Estate Tax Liquidity

Strategy Summary

Why Plan for Estate Tax Liquidity?

- Estate taxes are probably here to stay.[1]
- Estate taxes are due in cash within 9 months of death.
- Upon a client's unexpected passing, it may be necessary to sell illiquid assets (e.g., home, commercial real estate, family business) for a price well below market value in an effort to generate quick cash.
- Federal estate tax rates are progressive—the more you own, the more you owe.
- Other transfer costs due at death may require estate liquidity, such as:
  - Debts
  - State death taxes
  - Probate fees
  - Legal and administrative fees
  - Income taxes

Why Life Insurance?

- **Instant Liquidity.** A life insurance policy can infuse a client's estate with the cash necessary for: (1) income replacement; (2) paying off debt; (3) paying taxes; (4) inheritance equalization; (5) funding transfer of family business.
- **Self-Completion.** Life insurance is self-completing, whereas the effectiveness of a saving and investment strategy hinges on a time horizon that is long enough to support regular contributions and earnings growth.
- **Tax Efficient.** Life insurance death benefits are received federal income tax-free.[2] Furthermore, policy cash values grow on a tax-deferred basis and are accessible in a tax-favored manner.[3]
- **Guarantees.** With a life insurance policy, a client can rest assured that loved ones will receive a minimum guaranteed death benefit.[4]
- **Estate Tax-Sheltered Death Benefit.** By establishing an Irrevocable Life Insurance Trust (ILIT), a client can shelter the policy death benefit from estate tax.

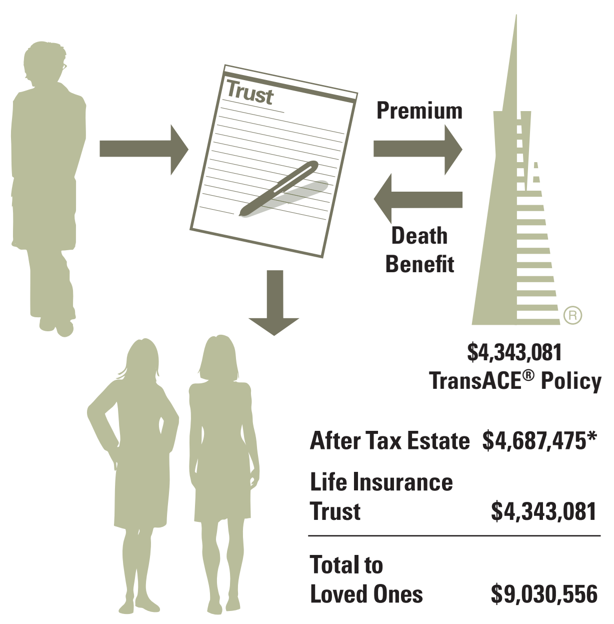
Who is the Ideal Candidate?

- Eingle persons with estates in excess of $3.5 million or married couples with estates in excess of $7 million
- Young clients or prospects with earning potential
- Business owners who are interested in business succession planning
- Clients and prospects who are charitably inclined
- Current members of family-controlled partnerships or LLCs[5]

[1] On January 9, 2009, a bill (H.R. 436) was introduced in Congress which would fulfill President Obama's campaign statements—preserving the federal estate tax exemption amount at $3.5 million and maximum estate tax rate at 45%.
[2] Life insurance death benefits are generally excludable from the beneficiary's gross income for income tax purposes.
[3] Income taxes are only paid on the growth if the policy is surrendered.
[4] Assuming policy provisions remain satisfied.
[5] H.R. 436 threatens to restrict coveted discounts for lack of marketability and completely eliminate discounts for lack of control. If the bill is passed in its entirety, these clients may suddenly find themselves owning business interests worth much more than anticipated for both gift and estate tax purposes.

How to Get Started—Establish an ILIT

- Current estate tax law is such that proceeds of a life insurance policy will be excluded from the client's gross estate as long as he or she does not possess any "incidents of ownership" over the policy.
- Using an ILIT, an estate-planning attorney can remove the client—and thus any incidents of ownership—from the process of acquiring an insurance policy.
- Rather, a third-party trustee submits the life insurance application—acting as the applicant, owner and beneficiary of the policy.[6]
- The client can either gift premiums to the ILIT on an annual basis or make an initial lump sum gift to the ILIT, which is sufficient to generate the income necessary to pay annual premiums.[7]
- Upon death, the death benefits will be received federal income tax-free. The ILIT trustee may use the proceeds to buy assets from or lend money to the client's estate so that it has sufficient cash to pay any estate tax due.



* Calculation is based on scheduled lapse of Economic Growth, Tax Relief & Reconciliation Act and reinstatement of $1M estate tax exemption amount and maximum estate tax rate of 55%

Example: Cristina Gomez

- Cristina is a 45-year-old divorced mother of two adult daughters; she has worked very hard to build up an estate of approximately $5 million.
- Cristina cares very deeply for her daughters and wants to maximize the amount that she will be able to pass on to her daughters upon her death.
- Also, Cristina may face estate tax liability and wants to provide her estate the liquidity necessary to pay any estate taxes.
- Cristina establishes an ILIT; the ILIT trustee purchases a $4.3M TransACE® life insurance policy.
- By providing for the payment of these potential taxes, she will be able to maximize the amount of her estate that actually passes to her children upon her death.

Current Net Estate	**$5,000,000**
Future Growth	**$4,030,556***
Existing Life Insurance	**0**
Total	**$9,030,556**

*Based on projected growth of 3% over 20 years

Policy Summary
Christina Gomez—Insured

Life Insurance Policy:	**TransACE®**
Underwriting Rating:	**Preferred, Nonsmoker**
Age:	**45**
Annual Premiums:	**$26,978**
Death Benefit:	**$4,343,081**
Duration of Payments:	**Life**

Assumes Christina Gomez dies in 2029. Calculations are based on projected estate values 20 years from today growing at 3% per year and assuming 2% transfer costs.

[6] Insured should not serve as trustee.
[7] These gifts may be tax-free depending on the client's ability to use annual exclusions and/or the lifetime gift tax exemption. The lifetime gift tax exemption amount is $1,000,000. The annual gift tax exclusion is $13,000 per donee (2009) and is indexed for inflation.

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