviving spouse is usually granted a right to all income from the trust and the right to demand each year either the greater of $5,000 or 5% of the trust principal.

For Your Consideration

There are a variety of factors you should consider before purchasing a life insurance policy inside a bypass trust, such as beneficiary needs, trust terms, investment alternatives, the type of life insurance policy desired and the overall estate plan. It is important to consult with your advisors, including an attorney, to determine the proper course of action for the bypass trustee.

We can work with your advisors to ascertain if life insurance inside a bypass trust can help achieve your family's planning objectives.

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Discussions of the various planning strategies and issues are based on our understanding of the applicable federal income, gift, and estate tax laws in effect at the time of publication. However, these laws are subject to interpretation and change, and there is no guarantee that the relevant tax authorities will accept Transamerica's interpretations. Additionally, the information presented here does not consider the impact of applicable state laws upon clients and prospects.

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BUSINESS INSIGHTS

Estate planning in an uncertain tax environment

There's much more to estate planning than simply considering the impact of the federal estate tax. But it is an important part. If you're currently subject to estate tax or could be in the future, the time to start planning is now.

Background on evolving estate tax exemption

After the Tax Cuts and Jobs Act of 2017 dramatically increased the federal estate exemption, the number of people potentially affected by it dropped dramatically. With indexing, the current exemption is $12.06 million per person, meaning that only single individuals with assets exceeding that amount at death, or couples with assets exceeding $24.12 million, currently face the 40% federal estate tax. It's important to keep in mind the power of compounding. If your assets were to earn a 7.2% rate of return, they would double in just 10 years. So, even if you wouldn't be subject to the tax today, with asset growth, you could be in the future.

For the past several years, there has been limited commentary on planning for the federal estate tax. In the last few months, estate tax discussions have accelerated. The primary driver is that under current law, the exemption will be cut in half when it reverts to prior law in 2026. In addition, many states impose an estate or inheritance tax at lower asset levels.

At the same time, members of Congress have introduced a number of proposals, which range from dropping the exemption to $3.5 million on one end—to full estate tax repeal on the other end. With such a high level of uncertainty, what should you do?

> "With the estate tax exemption scheduled to be cut in half in 2026, the number of people potentially impacted by the federal estate tax will increase dramatically."

Creating liquidity to help pay taxes

A common technique for estate tax planning is to buy life insurance held outside of your estate, generally in an irrevocable trust, to provide liquidity at the time your estate needs it to pay taxes. Since there's an unlimited estate tax marital deduction and the ability to carry over an unused exemption with a portability election, the need for estate tax liquidity typically occurs at the death of the second spouse. For decades, estate planners have recommended survivorship life insurance to address this need. A survivorship policy (i.e., second-to-die insurance) insures two people, so that when the second person dies, the death benefit is paid.

If it turns out that your estate tax need is less than you expected or is eliminated, the life insurance isn't wasted. It can provide a legacy for children and grandchildren or to support a charitable cause that was important to you during your lifetime. In many states, the trust can also build in spendthrift and other protections for the beneficiaries.

Planning for family needs

Even if you don't expect to owe estate tax, having liquidity in your estate can be helpful in addressing family needs. There are several ways to provide liquidity. One is having significant cash on hand. Another is to own assets that are easily converted to cash, such as stocks, bonds, and mutual funds. A third way is to purchase life insurance. For liquidity needs at death, life insurance is a very good option. In addition to single life coverage, survivorship is a valuable option when the liquidity need will occur at the death of the second spouse.

Life insurance can meet a variety of needs, such as providing for survivor needs, creating a legacy for grandchildren and children, and establishing support for family members with special needs, perhaps with a special needs trust. For business owners, life insurance can help address how to equalize distributions to children when one child may be receiving the business, and you're looking for ways to be fair to your children that aren't involved in the business.

If you aren't concerned about the inclusion of the life insurance in your estate for federal or state tax purposes at death, personally owned insurance may be appropriate. In situations where you want distributions of the life insurance proceeds paid over a period of time, using a trust as owner and beneficiary of the policy may be more effective.

Knowing your options

You may be thinking, "how can I know what to do in such an uncertain tax environment"? One option is to move ahead with the purchase of permanent life insurance. If the need you're solving for is at the second death of you and your spouse, consider survivorship life insurance.

If you aren't ready to commit to a permanent survivorship policy, there's a flexible alternative. Rather than having your irrevocable trust purchase a survivorship policy, you can start by purchasing two term policies—one on you and one on your spouse. It's important to make sure the insurance carrier will allow you to convert the two term policies to a survivorship policy in the future. This approach locks in your insurability and gives you some time to decide on when you want to convert to a survivorship policy. Once you're comfortable with moving ahead with the survivorship policy during the conversion period, you can make the switch without showing proof of insurability, even if your health has changed since you purchased the term policies.

The bottom line

It's important to look at your estate needs not only based on current law, but also on what's scheduled to happen in 2026. There's no way to know with certainty what will happen in Congress between now and Jan. 1, 2026, but you can plan now—whether that need is to pay taxes, provide for your family, or meet your charitable objectives.

> "You can bring more certainty to life's uncertainties by being prepared and acting now."

Mark T. West, JD, CLU®

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Framing Your Legacy

There's No Better Time Than The Present
To Consider Your Estate And Life Insurance Planning

MKT13-65D

PACIFIC LIFE

FRAMING YOUR LEGACY

The estate tax and estate planning environment today is very different that what it was in years past. The principle reasons for this are the passage of the American Taxpayer Relief Act of 2012 (ATRA) and the Tax Cuts and Jobs Act of 2017 (TCJA). ATRA increased the federal estate, gift and generation skipping transfer (GST) tax exemption to $5 million per person (indexed for inflation) and set the top estate, gift and generation skipping transfer (GST) tax rate at 40%. In January 2018, TCJA doubled the federal estate, gift and generation-skipping transfer tax exemption amounts as seen below in the chart. TCJA, however, sunsets in 2026, and absent new legislation, the exemptions will revert to their 2017 levels (adjusted for inflation) beginning January 1, 2026. What this means is that clients who are unlikely to die and unwilling to give up control and gift away much of their wealth prior to 2026, should continue to plan based upon the exemption being $5 million (as indexed for inflation). It's also important to keep in mind that there's also no guarantee that a future administration won't reduce the exemption amounts even further.

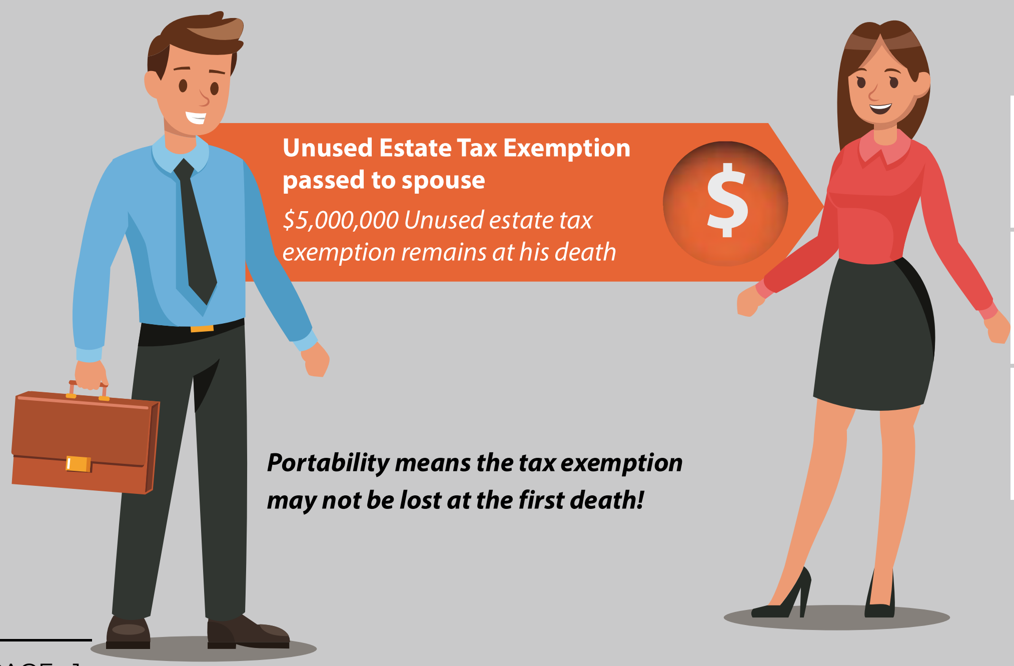
Federal Estate Tax Exemption Amounts[1]	Maximum Transfer Tax Rate
• $10,000,000 per individual • $20,000,000 per married couple	• 40% applied to estate, gift & GST tax

1 Indexed for inflation (effective for tax years after 2011). For example, in 2022, the exemption amount is $12,060,000 per individual and $24,120,000 per married couple. For the most recent figures on the exemption amount, please consult with your tax and legal advisor.

Permanent Portability

ATRA also made permanent the portability of the unused estate tax exemption amount between a married couple. With the enactment of TCJA, portability remains unchanged. Portability enables the first-to-die spouse to "pass on" his or her unused estate tax exemption amount to the surviving spouse. For portability to apply, the executor of the first-to-die spouse's estate must elect portability by filing an estate tax return with the Internal Revenue Service (IRS). It should be noted that the deceased spouse's unused exemption amount is "fixed" as of the date of the deceased spouse's death (i.e., the exemption amount is not indexed for inflation after the deceased's spouse's death). Additionally, there is no portability for purposes of the GST tax.

A Hypothetical Example



Her unused estate tax exemption:	$11,000,000
His "portable" estate tax exemption:	$5,000,000
Total estate tax exemption available for wife:	$16,000,000

WHERE TO START

Here are 3 key questions to discuss with your legal, tax and financial advisors, and life insurance producers:

01

Which of these basic estate planning tools do you already have in place?

- ☐ **Basic Will**
- ☐ **Durable Power of Attorney for Assets**
- ☐ **Durable Power of Attorney for Healthcare**
- ☐ **Guardianship Instructions**

To learn more, go to page 4.

02

In which category does your estate's value currently fit?*

Value is **Less** −	Value is **More** +
than the Federal estate tax exemption	than the Federal estate tax exemption

The size of your estate will determine if federal "transfer tax" planning needs to be part of your estate's strategy.

To learn more, go to page 5 and page 7.

03

What do you want to happen with your estate? What are your goals?

Your goals will help determine which planning techniques when combined with life insurance will help you accomplish your legacy goals.

On pages 6 and 8 we have provided you some questions to consider to help with your goals.

* Planning should generally be based on ATRA which is the federal estate tax exemption being $5 million per individual (as indexed for inflation). Doubling of the federal estate tax exemption under TCJA is temporary and sunsets in 2026, absent new legislation.

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LAY A FOUNDATION

Regardless of your wealth or the size of your estate – basic estate planning is necessary for almost everyone. There are four cornerstones to any legacy plan:

01 A Will

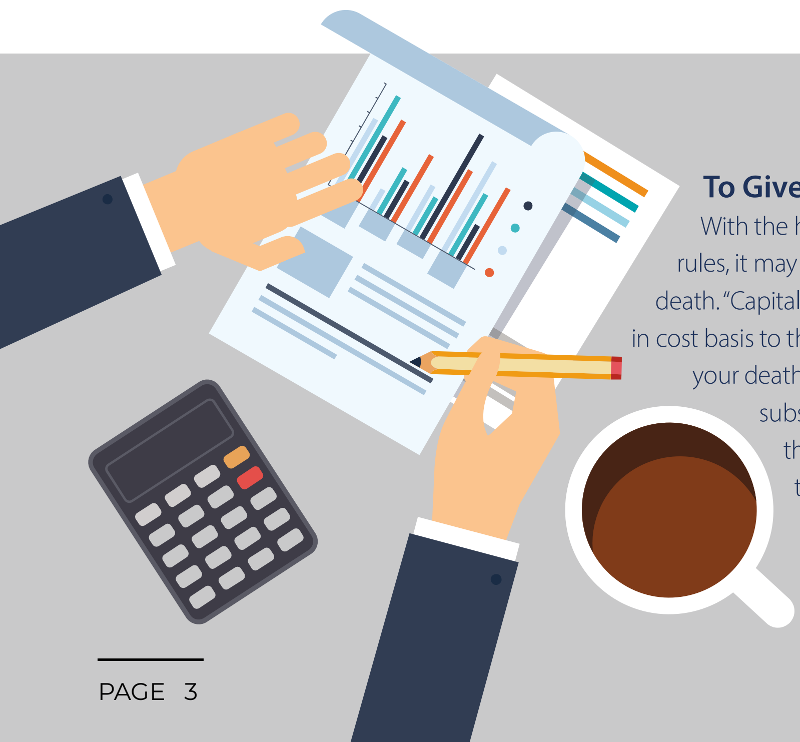
02 A durable power of attorney for assets

03 A durable power of attorney for healthcare (or its equivalent)

04 Guardianship Instructions

ASK:

- What assets do I own?
- How do I want my assets transferred at death?
- Who will get what?
- Do I want the government to decide who gets what or do I want to have control over the disposition of my hard earned wealth?
- Who will make financial decisions on my behalf if I am incapacitated?
- Who will make medical decisions on my behalf if I am unable to do so?
- Who will take care of my minor children if I can't do so?



To Give it Away During Life or Not?

With the higher federal estate tax exemption amount and the "step-up" cost basis rules, it may be advantageous to personally own certain low basis assets until your death. "Capital gain" assets that are owned by you at your death receive a step-up in cost basis to the asset's current fair market value. If the asset is transferred prior to your death, the asset may not be eligible for a step-up in cost basis. If you have substantial low-cost basis assets, it may make sense to retain ownership of these assets until death in order to minimize the impact of capital gains tax if the asset is later sold by your heirs.

The Basic Will

A will is a legal document that expresses an individual's wishes regarding the disposition of his or her property after death. A will is generally revocable and amendable until death and only becomes effective upon death. By preparing a will, an individual is able to control the passing of his or her property on his or her terms. Without a will, state law will dictate to whom a decedent's property will pass.[2] Each state has its own laws as to what requirements are necessary for a will to be valid.

Guardianship instructions are typically incorporated in a will by naming a legal guardian of minor child(ren) in the event of one's death. In the absence of such instructions, a court could decide on its own. While it isn't automatic that a court will approve one's selection regarding guardianship of a minor, it is more likely, especially if explanation of one's reasoning is in a will.

Before executing a will, check with local counsel to determine what the requirements are. An improperly executed will is likely to be declared invalid and not be recognized by the local probate court. ***Note:*** *Wills may be drafted to include more sophisticated planning tools, such as A/B provisions that utilize the remaining estate tax exemption of the first spouse to die. This is discussed in further detail below.*

Durable Power of Attorney for Assets

A durable power of attorney for assets (DPOA) is used to nominate someone to make financial decisions for the principal. The purpose of a DPOA is to ensure someone is always available to make financial decisions in case of incapacity. A DPOA will be needed for any property not transferred to a living trust because property transferred to a living trust can be managed by the trustee. A DPOA is very flexible, easy to create and involves little cost. A DPOA is revocable by the principal. It can be drafted broadly or on a very limited basis.[3]

Durable Power of Attorney for Healthcare

A durable power of attorney for healthcare (DPAH) is used to nominate someone to make healthcare decisions for the principal. The DPAH gives this person the authority to determine which medical treatment to consider should the principal become incapacitated. Most states have statutes that authorize the appointment of a health care agent. A DPAH is easy to create and is revocable. The decision of whom to nominate should not be taken lightly because, if the DPAH is ever used, it will be a very difficult time for all those involved.

2 There are many different types of wills. A detailed discussion is beyond the scope of this piece. Please consult with legal counsel for more information.

3 Each state has its own set of requirements for a DPOA to be valid. Please consult with local legal counsel for more information.

BUILD YOUR ESTATE PLAN TO HELP MEET YOUR GOALS

If this is you...

Less than Federal estate tax exemption

According to some experts, ATRA eliminated the federal estate tax for about 99% of the population.[4] Now with the passage of the Tax Cuts and Jobs Act of 2017 which temporarily doubles the federal estate tax exemption, even fewer Americans will be subject to the federal estate tax.[5] And, given that the federal estate tax exemption amount is indexed for inflation (and will likely continue to increase over time), most taxpayers may continue to avoid the federal estate tax. Keep in mind, however, that even though your estate may not be subject to federal estate taxes, you and your heirs may still benefit from estate and life insurance planning.

Ask:

- Will my spouse or partner be financially secure when I die?
- How can I make sure my children are provided for? What about my children from my prior marriage – how can I make sure they are properly provided for? How can I ensure that all my children are treated equitably?
- Are there certain debts or loans that I want paid off at my death so that my family is not burdened with these expenses? What will my funeral expenses be and how will my family pay for those?
- Do I have a business I want to pass on to my loved ones when I die? Will the business that I built from scratch stay in my family?
- Will my favorite charities be financially burdened at my death? How can I help to minimize this?
- Does my state have estate death taxes? If so, how will my estate pay for those state taxes?

99%

Greater than 99% of Americans are estimated to fall in this category.[5]

4 The American Taxpayer Relief Act (ATRA; P.L. 112-240), October 19, 2021 (found at: https://sgp.fas.org/crs/misc/R42959.pdf).

5 "Here's How Many People Pay the Estate Tax," Greg Iacurci, September 29, 2021 (found at: https://www.cnbc.com/2021/09/29/heres-how-many-people-pay-the-estate-tax-.html)

Estate and Life Insurance Planning Fundamentals

This category of strategies may be useful for everyone to consider. It focuses on ways to assist in attaining your family, business and charitable planning goals and less on transfer tax planning. Find your primary goal and the associated strategy to consider.

My Primary Goals	Strategies to Consider	Page No.
You want to make sure your assets pass efficiently (and privately) to your loved ones while minimizing probate expenses.	Revocable Living Trust	9
You want to provide for your current spouse/partner and for your children from a prior marriage/relationship.	Life Insurance for the Blended Family or Unmarried Couples	9
You are concerned about the impact of state estate taxes on your planning.	Life Insurance to Help Pay for State Estate Taxes	9
You want to transfer your business to family members active in the business without disinheriting those who are not.	Family Buy-Sell	10
You want to provide a legacy for children/grandchildren	Legacy Planning Using Life Insurance	10
You have a history of giving to a particular charity (or charities) and want to ensure the gifts continue should you die prematurely.	Charitable Gifts Using Life Insurance	10
You want to equalize inheritances between business and non-business heirs.[6]	Treating Heirs Fairly Using Life Insurance	10
You want to transfer wealth to a particular charity (or charities) but do not want to disinherit your heirs.	Wealth Replacement Trust Using Life Insurance	11

6 As with all uses of life insurance, the amount of life insurance coverage asked for in conjunction with estate equalization may be limited by a life insurance company and their financial underwriting guidelines. Financial underwriting is an assessment of whether the proposed death benefit is a reasonable replacement for the financial loss caused by the death of the insured. In general, policies purchased for estate equalization are financially underwritten under the estate preservation guidelines

BUILD YOUR ESTATE PLAN TO HELP MEET YOUR GOALS

If this is you...

Value is **More** than Federal estate tax exemption

Ask:

- What are my goals for my estate? What legacy will I leave to my heirs?
- What will be the impact of transfer taxes on my estate?
- How will the transfer taxes due affect what I want to leave my family?
- How do I want to provide for my spouse?
- How do I want to provide for my children and grandchildren?
- Are there certain debts or loans that I want paid off at my death so my family is not burdened with these expenses? What will my funeral expenses be and how will my family pay for those?
- Do I have a business I want to pass on to my loved ones when I die? Will the business that I built from scratch stay in my family?
- Will my favorite charities be financially burdened at my death? How can I help to minimize this?
- Does my state have state estate taxes?

Federal Estate Transfer Costs
+
Your Goals

1%

Less than 1% of Americans are estimated to fall in this category.[7]

7 The American Taxpayer Relief Act (ATRA; P.L. 112-240), October 19, 2021 (found at: https://sgp.fas.org/crs/misc/R42959.pdf).

Strategies to Consider to Help Minimize Federal Transfer Taxes and to Transfer Wealth to the Future Generations.

These strategies focus on the dual goals of minimizing federal transfer taxes and wealth transfer to future generations. Find your primary goal and consider the corresponding strategy.

My Primary Goals	Strategies to Consider	Page No.
You want to make simple gifts to your loved ones without utilizing your gift tax exemption amount or reducing your remaining estate tax exemption at death.	Annual Gifting Program	11
You want to utilize the remaining estate tax exemption amount at the death of the first spouse and minimize estate taxes at the death of the surviving spouse.	Marital and B-Trust Planning with a Will or Living Trust	12
You have concerns over federal estate taxes and would like to remove existing life insurance policies from your estate or purchase new life insurance policies (i.e., to provide estate tax liquidity) outside of your estate.	Irrevocable Life Insurance Trust	13
You want to purchase life insurance in a trust to address estate taxes but are concerned about losing access and control over the potential life insurance policy cash value.	Spousal Lifetime Access Trust	13
You want to create a trust for the benefit of your children, grandchildren, and future generations.	Dynasty Trust (Generation Skipping Trust) Planning	13
You have concerns over the federal estate tax and want to maximize the wealth transferred to your heirs by using strategies that reduce the gift tax value.	Grantor Retained Annuity Trust Installment Sale to an Intentionally Defective Irrevocable Trust Family Limited Partnership	14 15 16
You have a primary or secondary residence that you would like to remove from your estate while making the most of your gift tax exemption.	Qualified Personal Residence Trust	14
You want to provide for your favorite charity while also retaining an income stream and benefiting your loved ones.	Charitable Remainder Trust with a Wealth Replacement Trust	16
You need life insurance protection for estate tax and related goals but the premiums are substantially higher than your gifting ability.	Intra-Family Loans with Life Insurance Private Split-Dollar	17 17

From Basic to Specialized, The Tools To Help Build Your Legacy

Basic estate planning tools may be sufficient to meet the estate planning needs of many individuals. But if you have unique family circumstances or more sophisticated assets or planning needs, you (along with your attorney and life insurance producer) may need to explore additional planning.

Revocable Living Trust

A revocable living trust is established and funded during your lifetime to hold your assets that do not pass by beneficiary designation or by operation of law. In general terms, a living trust is used to avoid probate and distribute property to the beneficiaries. A living trust is merely a trust that is established during a person's lifetime to hold assets. A living trust is generally revocable until an individual's death. During a grantor's lifetime, property held in a living trust is treated virtually the same as property held in the grantor's name. The grantor continues to use and enjoy the property just as before transferring the property to trust. Establishing a living trust is tax-neutral.

Upon an individual's death, the trust becomes irrevocable, the trustee carries out the trust provisions, and the beneficiaries receive the benefits of the trust. Unlike a will, the assets in the trust are not subject to probate and are not made public. This means that the terms of the living trust (and assets owned by the trust) continue to remain private.[8]

Life Insurance for the Blended Family or Unmarried Couples[9]

A "blended family" is a family that is formed when a remarriage occurs or when children living in a household share only one (or no) biological parent. The common denominator is children, whether biological, adopted, or with legal caretakers. Blended families can face a real economic crisis should key family members die prematurely. Therefore, the need for life insurance in the blended family is acute, perhaps more so given their complicated nature than with a traditional family. If you have children from a prior relationship, or if your spouse or partner have children from a prior relationship, a life insurance policy on your life may help provide an equitable division of assets.

Life Insurance to Help Pay State Estate Taxes

State estate taxes may negatively impact your loved ones at your death. Assume, for example, your estate is valued at $5.25 million and you die in a state with a state estate tax and a state exemption amount of $1 million. At your death, you may not owe federal estate tax, but would owe state estate tax on $4.25 million based on your state's estate tax rates. If you had a properly funded and structured life insurance policy, the death benefit proceeds may be utilized to help pay the state estate taxes.

Probate is a judicial proceeding that enables the court to oversee the distribution of the decedent's property. The rationale behind the probate process is simple; because the decedent is no longer able to represent himself or herself, an unbiased party (i.e., the state) needs to step-in to protect the decedent's interests. The goal of probate is to clear title passing to the decedent's beneficiaries. The documents and assets that are subject to probate are filed with the court and become public.

8 A living trust may also: a) prevent the court from imposing probate fees; b) prevent the expensive and time-consuming process of appointing a conservator to manage your assets; and, c) prevent the expensive and time-consuming process of appointing a guardian or trustee to manage assets for your minor children.

9 Please note a prerequisite for this strategy is establishing insurable interest. Insurable interest laws vary by state. Not all states have statutes that specify that unmarried couples have an insurable interest in each other. You may need to demonstrate insurable interest if you reside in a state that does not statutorily provide it to unmarried couples. Insurable interest may be established by providing evidence of the relationship relevant to insurable interest laws. This evidence may include, but is not limited to, jointly owned assets and business interests, wills and trusts. Assuming insurable interest is established, financial justification for the amount of life insurance coverage applied for will depend on the extent of financial loss to one party at the death of the other.

Family Buy-Sell

A family buy-sell is designed to provide family members who are active in the family business with a source of cash to purchase the business from your estate or from your surviving spouse after you have passed away. Those family members who are active in the family business will be the owners and beneficiaries of a life insurance policy insuring your life. Upon your death, the business will be included in your estate and the life insurance death benefit proceeds should be paid income tax-free[10] to the family members active in the business. They, in turn, use these funds to purchase the family business from your estate under the terms of the family buy-sell agreement. By using this strategy, the business will pass to those family members active in the business and cash will be available to provide for the remaining family members.

Legacy Planning Using Life Insurance

You have worked hard, accomplished your goals, and accumulated funds for a comfortable retirement. So you may have assets you don't plan to use or need during your lifetime and would like to provide financially for your children and/or grandchildren when you're no longer around. Purchasing a life insurance policy on your life may help preserve the inheritance you leave to your family.

Charitable Gifts Using Life Insurance

Many wealthy individuals have a history of giving to their favorite charities. They may want to make sure that these gifts continue should they die prematurely. Life insurance might be a way for these donors to complete their expected lifetime gifts should they die before life expectancy. The three main ways of making a charitable gift with life insurance are: 1) naming the charity as owner and beneficiary of the life insurance policy; 2) naming the donor as owner and the charity as beneficiary; or, 3) the donor transfers an existing policy to charity. Any tax benefits to the donor will vary depending on how the gift to the charity is structured.[11]

Treating Heirs Fairly Using Life Insurance

Many individuals have fairness in mind when it comes time to distributing assets from their estates. Dividing up assets like a family business, however, is easier said than done. For example, you may have a child who is very active in the family business and another who wants absolutely nothing to do with it. If this is the case, treating all your children equitably at your death can be difficult. Using life insurance may facilitate an equitable inheritance. In other words, upon your death, children who are involved in the business inherit the shares in the business, while the non-business children receive an equivalent inheritance from a combination of life insurance death benefits and any other non-business assets. By treating your heirs equitably, you can help ensure the continuation of the family business but more importantly, help keep the harmony and peace in your family.

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

11 To prevent people from speculating on the lives of random acquaintances, only someone with an insurable interest in the life of the insured may purchase a life insurance policy on that person. In order for a life insurance policy to be considered valid, it must meet the insurable interest rules in the state in which it is issued. Most states have enacted laws giving a charitable organization an insurable interest in a donor. However, before creating a charitable plan using life insurance, state law should be consulted. The IRS has taken the position that if charity does not have an insurable interest under state law, then no income, gift, or estate tax deduction would be allowed.

Wealth Replacement Trust Using Life Insurance

If you are charitably-inclined, you may want to leave a part of your estate to your favorite charity. Charitable donations can be made during life or at death and can take many different forms. The downside of any charitable gift is that you are disinheriting the heirs who would have received those assets but for the charitable donation. One solution to this dilemma is to use a wealth replacement strategy with life insurance to replace the lost wealth. With the help of an attorney, you establish an Irrevocable Life Insurance Trust (ILIT) to own and be the beneficiary of a life insurance policy on your life or the lives of you and your spouse. You gift cash to the ILIT in order for the trustee[12] to make premium payments. The gifts may be gift tax-free depending on your ability to use annual exclusions and/or lifetime gift tax exemption. At your death, the life insurance death benefit proceeds will be paid to the ILIT free from estate tax and income tax[13] and the ILIT trustee will distribute the death benefit proceeds to the trust beneficiaries replacing the assets that you have donated to your favorite charity. By doing so, you will benefit your favorite charity without disinheriting your heirs.

Annual Gifting Program

The federal gift tax is imposed on the gratuitous lifetime transfer of property by an individual to a donee – it is imposed on the person making the gift (the donor) not on the person receiving the gift (the beneficiary). You should not overlook the ability to make a straight forward gift. With the lifetime gift tax exemption at the highest level in the history of the estate tax, taxpayers seeking to transfer wealth may do so by simply giving their assets away to their loved ones. This includes the use of your **annual gift tax exclusion amount.** The annual gift tax exclusion allows you to give another person a gift each year up to $10,000 per recipient, indexed for inflation (there is no limit on the number of recipients to whom you may make annual exclusion gifts). With inflationary adjustments, this amount has increased over time – for example, it was $13,000 in 2012, $14,000 in 2013 - 2017, $15,000 in 2018, and 16,000 in 2022. By establishing a lifetime gifting program, one can help control the growth in his or her estate, thus reducing estate taxes at death. Implementing a gifting program with one's annual exclusion gifting may enable wealthier clients to transfer significant wealth simply and with little to no gift tax cost.[14]

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

13 For federal income tax purposes, life insurance death benefits generally pay income tax-free to beneficiaries pursuant to IRC Sec. 101(a)(1). In certain situations, however, life insurance death benefits may be partially or wholly taxable. Situations include, but are not limited to: the transfer of a life insurance policy for valuable consideration unless the transfer qualifies for an exception under IRC Sec. 101(a)(2) (i.e., the "transfer-for-value rule"); arrangements that lack an insurable interest based on state law; and an employer-owned policy unless the policy qualifies for an exception under IRC Sec. 101(j).7 A gift tax return must be filed with IRS if a taxpayer utilizes any of his or her lifetime gift tax exemption amount.

14 A gift tax return must be filed with the IRS if a taxpayer utilizes any of his or her lifetime gift tax exemption amount. It's important to keep in mind that a lifetime gifting program should be tailored to meet a person's needs. To this end, a gifting program may not be prudent for individuals with smaller estates as it may jeopardize their livelihood or lifestyle.

Marital and B-Trust Planning with a Will or Living Trust

In some instances, an individual may want to incorporate additional planning into a will or living trust. Depending on one's goals and needs, a will or living trust may be drafted to include an A-Trust (commonly referred to as a "marital trust") and a B-Trust (bypass or credit shelter trust). A **B-trust** is a trust that is designed to utilize an individual's unused exemption amount so as to shield the assets inside the trust from estate taxes, while at the same time retaining the ability of the assets to be used to provide for the surviving spouse if necessary. A **marital trust** is often utilized in conjunction with a B-Trust but is designed to pass assets to the surviving spouse using the federal unlimited marital deduction (a person's ability to transfer an unlimited amount of wealth to a U.S. citizen spouse). This type of planning may postpone the payment of federal estate taxes until the death of the surviving spouse.

Working with an attorney, a couple's will or living trust is drafted to include provisions that call for the creation of a marital trust and a B-trust at an individual's death. At the first person's death, the trustee utilizes the decedent's assets to fund the B-trust in an amount up to the decedent's unused estate tax exemption amount. The remainder of the decedent's assets are used to fund the marital trust using the unlimited marital deduction. At the surviving spouse's death, the assets in the B-trust pass to the ultimate beneficiaries of that trust.[15] All other assets that are owned by the second-to-die spouse pass via that individual's estate plan. Assets that are not shielded by the surviving spouse's federal estate tax exemption amount may be subject to estate tax.

Portability and the Impact on Marital and B-Trust Planning: With the enhanced federal exemption amount and portability, marital and B-trust planning may not be necessary for a smaller estate because clients can use a simpler "all to spouse" will given that federal estate taxes are no longer an issue. While this may be the case for some individuals, it may not be for others. There continues to be a number of reasons for utilizing marital and B-Trust planning including:

1	*Ensuring the ultimate disposition of the assets meets your intent. If, for example, you and your spouse want to benefit different beneficiaries, marital and B-Trust planning may enable you to do so while still maximizing your exemption amount. This may especially be true if the couple is part of a "blended family" and each have children from prior relationships for whom they want to provide.*
2	*Removing the growth and appreciation outside of your surviving spouse's estate. If you are in a situation where you have an asset that is likely to appreciate greatly, you may want to remove that asset, along with all appreciation, from your surviving spouse's estate. Funding a B-Trust with an asset valued at an amount up to your exemption amount may shield the asset and all future appreciation from the estate tax.*
3	*Addressing the lack of portability on the state level: In states that do have a state estate tax, portability of the state estate tax exemption amount is not available. Marital and B-Trust planning may be necessary for individuals in these states to take advantage of both spouses' state estate tax exemptions.*

15 Transferring assets to a B-Trust may enable individuals to remove the asset from the estate as well as any appreciation or growth the asset may experience.

Irrevocable Life Insurance Trust (ILIT)

If estate taxes and estate inclusion are a concern, an irrevocable trust should be considered. An irrevocable life insurance trust (ILIT) is one type of irrevocable trust that primarily owns life insurance and is used to help prevent life insurance death benefits from being subject to estate taxation. With the assistance of an attorney, you establish an ILIT to be the owner and beneficiary of a life insurance policy insuring your life or the lives of you and your spouse. You transfer cash to the ILIT in order for the trustee of the ILIT to pay life insurance premiums. Whether or not these transfers are subject to gift tax depends on your ability to make annual exclusion gifts and/or to use your lifetime gift tax exemption. After your death, the life insurance death benefit proceeds can be used by the trustee of the ILIT to purchase assets from or lend money to your estate in order to provide your estate with the liquidity necessary to pay any estate tax due.

It is important to remember that an ILIT is irrevocable and you will not be able to change its terms after the ILIT has been established. Also, the assets that you transfer to the ILIT are no longer your assets. The person or bank you have chosen as trustee will manage the ILIT's assets, and the individuals who have been named as beneficiaries will receive those assets pursuant to the terms of the ILIT.

Spousal Lifetime Access Trust (SLAT)

A spousal lifetime access trust (SLAT) is a special type of irrevocable trust that may help a married couple keep the life insurance death benefit proceeds outside of their estate and still provide indirect access to the cash value. You, with the help of an attorney, establish the SLAT. The SLAT, like all ILITs, is irrevocable. You then gift separate property funds to the SLAT, which names your spouse as the lifetime beneficiary. Whether the gifts to the SLAT are subject to gift tax depends on your ability to make annual exclusion gifts and/or use your lifetime gift tax exemption amount. The SLAT trustee then purchases a life insurance policy on your life using these gifts. The SLAT is the owner and beneficiary of the policy.

During your lifetime, the terms of the SLAT will give the trustee of the SLAT the discretion to take loans and withdrawals, which may be income tax-free[16] if within limits and up to basis, from the life insurance policy's available cash value. If the SLAT has no other taxable income, the trustee, within his or her discretion, may then make income tax-free[16] and gift tax-free distributions to your spouse. In this manner, a SLAT may enable the parties to have indirect access to the trust assets. At your death, the SLAT trustee may then make distributions to the SLAT beneficiaries in accordance to the terms of the SLAT.

Dynasty Trust Planning: Enhanced Generation Skipping Transfer Trust Planning

Leaving a legacy for your children, grandchildren, and future generations may be one of the most important goals for larger estates. With a federal transfer tax system designed to tax property each time it passes from one generation to the next, efficient generational wealth transfer requires planning. A dynasty trust is an irrevocable trust used by those clients who want to leave a legacy for children, grandchildren, and future generations. Unlike other types of irrevocable trusts, a dynasty trust is designed to continue for as many generations as permissible under state law and to protect the assets in the dynasty trust from not only gift and estate taxes but also from the GST tax.[17]

With the assistance of an attorney, you establish a dynasty trust to be the owner and beneficiary of a life insurance policy insuring your life or the lives of you and your spouse. You transfer cash to the dynasty trust in order for the trustee of the dynasty trust to pay life insurance premiums. Whether or not these transfers are subject to gift tax depends on your ability to make annual exclusion gifts and/or to use your lifetime gift tax exemption. Assuming that your GST exemption is fully allocated to all gifts to the trust, assets owned by the dynasty trust, including the life insurance death benefit proceeds, will not be subject to estate tax or GST tax.

16 For federal income tax purposes, tax-free income assumes, among other things: (1) withdrawals do not exceed tax basis (generally, premiums paid less prior withdrawals); (2) policy remains in force until death; (any outstanding policy debt at time of lapse or surrender that exceeds the tax basis will be subject to tax); (3) withdrawals taken during the first 15 policy years do not cause, occur at the time of, or during the two years prior to, any reduction in benefits; and (4) the policy does not become a modified endowment contract. See IRC Secs. 72, 7702(f)(7)(B), 7702A. Any policy withdrawals, loans and loan interest will reduce policy values and may reduce benefits.

17 The duration of the dynasty trust may be indefinite or limited to a number of years, depending on the applicable state's rule against perpetuities which limits the duration of a trust. If the trust is established in a state with no rule against perpetuities, the trust continues indefinitely for the benefit of future generations until the trust assets are depleted.

Grantor Retained Annuity Trust (GRAT)

A grantor retained annuity trust (GRAT) is an irrevocable trust that allows you to retain an income stream for a defined time period with the remainder passing to your designated trust beneficiaries. While there may be an initial gift when the property is contributed to the GRAT, the taxable gift is equal to the fair market value of the property reduced by your retained annuity interest. Based on the term and the retained annuity stream of the GRAT, there may be little or no gift tax imposed at the time the GRAT is established.[18] If you survive the GRAT term, at the expiration of the GRAT, ownership of the remaining property passes to the remainder beneficiaries of the GRAT without the imposition of additional gift tax. If you fail to survive the selected term of the GRAT, a portion of the trust will be included in your estate for estate tax purposes.

Life insurance should not be purchased in the GRAT because there is the possibility that you may die during the GRAT term which would cause a part of the GRAT assets, including the life insurance death benefit proceeds, to be included in your taxable estate. The grantor or the GRAT beneficiaries often utilize life insurance owned outside the GRAT to insure against the risk of the grantor's death during the selected term.

Qualified Personal Residence Trust (QPRT)

A qualified personal residence trust (QPRT) is an irrevocable trust to which an individual transfers his or her primary residence or a secondary residence, reserving the right to live in the residence rent-free for a term of years, the remainder interest passing to specified beneficiaries. While there may be an initial gift tax imposed upon the transfer of the remainder interest in the QPRT, ownership of the residence eventually passes to an individual's beneficiaries without the imposition of additional gift tax if an individual survives the selected term. While a successful QPRT should reduce the grantor's overall estate tax liability, it may create a liquidity problem because the grantor's residence cannot be sold to pay any estate tax due on the balance of his or her gross estate. Life insurance may be an excellent source of estate tax liquidity to prevent the forced sale of other assets to pay the potential estate tax due upon the grantor's death.

If the grantor fails to survive the selected term, all or a portion of the value of the residence will be included in his or her gross estate. For this reason, the grantor or the QPRT beneficiaries often utilize life insurance to insure against the risk of the grantor's death during the selected term.

18 The gift to the GRAT may be valued at zero or at an amount close to zero for gift tax purposes if the GRAT is structured as a "zeroed-out GRAT." With a zeroed-out GRAT, the retained annuity interest is structured high enough so that the gift tax value of the gift is close to zero.

Installment Sale to an Intentionally Defective Irrevocable Trust (IDIT Sale)

An installment sale to an intentionally defective irrevocable trust (IDIT Sale) is a deferred sale arrangement between you and an irrevocable trust. This irrevocable trust is "intentionally defective" for income tax purposes -- meaning that transfers to the trust are incomplete for income tax purposes even though they are complete for gift and estate tax purposes. This means that you, as grantor, are treated as the income tax payer and are responsible for all income taxes generated in the trust.

With the help of your attorney, you establish an IDIT and gift cash or some assets to the IDIT to "seed" the trust. This "seed" gift may be subject to gift taxes. Next, you sell property to the IDIT in exchange for an interest-bearing installment note payable over a term of years you select. The trustee of the IDIT uses the income from the assets held by the IDIT to make the installment note principal and interest payments. Because the IDIT is "intentionally defective," all income generated by the assets held in the IDIT is reported on your income tax return. In addition, no gain is triggered at the time the property is sold to the IDIT and interest payments from the ILIT are not taxable to the grantor. To provide estate tax liquidity, the trustee may utilize a portion of the IDIT's assets or income to purchase and own life insurance on your life. At your death, the life insurance death benefit proceeds pass to your heirs per the terms of the trust.

Family Limited Partnership (FLP)

A family limited partnership (FLP) is a legal entity established under an individual's state partnership laws. FLPs are used to consolidate and manage wealth, provide some asset protection and, in the estate planning context, to transfer property to junior generations at a reduced transfer tax cost. Working with your legal and tax advisors, you transfer appropriate assets to an FLP. The FLP is designed to have general partnership interests and limited partnership interests. You then utilize some of your gifting to transfer the limited partnership interests to your loved ones. Depending on the restrictions placed on the limited partnership interests, an appraiser may discount the value of the limited partnership interests to reflect the lack of marketability of the limited partnership interest and the limited partner's lack of control over the FLP.

FLPs have been historically disfavored by the IRS. Please consult with legal and tax counsel prior to implementing this, or any other strategy, discussed in this brochure.

Even though gifting or selling discounted interests in an FLP may reduce the size of an individual's estate, most ultra wealthy individuals will still have a taxable estate at death. This is likely the case because they are unwilling to give away everything that they own prior to death. Life insurance, likely owned in an irrevocable life insurance trust (ILIT) may provide the liquidity the estate needs to pay the resulting estate tax.

Charitable Remainder Trust (CRT) with a Wealth Replacement Trust

For individuals seeking to fulfill philanthropic goals while also retaining an income stream, a charitable remainder trust (CRT) may be an ideal strategy. This may include, but is not limited to, a desire to help a certain charity or charities fulfill their purpose, a desire to benefit private foundations, and the need to defer capital gains tax on appreciated assets.

With the help of an attorney, you establish a CRT and transfer assets to the CRT. You irrevocably transfer a highly appreciated asset to the CRT. In return, you will receive a charitable income tax deduction based on the calculated value of the gift to charity. The CRT, in its discretion, sells the asset and reinvests the proceeds in income-producing assets. Depending on the structure, you will receive income from the CRT (which may or may not be taxable) for your life, the lives of you and your spouse, or a specified term not to exceed 20 years. Upon your death(s), any assets remaining in the CRT pass to the designated charity.

Given that your heirs will not receive the asset that passes to the charity at your death, a CRT may be used in conjunction with a wealth replacement trust –discussed earlier on page 11.

Intra-Family Loans with Life Insurance

Life insurance premiums paid with an intra-family loan may help wealthy individuals minimize gift taxes. The purchase of life insurance using intra-family loans involves the insured or his/her spouse lending money to the ILIT either annually or in a lump sum. The intra-family loan, if structured properly, should not be considered a gift for gift tax purposes because it is a loan – not a gift. The insured or his/her spouse, with the help of his or her attorney, lends money to the ILIT (via a private IRC Section 7872 loan) to assist in premium payments for a life insurance policy on the life of the insured (or his/her spouse).[19] The loan bears an interest rate equal to the applicable federal rate (AFR) in effect on the day the loan is made.

The trustee[20] of the ILIT purchases a life insurance policy on the insured's life (or the life of his/her spouse), retains ownership rights, and designates the ILIT as beneficiary of the policy. Pursuant to the loan agreement, the ILIT trustee collaterally assigns a portion of the death benefit and cash surrender value to the insured as lender using a restricted collateral assignment. At the expiration of the predetermined loan term, the loan balance can be repaid to the lender using any available cash surrender value from the life insurance policy and/or any other asset owned by the ILIT. If the insured (or insureds) pass away before the loan balance has been completely repaid, the ILIT can repay the loan from the life insurance death benefit proceeds. The remaining death benefit should be paid to the ILIT and should pass to the heirs free from income tax[21] and estate tax.

Private Split-Dollar

Life insurance premiums paid by an irrevocable life insurance trust (ILIT) with a private split-dollar strategy may help wealthy individuals minimize gift taxes. Private split-dollar is a premiums sharing arrangement typically between an ILIT and an insured. With the help of an attorney, you establish an ILIT to be the owner and the beneficiary of a policy on your life or the lives of you and your spouse. At the same time, you or your spouse enter into a private split-dollar arrangement with the ILIT where you or your spouse agree to pay the life insurance premium in exchange for a restricted collateral assignment over the cash value of the policy. The ILIT agrees to pay the cost of the current life insurance protection as measured by the reportable economic benefit (REB).[22] You and/or your spouse will gift at least enough cash to the ILIT so that the trustee can pay the REB. At the death of the insured(s), an amount equal to the cash value is paid to the collateral assignee. The remainder of the death benefit proceeds should be paid to the ILIT free from income tax[21] and estate tax.

19 IRC Sec. 7872 loans are debt arrangements that are structured within the guidelines set forth in Treas. Reg. Sec. 1.7872-15. Treas. Reg. Sec. 1.7872- 15 contains guidelines as to what will constitute sufficient interest on a loan for the purchase of life insurance as to avoid below-market treatment under the rules of IRC Sec. 7872.

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

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

22 Final Split-Dollar Regulations (Treas. Reg. 1.61-22(d)3(ii)) reserve the issue of the cost of current life insurance protection for future guidance. Until such guidance is issued, Notice 2002-8 states that taxpayers may continue to use the insurance carrier's published one year term rates or the Table 2001 rates for arrangements entered into prior to January 28, 2002. For arrangements entered into after that date, taxpayers are generally limited to the Table 2001 rates.

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Insurance products and their guarantees, including optional benefits and any crediting rates, are backed by the financial strength and claims-paying ability of the issuing insurance company. Look to the strength of the life insurance company with regard to such guarantees as these guarantees are not backed by the broker-dealer, insurance agency, or their affiliates from which products are purchased. Neither these entities nor their representatives make any representation or assurance regarding the claims-paying ability of the life insurance company.

Life insurance is subject to underwriting and approval of the application and will incur monthly policy charges.

Investment and Insurance Products: Not a Deposit	Not Insured by any Federal Government Agency	
Not FDIC Insured	No Bank Guarantee	May Lose Value

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Legacy and estate planning

Distribute your estate **your way**

Personal information

Tell us a little about you and your family so we can better understand your current situation.

Name: First ____________________ Last ____________________ Date of birth ____/____/____ U.S. citizen ○ Yes ○ No

Home address: Street ____________________ City ____________________ State ________ ZIP code ________

Email ____________________ Phone (_____) ____________________

Occupation/title ____________________ Employer ____________________ Business phone (_____) ____________________

Business address: Street ____________________ City ____________________ State ________ ZIP code ________

Social Security number: ____________________ Eligible for Soc. Sec. benefits? ○ Yes ○ No

Spouse name: First ____________________ Last ____________________ Date of birth ____/____/____ U.S. citizen ○ Yes ○ No

Home address: Street ____________________ City ____________________ State ________ ZIP code ________

Spouse email ____________________ Spouse phone (_____) ____________________

Spouse Occupation/title ____________________ Spouse employer ____________________ Spouse business phone (_____) ____________________

Spouse business address: Street ____________________ City ____________________ State ________ ZIP code ________

Spouse Social Security number: ____________________ Eligible for Soc. Sec. benefits? ○ Yes ○ No

Any former marriages? ○ Yes ○ No If yes: ○ Self ○ Spouse

Are there prenuptial or postnuptial agreements? ○ Yes ○ No

If yes, explain: ____________________

Children

1
Name (first and last) | ____/____/____ Date of birth | Marital status | # of children
Address | Occupation | Spouse name
Email | (______) Phone

2
Name (first and last) | ____/____/____ Date of birth | Marital status | # of children
Address | Occupation | Spouse name
Email | (______) Phone

3
Name (first and last) | ____/____/____ Date of birth | Marital status | # of children
Address | Occupation | Spouse name
Email | (______) Phone

4
Name (first and last) | ____/____/____ Date of birth | Marital status | # of children
Address | Occupation | Spouse name
Email | (______) Phone

5
Name (first and last) | ____/____/____ Date of birth | Marital status | # of children
Address | Occupation | Spouse name
Email | (______) Phone

Attach separate page, if needed.

Grandchildren

1

Grandchild name: ______________________ Parents' names: ______________________

Address: ______________________ Planning considerations: ______________________

2

Grandchild name: ______________________ Parents' names: ______________________

Address: ______________________ Planning considerations: ______________________

3

Grandchild name: ______________________ Parents' names: ______________________

Address: ______________________ Planning considerations: ______________________

4

Grandchild name: ______________________ Parents' names: ______________________

Address: ______________________ Planning considerations: ______________________

5

Grandchild name: ______________________ Parents' names: ______________________

Address: ______________________ Planning considerations: ______________________

6

Grandchild name: ______________________ Parents' names: ______________________

Address: ______________________ Planning considerations: ______________________

Attach separate page, if needed.

Parents

Parent name. Living? ○ Yes ○ No

Address

Planning considerations

Parent name. Living? ○ Yes ○ No

Address

Planning considerations

Spouse parent name. Living? ○ Yes ○ No

Address

Planning considerations

Spouse parent name. Living? ○ Yes ○ No

Address

Planning considerations

Assets and liabilities

We need to have a clear picture of your finances to assist you. This information is personal, so we'll keep it private. If additional space is needed, feel free to provide separate financial statements.

Personal information summary

Personal assets	Asset value	Liabilities	Ownership code	Growth rate
Ownership codes: S = Self, **SP** = Spouse, **J** = Joint with spouse, **JS** = Joint with survivorship (self – joint ownership with another – non-spouse), **C** = Community property, **JSP** = Joint with survivorship (spouse – joint ownership with another – non-spouse)				
Residence				
Business building				
Vacation home				
Rental property				
Land				
Business				
Personal property				
Vehicles				
Collectibles				
Future inheritances				
Cash and equivalents*				
Investments**				
Retirement plans – you				
Retirement plans – spouse				
IRAs – you				
IRAs – spouse				
Roth IRAs – you				
Roth IRAs – spouse				
Annuities – you				
Annuities – spouse				
Other______________				

*Include checking accounts, savings accounts, money market funds, CDs, etc.

**Include T-bills/T-notes; government, municipal and corporate bonds; notes/mortgages; common and preferred stock; LTD partnerships; and insurance trusts (ILITs, CRTs, etc.).

Life insurance policies

Description	Insured	Face amount	Cash value	Premium	Ownership code	Beneficiary
Description codes: SL = Single life, **FTD** = First to die, **SV** = Survivorship **Owner/insured/beneficiary codes: S** = Self, **SP** = Spouse, **B** = Business, **C** = Community property, **I** = Irrevocable trust, **R** = Revocable trust, **O** = Other						

Have you reviewed your life insurance with your insurance professional in the past two years? ○ Yes ○ No

Have you used tobacco within the last 12 months? Self: ○ Yes ○ No Spouse: ○ Yes ○ No

Describe your and your family's health history: ____

____

____

____

____

Is any of this coverage designated for creditors or lenders? ○ Yes ○ No ○ Unsure

Are you concerned about chronic illness? ○ Yes ○ No ○ Unsure

Do you have a policy that includes provisions to protect you in the case of a chronic illness?
○ Yes ○ No ○ Unsure

Disability insurance policies

Description	Benefit amount	Premium	Ownership code	Elimination period	Group or individual
Ownership codes: S = Self, **SP** = Spouse, **B** = Business					

Distribution goals

Complete the following questions about your goals for distributing your estate. Also detail your plans for any gifts and expected inheritances and business ownership.

1. While you are living, will you use any of the following to manage and preserve your assets?

Which of the following do you have in place?	Self	Date	Spouse	Date
Revocable funded living trust	○		○	
Revocable funded living trust	○		○	
Living will	○		○	
Power of attorney for property	○		○	
Power of attorney for health care	○		○	
Long-term care insurance	○		○	
Chronic illness protection	○		○	
Health insurance	○		○	
Other ___________________________	○		○	

2. Have you provided for distribution of your estate (wills, trusts) at death? If yes, describe (revocable/irrevocable, charitable remainder, etc.) and provide dates of the documents.

How do your estate planning documents distribute your assets?	Self	Date	Spouse	Date
Will	○		○	
All outright to spouse (maximum marital deduction)	○		○	
Credit maximizing will (optimal)	○		○	
• Family trust	○		○	
• Marital trust	○		○	
Specified amount/percent to spouse	○		○	
Other (generation-skipping trust/dynasty trust, charitable trust, etc.)	○		○	

3. Would you like to provide for any special goals or needs (college, charity, health concerns, etc.)? If yes, what steps have you taken?

____

____

____

4. How do you feel about giving your surviving spouse control over the final distribution of your estate? Would you feel differently if your surviving spouse remarried?

____

____

____

5. Do you have any concerns about your survivors handling the financial management of your estate (e.g., ability to handle money, economic maturity)? If yes, describe.

____

____

____

Lifetime gifts/inheritances

1. Would you consider making gifts (charities, family, friends) during your lifetime for tax reduction or other purposes? ______________________________

____

____

2. What life insurance gifts have you and your spouse made within the last three years?

   Year: ________ Donor: ______________________ Donee: ______________

   Net death benefit: ______________________ Cash value: ______________

   Tax credit used: ______________________ Tax paid: ______________

   Year: ________ Donor: ______________________ Donee: ______________

   Net death benefit: ______________________ Cash value: ______________

   Tax credit used: ______________________ Tax paid: ______________

3. What other lifetime gifts have you and your spouse made (exclude annual exclusion gifts)?

   Year: ________ Donor: ______________________ Donee: ______________

   Value of gift: ______________________________

   Tax credit used: ______________________ Tax paid: ______________

   Year: ________ Donor: ______________________ Donee: ______________

   Value of gift: ______________________________

   Tax credit used: ______________________ Tax paid: ______________

4. Do you expect to receive any gifts, or are you a beneficiary of any trust(s) established by others?
   If yes, describe. Self: ______________ Spouse: ______________

5. Do you expect to receive an inheritance? If yes, how much? Self: ____________Spouse: ____________

6. Are there any other agreements that will affect the distribution of your estate? (buy-sell, prenuptial, postnuptial, divorce decrees, etc.)? If yes, describe: ______________________________

____

____

7. What is your primary objective concerning the distribution of your estate (fair and equitable distribution, minimize expenses, special needs, taxes, etc.)? ______________________________

____

____

Business ownership summary

1. Do you own an interest in a business? ○ Yes ○ No If yes, name of business: ______________________________

   Is this a family business? ○ Yes ○ No

2. Type of business entity and tax status:

   ○ Corporation
   Taxed as:
   ○ C Corp
   ○ S Corp

   ○ Limited Liability Company
   Taxed as:
   ○ Partnership
   ○ C Corp
   ○ S Corp

   ○ Partnership

   ○ Sole proprietorship

3. Owners:

Owners	Ownership percentage

4. Have you received a Principal® Informal Business Valuation?

   ○ Yes ○ No Please provide estimated business value. $ ______________________

   ○ I would like more information about receiving a Principal Informal Business Valuation.

5. What would you want to happen to your business interest(s) at your death (sold, retained, passed to others)?

   ____
   ____
   ____

   What steps have you taken to accomplish this goal? ______________________________

   ____
   ____

6. Do any of the employee benefit plans in place provide income or other benefits to your heirs or key employees at your death? Please list all. ______________________________

   ____
   ____
   ____
   ____

Survivor needs

Tell us about the income needs of your dependents upon your death.

Current salary

	Self	Spouse
Current salary	$______________	$______________

Cash needs

	At death of self	At death of spouse
Housing fund To pay off your mortgage or provide for a down payment	$______________	$______________
Debt liquidation To pay off other debts	$______________	$______________
Education fund To pay the cost of college, any outstanding student loans, etc.	$______________	$______________
Others (bequests, final expenses, etc.)	$______________	$______________

Income needs

(Do not include income for cash needs funded above.)

Death of self	With dependents	Without dependents	At retirement
Your spouse's total monthly income needs (mortgages/rent, utilities, groceries, insurance, etc.)	__________	__________	__________
Your spouse's anticipated monthly employment income	__________	__________	__________
Other income (alimony, trusts, survivor pension income)	__________	__________	__________

Death of spouse	With dependents	Without dependents	At retirement
Your total monthly income needs	__________	__________	__________
Your anticipated monthly employment income	__________	__________	__________
Other income (alimony, trusts, survivor pension income)	__________	__________	__________

How do you get started?

You've provided a lot of details about your estate and your plans. And it may be difficult to know what to do first. The following chart can help you determine your priorities.

Distribution goals	Priority ranking	Target date
Determine cash needs.		
Determine income needs.		
Outline any additional special goals or needs.		
Review existing wills, trusts, and other planning documents, including beneficiary designations.		
Lifetime gifts/inheritances	**Priority ranking**	**Target date**
Document gifts made, including value, date, and impact on gift tax exemption.		
Determine if additional agreements will impact your estate.		
Business ownership	**Priority ranking**	**Target date**
Create a buy-sell agreement or review existing buy-sell agreement.		
Develop a list of key employees.		
Review executive benefit plans in place.		
Life insurance policies	**Priority ranking**	**Target date**
Review existing policies, including beneficiary designations.		
Determine if additional coverage is needed.		

Professionals

Please list your team of advisors.

____ (_____) ______________________
Accountant Phone

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Email address

____ (_____) ______________________
Attorney Phone

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Email address

____ (_____) ______________________
Banker Phone

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Email address

____ (_____) ______________________
Investments Phone

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Email address

____ (_____) ______________________
Insurance Phone

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Email address

Notes

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