



“B” Trust Funding: Guaranteed Death Benefit Protection With UL Protector

Do you have widowed clients whose families will be faced with estate tax bills upon their death? Do these same clients balk at the idea of using their personal assets to pay life insurance premiums to fund estate costs? Or, do you have widowed clients who are already using their gift tax annual exclusion amount and object to making taxable gifts? If so, the following idea may hold the key to meeting your clients' needs and to closing your sale.

Facts: Bianca, age 63, is a healthy and wealthy widow whose husband passed away several years ago. A marital trust and a credit shelter trust are in place for the benefit of Bianca and her two sons, Keith and Charles. Keith is the trustee of the credit shelter trust.

The investments in the marital trust have done well. Both Bianca and the boys are concerned that the family estate will be seriously depleted by the estate taxes due at her death. Life insurance is suggested as a source of funds to pay those taxes. However, Bianca is reluctant to use any of the cash flow from her marital trust to purchase life insurance. While she is not currently relying on the credit shelter trust for her income stream, she likes the security of knowing that funds from this trust are available to her should the need for more income arise. The problem – how to pay the premium?

Solution: Assets inside the family credit shelter trust may be an ideal source to fund the purchase of the life insurance. The credit shelter trust effectively shields assets held by the trust and any earnings generated by those assets from estate tax. However, the trust must pay income tax on any undistributed earnings and trusts reach the top income tax rate at a much lower threshold than individuals. In addition, the trust assets do not receive a step-up in basis at Bianca's death. Consequently, any unrealized capital gain will be taxable to the children.

In contrast, life insurance on the surviving spouse purchased inside the credit shelter trust can avoid both estate and income taxes (under IRC §101(a)). By having the trustee (Keith) purchase a policy on Bianca's life, the assets in the credit shelter trust can be leveraged into a potentially larger sum that can be used to provide estate liquidity. This can be done without Bianca using her gift tax annual exclusion or paying gift tax.

This approach also eliminates the need to use any of Bianca's current cash. And, should Bianca need additional funds, the trustee of the credit shelter trust can invade the trust assets (including the cash values of the life insurance policy) for her benefit as well as that of the children.¹

Although any single life product can be used, the PruLife® Universal Protector² is particularly well suited for clients who want to maximize guaranteed death benefit protection because of the following features:³

- ◆ Issued to age 90, based on actual age
- ◆ Lifetime No-Lapse guarantee available³
- ◆ “Dial-able” no-lapse guaranteed coverage at all issue ages and guaranteed limited-pay scenarios³
- ◆ Competitive compensation structure, unreduced by age or risk impairment
- ◆ 24-month rolling target premiums (except in NY)

While the “B” trust funding concept is easy to implement, it takes careful planning to avoid inclusion of the policy in the surviving spouse's estate. Clients considering implementing this concept should seek the advice of their tax and legal counsel.⁴

ILLUSTRATION EXCERPT ON NEXT TWO PAGES

¹ Withdrawals and/or policy loans reduce cash values and death benefit, may affect any guarantee against lapse, and may have tax consequences. This concept is often structured as a single premium MEC and consequently policy distributions will be taxable to the extent of gain and an additional 10% federal income tax penalty may apply. To avoid this tax result the trustee can structure the premium to avoid MEC.

² PruLife® Universal Protector is issued by Pruco Life Insurance Company in all states except New York where it is issued by Pruco Life Insurance Company of New Jersey. Both are Prudential Financial companies located in Newark, NJ. All guarantees are based on the claims-paying ability of the issuing company, and each company is responsible for its own financial condition and contractual obligations.

³ All guarantees are based on the claims-paying ability of the issuing company. “Dial-able” means the policyholder can secure the length of guarantee desired.

⁴ For more information on this concept, refer to IFS-A078764, “B” Trust Funding: Credit Shelter Trusts and Life Insurance.

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.

**Basic Ledger Statement Excerpt – Solve for Maximum GUARANTEED Death Benefit to Age 121
 Female Age 63 - Preferred Plus – \$1,000,000 Single Premium
 \$4,189,560 PruLife® UL Protector, Type A (Fixed) Death Benefit - Cash Value Accumulation Test**

			Non-guaranteed Results Based On: Illustrated Interest Rate 4.65% for 20 years, then 5.00%* thereafter and Current Charges			GUARANTEED ¹ Results Based On: Minimum Interest Rate of 3.00% & Maximum Charges	
Year	Insured's Age	Premium Outlay	Contract Fund	Cash Value	Death Benefit	Cash Value	Death Benefit
1	63	\$1,000,000	911754	852103	4189560 <	716570	4189560 <
2	64	0 &	909989	855110	4189560 <	688581	4189560 <
3	65	0 &	907162	857055	4189560 <	656074	4189560 <
4	66	0 &	902993	857659	4189560 <	618506	4189560 <
5	67	0 &	897273	856710	4189560 <	575177	4189560 <
6	68	0 &	908924	873133	4189560 <	525286	4189560 <
7	69	0 &	919631	886226	4189560 <	465604	4189560 <
8	70	0 &	929146	898127	4189560 <	397357	4189560 <
9	71	0 &	937159	908526	4189560 <	319101	4189560 <
10	72	0 &	943402	917156	4189560 <	229419	4189560 <
	Total	\$1,000,000					
11	73	0 &	947577	923717	4189560 <	126672	4189560 <
12	74	0 &	949305	927831	4189560 <	8794	4189560 <
13	75	0 &	948809	929721	4189560 <	0	4189560 <
14	76	0 &	942724	926022	4189560 <	0	4189560 <
15	77	0 &	928743	914426	4189560 <	0	4189560 <
16	78	0 &	905792	893862	4189560 <	0	4189560 <
17	79	0 &	875014	865470	4189560 <	0	4189560 <
18	80	0 &	835168	828009	4189560 <	0	4189560 <
19	81	0 &	784625	779853	4189560 <	0	4189560 <
20	82	0 &	721624	719238	4189560 <	0	4189560 <
	Total	\$1,000,000					
21	83	0 &	646568	646568	4189560 <	0	4189560 <
22	84	0 &	553741	553741	4189560 <	0	4189560 <
23	85	0 &	439826	439826	4189560 <	0	4189560 <
24	86	0 &	300829	300829	4189560 <	0	4189560 <
25	87	0 &	131788	131788	4189560 <	0	4189560 <
26	88	0	0	0	4189560 <	0	4189560 <
27	89	0	0	0	4189560 <	0	4189560 <
28	90	0	0	0	4189560 <	0	4189560 <
29	91	0	0	0	4189560 <	0	4189560 <
30	92	0	0	0	4189560 <	0	4189560 <
	Total	\$1,000,000					

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**Basic Ledger Statement Excerpt – Solve for Maximum GUARANTEED Death Benefit to Age 121
 Female Age 63 - Preferred Plus – Annual Premium \$142,857 Years 1- 7 (\$1,000,000 Total)
 \$3,569,368 PruLife® UL Protector, Type A (Fixed) Death Benefit - Cash Value Accumulation Test**

**Non-guaranteed Results Based On:
 Illustrated Interest Rate
 4.65% for 20 years, then 5.00%* thereafter and
 Current Charges**

**GUARANTEED¹ Results Based On:
 Minimum Interest Rate of 3.00% &
 Maximum Charges**

Year	Insured's Age	Premium Outlay	Contract Fund	Cash Value	Death Benefit	Cash Value	Death Benefit
1	63	\$ 142,857	94727	43850	3571979 <	16403	3571979 <
2	64	\$ 142,857	193562	146756	3571979 <	87884	3571979 <
3	65	\$ 142,857	296804	254067	3571979 <	159064	3571979 <
4	66	\$ 142,857	404544	365878	3571979 <	229787	3571979 <
5	67	\$ 142,857	521508	486912	3571979 <	299808	3571979 <
6	68	\$ 142,857	659984	629458	3571979 <	368857	3571979 <
7	69	\$ 142,857	804847	776356	3571979 <	434672	3571979 <
8	70	0 &	814125	787669	3571979 <	378327	3571979 <
9	71	0 &	822202	797781	3571979 <	313612	3571979 <
10	72	0 &	828858	806473	3571979 <	239342	3571979 <
	Total	\$1,000,000					
11	73	0 &	833848	813497	3571979 <	154147	3571979 <
12	74	0 &	836858	818543	3571979 <	56296	3571979 <
13	75	0 &	838084	821804	3571979 <	0	3571979 <
14	76	0 &	834697	820452	3571979 <	0	3571979 <
15	77	0 &	824763	812553	3571979 <	0	3571979 <
16	78	0 &	807396	797220	3571979 <	0	3571979 <
17	79	0 &	783571	775431	3571979 <	0	3571979 <
18	80	0 &	752264	746159	3571979 <	0	3571979 <
19	81	0 &	712125	708054	3571979 <	0	3571979 <
20	82	0 &	661695	659660	3571979 <	0	3571979 <
	Total	\$1,000,000					
21	83	0 &	601538	601538	3571979 <	0	3571979 <
22	84	0 &	526717	526717	3571979 <	0	3571979 <
23	85	0 &	434491	434491	3571979 <	0	3571979 <
24	86	0 &	321564	321564	3571979 <	0	3571979 <
25	87	0 &	183838	183838	3571979 <	0	3571979 <
26	88	0 &	15654	15654	3571979 <	0	3571979 <
27	89	0	0	0	3571979 <	0	3571979 <
28	90	0	0	0	3571979 <	0	3571979 <
29	91	0	0	0	3571979 <	0	3571979 <
30	92	0	0	0	3571979 <	0	3571979 <
	Total	\$1,000,000					

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< Indicates the **No Lapse Guarantee¹** will be in effect for the entire policy year.

* This includes a non-guaranteed additional excess interest amount in years 21 and later.

& Non-guaranteed policy values are used to pay monthly charges, which continue to be deducted from the Contract Fund.

¹ All guarantees are based on the claims-paying ability of the issuer. PruLife® UL Protector is issued by Pruco Life Insurance Company, except in New York where the issuer is Pruco Life Insurance Company of New Jersey. Both Pruco Life companies are located at 213 Washington St., Newark. All are Prudential Financial companies. Each is solely responsible for its own financial condition and contractual obligations.

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