



Annual Exclusion Limitation: The Term to Survivorship Option

Have you ever had wealthy clients delay the purchase of survivorship coverage in an irrevocable trust simply because there isn't enough remaining gift tax annual exclusion to cover the premium gift? If so, your client doesn't have to remain at risk to estate taxes and you don't have to worry about losing the sale – Prudential Financial has a solution.

Facts: John and Marsha Jones are considering establishing an irrevocable life insurance trust (ILIT) that would hold a \$2 million survivorship policy. However, because they have already gifted assets to their three children this year, limited annual exclusion amounts are available. They cannot cover the required premium without incurring gift tax or using a portion of their applicable exclusion amount – something they are reluctant to do. Although their attorney has suggested a private split dollar arrangement, they aren't comfortable with this concept and its ongoing administration. They have indicated that they will wait until next year to fund the trust and purchase life insurance. This could be a costly delay for them should their health decline or a death occur before the insurance is in place. Is there a way to bridge the gap?

Solution: One simple solution to this short-term payment limitation is to have the trust initially apply for coverage using Pruco Life's Term Elite® product. Next year, when the full gift tax annual exclusions are available, the term coverage can be exchanged for a survivorship policy. Term Elite® can be changed to Pruco's survivorship product. (Current practice, not contractually guaranteed.) If the change to survivorship coverage is requested before the fifth policy anniversary, a conversion credit, equal to the unrated term premiums paid during the 12 months prior to the change, will be credited to the survivorship policy.

Term Essential®, with even lower premiums, can be used and can also be changed to a survivorship policy; however, the insured does not receive a premium credit.

There are two ways John and Marsha can structure the initial purchase of the term coverage:

- ◆ **Trust initially purchases \$1,000,000 of term insurance on each spouse with possible later change to a \$2,000,000 survivorship policy.** If this option is elected, no proof of insurability will be needed at the time the policy is changed to survivorship coverage. The premium credit is based on \$2 million of coverage.

- ◆ **Trust initially purchases \$1,000,000 on only one spouse with possible later change to a \$2,000,000 survivorship policy.** With this option, the spouse not insured will need to show evidence of insurability at the time of the change to the survivorship policy. The premium credit will be based on only \$1 million of coverage.

Product Choice: In this time of estate tax uncertainty, Pruco's term and survivorship life insurance products provide the flexibility you need for your hesitant estate clients.

Term Elite® has the following features:

- ◆ Choice of 10, 15, or 20-year level premium periods
- ◆ Premiums guaranteed for all years
- ◆ Convertible to permanent insurance to the longer of age 65 or 5 years
- ◆ Conversion premium credit available during first 5 years

Term Essential® has the following features:

- ◆ Choice of 10, 15, 20, or 30 year level premium periods
- ◆ Premiums guaranteed for the level premium period¹
- ◆ Convertible to permanent insurance to the end of the level premium period or age 65, whichever is earlier, but never less than 5 years

PruLife® SUL Protector has the following features:

- ◆ Uninsurable rating class T available on one insured
- ◆ 24-month rolling target premiums (except in NY)
- ◆ Target term rider, which does not negate the death benefit guarantee²
- ◆ "Dial-able" no-lapse guaranteed coverage.²

CASE SUMMARY ON NEXT PAGE

¹ Premiums are guaranteed for the level premium period only. At the end of the guaranteed level premium period, premiums increase annually and are no longer guaranteed.

² All guarantees are based on the claims-paying ability of the issuer. "Dial-able" means the policy owner can secure any length of death benefit guarantee.

Term Essential® and Term Elite® are issued by Pruco Life Insurance Company, except in New Jersey and New York, where they are issued by Pruco Life Insurance Company of New Jersey. PruLife SUL Protector® is issued by Pruco Life Insurance Company, except in New York, where it is issued by Pruco Life Insurance Company of New Jersey. Both are Prudential Financial companies located in Newark, NJ.

This training material has been prepared to assist our licensed financial professionals. It is designed to provide general information in regard to the subject matter covered. It should be used with the understanding that Prudential is not rendering legal, accounting or tax advice. Such services should be provided by the client's own advisors.

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Prudential  **Financial**

Year 1:**Case Assumptions: Remaining Annual Exclusion (after previous gifts to children): \$6,000**

Insureds: John Jones, Male Age 56, Preferred Best
 Marsha Jones, Female Age 54, Preferred Best
Policy Names: Term Essential 10 and Term Elite 10

Insured	Face Amount	Term Essential Annual Premium	Term Elite Annual Premium
John Jones	\$1,000,000	\$1,785	\$2,125
Marsha Jones	\$1,000,000	\$1,105	\$1,305
Total:	\$2,000,000	\$2,890	\$3,430

Year 2:**Case Assumptions: Remaining Annual Exclusion: \$72,000**

Insureds: John Jones, Male Age 57, Preferred Best
 Marsha Jones, Female Age, 55, Preferred Best
Policy Name: PruLife SUL Protector - Type A (Fixed) Death Benefit
 Lifetime Death Benefit Guarantee Premium Paid All Years

Insureds	Face Amount	First Year Term Premium	Second Year SUL Premium	Less Term Conversion Credit	Total Premiums Policy Years 1 & 2
John & Marsha Jones					
Convert Term <u>Elite</u>	\$2,000,000	\$3,430	\$15,075	(\$3,430)	\$15,075
Convert Term <u>Essential</u>	\$2,000,000	\$2,890	\$15,075	N/A	\$17,965

Benefits:

- Reduced risk through immediate insurance coverage
- Assured underwriting classification
- ***A finalized sale***