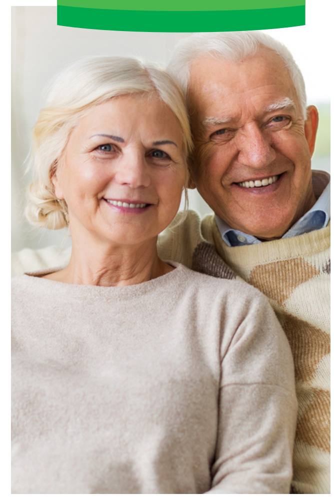
Tax-Efficient Legacy Planning

BE PREPARED IN CASE TAX LAWS CHANGE

LIFE INSURANCE



Today, an estate is not subject to the federal estate tax until it exceeds the $12,040,000 lifetime exemption. For married taxpayers, the threshold is $24,080,000. In 2026, the exemption will sunset-effectively cutting the exemption amount in half. Furthermore, tax laws can change and estates can grow. That's why it's important to have a plan in place to help protect your legacy.

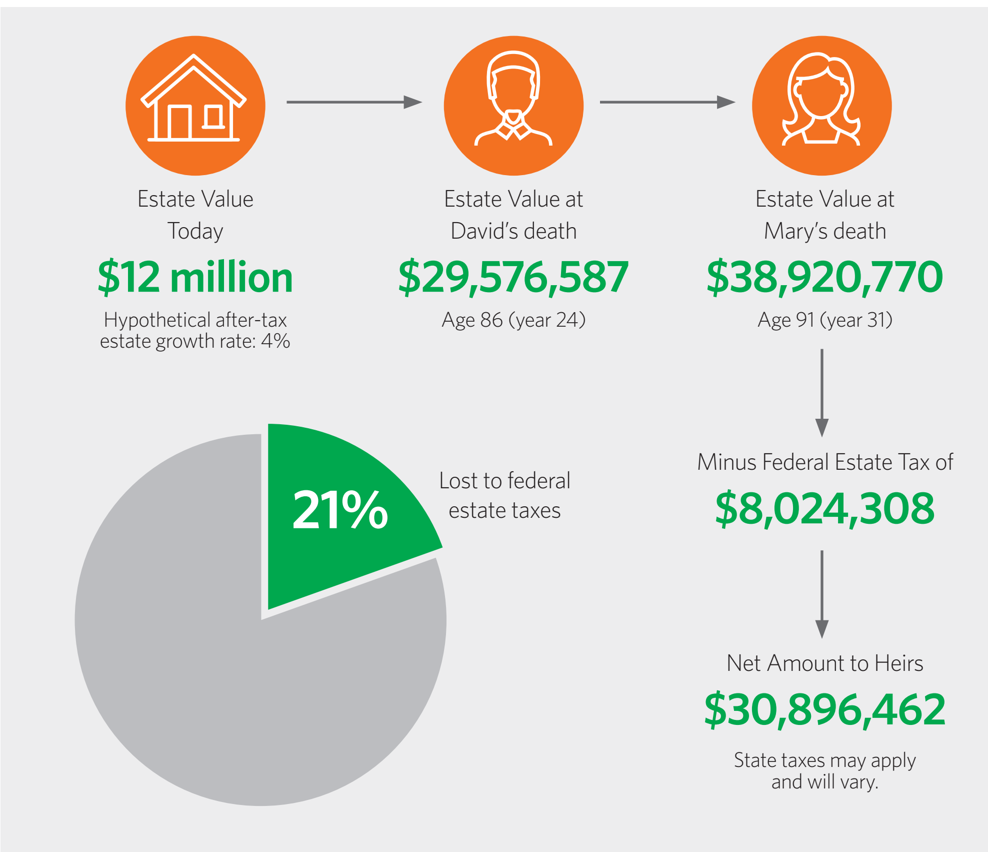
CLIENT PROFILE

Meet the Smiths:

- David is age 62 and Mary is age 60
- They have three children
- Both are healthy and non-smokers

THE SITUATION

Approaching retirement with a growing $12 million estate, they are concerned that estate taxes will erode the legacy they've worked so hard for. They meet with their financial advisor, who shows them the impact of estate taxes to their legacy if, their estate continues to grow by 4% annually for the next 31 years.



Current Federal Estate Tax Exemption:

- Individual - $12,040,000
- Married - $24,080,000

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THE OPTIONS

David and Mary have four options to choose from to pay their estate taxes; cash, forced sale of assets, loan or life insurance. Let's take a closer look at each using the example based on the $38,920,770 estate value upon Mary's death and a federal tax bill of $8,024,308. Keep in mind, estates must be settled within nine months.

OPTION #1

Cash

Cost: $8,024,308

OPTION #2

Sale of Assets

Cost: $10,030,385

Assuming a sale at 80% of market value.

OPTION #3

Loan

Cost: $9,896,996

Assuming a 5%interest rate loan for 10 years.

OPTION #4

Life Insurance

Cost: $2,762,286

Assuming a $8,024,308 initial death benefit from a policy set up in an irrevocable life insurance trust.

THE SOLUTION

The couple selects the fourth plan, using life insurance to increase the value of their net estate as much as possible. They choose a survivorship life insurance policy with a $8,024,308 death benefit. They set up the policy with an irrevocable trust. It's a tax-smart way to keep the policy's death benefit out of their taxable estate. They fund the policy's $89,106 annual premiums through annual gifts to the trust. The annual gift tax exclusion is $15,000 per beneficiary. With their large family, their yearly premium is under the exclusion limit.

	WITHOUT LIFE INSURANCE	WITH LIFE INSURANCE
Taxable Estate Value	$38,920,770	$34,979,630[1]
Death Benefit Proceeds	$0	$8,024,308
Estate Taxes Due	$8,024,308	$6,447,852
Total Premium Outlay	$0	$2,762,286
Net Assets to Heirs	$30,896,462	**$36,556,086**
Additional Estate Value at Mary's Death	$0	**$5,659,624**

*This hypothetical example assumes a 62-year-old Preferred male (life expectancy age 86) and 60-year-old Preferred female (joint life expectancy age 91) purchasing a Prudential SUL Protector policy with a $8,024,388 death benefit and with a lifetime guaranteed level premium paying option.

[1]The Taxable Estate Value is reduced because annual insurance premiums are gifted to the trust.

NEXT STEPS

1. Identify your clients who fit the profile
2. Set an appointment to discuss their current estate plan
3. Identify their goals and objectives, and probe for their worries and concerns. If estate tax protection is important to them, introduce this strategy and why it may be a good fit for their estate plan.