



Conventional Estate Strategy's Unconventional Result After EGTRRA 2001

Are your clients aware of the trap in the Economic Growth and Tax Relief Reconciliation Act of 2001 (the Act)? It may unexpectedly reduce the amount of funds available to a surviving spouse.

To reduce estate tax, the conventional estate strategy for married couples with large estates has been to minimize tax at the death of the first spouse by passing a portion of the estate equal to the applicable exclusion amount to a family trust and passing the balance to the surviving spouse. Often the family trust is structured to provide the spouse an income interest.

Under the Act, the estate tax applicable exclusion amount is scheduled to gradually increase to \$3.5 million by 2009.* The problem is that as the exclusion increases the conventional estate strategy may pass more than intended to the family trust. Depending on the size of your client's estate, this may impoverish the surviving spouse.

Facts: Your client has accumulated a net worth of \$2 million. To minimize estate taxes he/she has implemented the conventional estate strategy. The needs analysis you conducted reveals the surviving spouse needs income of \$175,000 a year to maintain his/her standard of living.

Under the conventional estate strategy, as the exclusion increases, the amount passing to the surviving spouse shrinks. If death were to occur at anytime from 2006 through 2009 this may result in the family trust receiving the entire estate. This will leave the surviving spouse dependent on distributions of income from the family trust.

Compounding the problem is the possibility that your clients may have an expectation that all earnings of the trust can be distributed to the spouse as "income". In most states income is limited to interest, dividends and rents. Principal and capital gains are reserved for the remainder beneficiary. In recent years the rates of interest on bonds and stock dividends have been low. As a result, even in situations where the family trust is of significant value, income distributions often don't meet expectations and may inadvertently leave the spouse impoverished, or at least with less income than desired or expected.

Your clients want to maintain the standard of living of a surviving spouse, but not at the expense of losing the benefit of the increase in the applicable exclusion.

Solution: Increasingly legal advisors are including total return unitrust provisions in the family trust as a way to enhance distributions to a surviving spouse. Total return unitrust provisions

* Pursuant to the Act, the estate tax is repealed in 2010, for that year only. In 2011, the estate tax applicable exclusion is scheduled to return to \$1 million.

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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allow the trustee to pay the life beneficiary spouse a stated percentage (usually 4 to 5%) of the trust value, not just trust income (interest, dividends and rent). This allows the trustee to invest to maximize the total value of the trust consistent with the risk tolerance of the investor. With this approach stock growth could be utilized to supplement "income". Furthermore, because the spouse's interest is a stated formula, the rules are more easily understood.

The most revolutionary aspect of total return unitrust planning is that it mandates discussion and assessment of a client's objectives. This process rarely occurs when an income trust is established. You will need to address questions such as:

- How much income does the client want/need?
- Are the clients' assets realistically adequate?
- Do the assets need to be supplemented (with insurance) to accomplish the client's goals?

Such questions will highlight insufficiency in the clients' capital. This has incredible implications to licensed financial service professionals.

If the family trust has a value of \$2 million and a 5% unitrust distribution is utilized, the trust will provide \$100,000 in annual income. It is easy to see that there is a need to provide supplemental capital to meet the income objective of \$175,000. A \$1.5 million individual life insurance policy purchased in an irrevocable life insurance trust can provide that supplemental capital.

PruLife® Universal Protector has the following features and benefits that make it appropriate for this scenario:

- Issued to age 90, based on actual age
- Lifetime no-lapse guarantee available.¹
- "Dial-able" no lapse guaranteed coverage at all issue ages and guaranteed limited pay scenarios.¹
- Competitive compensation structure, unreduced by age or risk impairment, including 24 month rolling commissionable target premiums (except in NY)

SEE THE ILLUSTRATION THAT FOLLOWS.

¹ All guarantees are based on the claims-paying ability of the issuer. "Dial-able" means the policyholder can secure the length of guarantee desired.

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.

QUESTIONS? CALL ADVANCED MARKETING

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Prudential  **Financial**

Basic Ledger Statement

Valued Client, Male, 45, Preferred Best

\$1,500,000 PruLife® Universal Life (UL) Protector, Type A (Fixed) Death Benefit

Cash Value Accumulation Test, Initial Annual Premium Outlay \$24,200, Paid for 10 Years

Death Benefit Guarantee to age 121

| Guaranteed Results Based on Minimum Interest Rate of 3.00% And Maximum Charges | | | | | | Non-Guaranteed Results Based on Illustrated Interest Rate of 4.65% for 20 years, then 5.00%* thereafter and Current Charges | | |
|--|-----|--------------------------|------------------|------------|------------------|--|------------|------------------|
| Year | Age | Annual Premium Outlay | Contract Fund | Cash Value | Death Benefit | Contract Fund | Cash Value | Death Benefit |
| 1 | 45 | 24200 | 13544 | 641 | 1500000< | 17109 | 4206 | 1500000< |
| 2 | 46 | 24200 | 27233 | 15362 | 1500000< | 35058 | 23187 | 1500000< |
| 3 | 47 | 24200 | 41090 | 30251 | 1500000< | 53940 | 43101 | 1500000< |
| 4 | 48 | 24200 | 55184 | 45377 | 1500000< | 73692 | 63886 | 1500000< |
| 5 | 49 | 24200 | 69469 | 60695 | 1500000< | 95107 | 86333 | 1500000< |
| 6 | 50 | 24200 | 83871 | 76129 | 1500000< | 120072 | 112331 | 1500000< |
| 7 | 51 | 24200 | 98302 | 91076 | 1500000< | 146157 | 138931 | 1500000< |
| 8 | 52 | 24200 | 112673 | 105964 | 1500000< | 173398 | 166688 | 1500000< |
| 9 | 53 | 24200 | 126911 | 120718 | 1500000< | 201838 | 195644 | 1500000< |
| 10 | 54 | 24200 | 140859 | 135182 | 1500000< | 231506 | 225829 | 1500000< |
| Total | | 242000 | | | | | | |
| 11 | 55 | 0 & | 134245 | 129084 | 1500000< | 238516 | 233355 | 1500000< |
| 12 | 56 | 0 & | 126474 | 121829 | 1500000< | 245678 | 241033 | 1500000< |
| 13 | 57 | 0 & | 117522 | 113393 | 1500000< | 253009 | 248880 | 1500000< |
| 14 | 58 | 0 & | 107332 | 103719 | 1500000< | 260518 | 256906 | 1500000< |
| 15 | 59 | 0 & | 95688 | 92592 | 1500000< | 268187 | 265090 | 1500000< |
| 16 | 60 | 0 & | 82287 | 79706 | 1500000< | 275978 | 273397 | 1500000< |
| 17 | 61 | 0 & | 66742 | 64678 | 1500000< | 283637 | 281573 | 1500000< |
| 18 | 62 | 0 & | 48668 | 47120 | 1500000< | 291068 | 289519 | 1500000< |
| 19 | 63 | 0 & | 27731 | 26699 | 1500000< | 298243 | 297211 | 1500000< |
| 20 | 64 | 0 & | 3655 | 3139 | 1500000< | 305143 | 304627 | 1500000< |
| Total | | 242000 | | | | | | |
| 21 | 65 | 0 & | 0 | 0 | 1500000< | 312750 | 312750 | 1500000< |
| 22 | 66 | 0 & | 0 | 0 | 1500000< | 320068 | 320068 | 1500000< |
| 23 | 67 | 0 & | 0 | 0 | 1500000< | 326976 | 326976 | 1500000< |
| 24 | 68 | 0 & | 0 | 0 | 1500000< | 333210 | 333210 | 1500000< |
| 25 | 69 | 0 & | 0 | 0 | 1500000< | 338610 | 338610 | 1500000< |
| 26 | 70 | 0 & | 0 | 0 | 1500000< | 342660 | 342660 | 1500000< |
| 27 | 71 | 0 & | 0 | 0 | 1500000< | 345583 | 345583 | 1500000< |
| 28 | 72 | 0 & | 0 | 0 | 1500000< | 347082 | 347082 | 1500000< |
| 29 | 73 | 0 & | 0 | 0 | 1500000< | 346982 | 346982 | 1500000< |
| 30 | 74 | 0 & | 0 | 0 | 1500000< | 345016 | 345016 | 1500000< |
| Total | | 242000 | | | | | | |

> Indicates the Death Benefit Guarantee is in effect.

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

Results labeled as non-guaranteed are not guaranteed. They are based on assumptions that are not likely to continue unchanged in future years and are subject to change by the insurer. Actual results may be higher or lower.

**Guaranteed Results Based on
Minimum Interest Rate of 3.00%
And Maximum Charges**

**Non-Guaranteed Results Based on
Illustrated Interest Rate of 4.65% for 20
years, then 5.00%* thereafter and Current
Charges**

| Year | Age | Annual Premium Outlay | Contract Fund | Cash Value | Death Benefit | Contract Fund | Cash Value | Death Benefit |
|-------|-----|--------------------------|------------------|------------|------------------|------------------|------------|------------------|
| 31 | 75 | 0 & | 0 | 0 | 1500000< | 340922 | 340922 | 1500000< |
| 32 | 76 | 0 & | 0 | 0 | 1500000< | 334271 | 334271 | 1500000< |
| 33 | 77 | 0 & | 0 | 0 | 1500000< | 324528 | 324528 | 1500000< |
| 34 | 78 | 0 & | 0 | 0 | 1500000< | 310960 | 310960 | 1500000< |
| 35 | 79 | 0 & | 0 | 0 | 1500000< | 292719 | 292719 | 1500000< |
| 36 | 80 | 0 & | 0 | 0 | 1500000< | 268976 | 268976 | 1500000< |
| 37 | 81 | 0 & | 0 | 0 | 1500000< | 238545 | 238545 | 1500000< |
| 38 | 82 | 0 & | 0 | 0 | 1500000< | 200434 | 200434 | 1500000< |
| 39 | 83 | 0 & | 0 | 0 | 1500000< | 153255 | 153255 | 1500000< |
| 40 | 84 | 0 & | 0 | 0 | 1500000< | 95118 | 95118 | 1500000< |
| Total | | 242000 | | | | | | |
| 41 | 85 | 0 & | 0 | 0 | 1500000< | 23582 | 23582 | 1500000< |
| 42 | 86 | 0 & | 0 | 0 | 1500000< | 0 | 0 | 1500000< |
| 43 | 87 | 0 & | 0 | 0 | 1500000< | 0 | 0 | 1500000< |
| 44 | 88 | 0 & | 0 | 0 | 1500000< | 0 | 0 | 1500000< |
| 45 | 89 | 0 | 0 | 0 | 1500000< | 0 | 0 | 1500000< |
| 46 | 90 | 0 | 0 | 0 | 1500000< | 0 | 0 | 1500000< |
| 47 | 91 | 0 | 0 | 0 | 1500000< | 0 | 0 | 1500000< |
| 48 | 92 | 0 | 0 | 0 | 1500000< | 0 | 0 | 1500000< |
| 49 | 93 | 0 | 0 | 0 | 1500000< | 0 | 0 | 1500000< |
| 50 | 94 | 0 | 0 | 0 | 1500000< | 0 | 0 | 1500000< |
| Total | | 242000 | | | | | | |
| 51 | 95 | 0 | 0 | 0 | 1500000< | 0 | 0 | 1500000< |
| 52 | 96 | 0 | 0 | 0 | 1500000< | 0 | 0 | 1500000< |
| 53 | 97 | 0 | 0 | 0 | 1500000< | 0 | 0 | 1500000< |
| 54 | 98 | 0 | 0 | 0 | 1500000< | 0 | 0 | 1500000< |
| 55 | 99 | 0 | 0 | 0 | 1500000< | 0 | 0 | 1500000< |
| 56 | 100 | 0 | 0 | 0 | 1500000< | 0 | 0 | 1500000< |
| 57 | 101 | 0 | 0 | 0 | 1500000< | 0 | 0 | 1500000< |
| 58 | 102 | 0 | 0 | 0 | 1500000< | 0 | 0 | 1500000< |
| 59 | 103 | 0 | 0 | 0 | 1500000< | 0 | 0 | 1500000< |
| 60 | 104 | 0 | 0 | 0 | 1500000< | 0 | 0 | 1500000< |
| Total | | 242000 | | | | | | |

Internal Use Only

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 * This includes a non-guaranteed additional excess interest amount in years 21 and later.
 Results labeled as non-guaranteed are not guaranteed. They are based on assumptions that are not likely to continue unchanged in future years and are subject to change by the insurer. Actual results may be higher or lower.