



Hedging Estate Tax Uncertainty Using Survivor Standby Trust & Survivorship Insurance

Survivorship life insurance owned by an irrevocable life insurance trust (ILIT) has become a standard estate solution. However, with the current climate of estate tax uncertainty you may find clients hesitant to enter into irrevocable arrangements, demanding flexibility to respond to the tax law changes. Or, you may find clients reluctant to establish an ILIT because they want access to the policy cash values. If these objections are stopping your sales, your clients may want to consider the Survivor Standby Trust (SST).¹

Facts: Your clients, husband age 55 and wife age 48, have an estate valued at \$5,000,000. You suggest they purchase a \$1,000,000 survivorship life insurance policy in an ILIT. They are reluctant to proceed because the future increases in the estate tax applicable exclusion amount may shelter their estate from taxation. In addition, they indicate that they may want the ability to access the policy cash values to help supplement their retirement income.² You suggest they can accomplish both objectives with a SST. The following is how the concept works.

Solution: The spouse with the anticipated shorter life expectancy (husband in this example) purchases a \$1,000,000 survivorship life insurance policy. (In a community property state the premium must come from the insured husband's separate property). He is named the primary owner, and the SST is designated as the contingent owner and beneficiary of the policy. The SST can be structured as either a stand-alone ILIT or a testamentary trust established under the owner's estate plan, and that it is on "standby" waiting in the wings to receive the policy.

During the lifetime of both insureds, since the policy remains owned by the insured husband, premium payments do not constitute taxable gifts and the policy cash values can be easily accessed.² If the policy owner (insured husband) is the first to die, the net cash value will be included in his gross estate. It will, however, be offset by any available estate tax applicable exclusion.

At the death of the policy owner (insured husband) the SST will become the owner of the policy. The SST is generally

designed to benefit the insureds' children.³ As long as the non-owner insured (wife in this example) is neither trustee nor beneficiary of the SST the policy proceeds will not be included in her estate.

In the alternative, if the non-owner insured wife predeceases the owner, the policy owner (insured husband) can transfer the policy to an ILIT. The transfer will be subject to gift tax, but reduced or eliminated by any available gift tax applicable exclusion. Assuming the owner lives three years after the transfer, the policy death proceeds can pass estate tax-free to the heirs.

In both situations it is important to take into consideration the premium structure because once the policy is transferred to the SST on-going premiums will need to qualify under the gift tax annual exclusion rules to avoid gift taxation. Consequently, while any type of survivorship policy can be used to fund the SST, those that provide flexibility are especially well suited. And this is where the PruLife[®] SUL Protector shines!

Product Features: The PruLife[®] SUL Protector is especially well suited for this concept because it offers a "dial-able" no lapse guarantee at all issue ages and in limited pay scenarios gives the clients the flexibility to adjust the premium payment period and/or the length of the guarantee against lapse.⁴ In addition, the product features include:

- ◆ Issue ages 18-90, based on actual age
- ◆ Capacity of \$65 million
- ◆ Remains in force beyond age 100
- ◆ Target term rider which does not negate the no-lapse guarantee
- ◆ Compensation structure, unreduced by age or risk impairment
- ◆ 24 month rolling commissionable target premiums (except in NY)

The SST and PruLife[®] SUL Protector make an attractive alternative to an ILIT for your moderately wealthy clients!

ILLUSTRATION ON NEXT PAGE

¹ For a more detailed discussion of the standby trust concept see IFS A080703 Advisor Guide: Survivorship Standby Trust

² Withdrawals and loans reduce cash values and death benefits, may affect any guarantee against lapse, and may have tax consequences.

³ The SST can be designed to benefit the surviving non-owner/ insured; however, this requires careful drafting to avoid estate tax inclusion.

⁴ PruLife[®] SUL 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.

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QUESTIONS? CALL ADVANCED MARKETING

Basic Ledger Statement Excerpt
Male 55, Preferred Non-Smoker & Female 48, Preferred Non-Smoker
\$1,000,000 PruLife® SUL Protector - Type A (Fixed) Death Benefit
Guideline Premium Test

Non-Guaranteed results based on Illustrated Interest Rate of 4.65% for 20 yrs, then 5.00%* thereafter and Current Charges

Year	Age of Insureds (M / F)	Annual Premium Outlay	Contract Fund	Cash Value	Death Benefit
1	55/48	16691	12232	3775	1000000<
2	56/49	16691	25024	17244	1000000<
3	57/50	16691	38549	31445	1000000<
4	58/51	16691	52691	46264	1000000<
5	59/52	16691	67475	61724	1000000<
6	60/53	16691	83799	78724	1000000<
7	61/54	16691	100855	96120	1000000<
8	62/55	16691	118672	114275	1000000<
9	63/56	16691	137278	133219	1000000<
10	64/57	<u>16691</u>	156701	152980	1000000<
Total		166910			
11	65/58	0&	163361	159978	1000000<
12	66/59	0&	170255	167211	1000000<
13	67/60	0&	177377	174671	1000000<
14	68/61	0&	184719	182351	1000000<
15	69/62	0&	192266	190236	1000000<
16	70/63	0&	199750	198059	1000000<
17	71/64	0&	207306	205953	1000000<
18	72/65	0&	214805	213790	1000000<
19	73/66	0&	222130	221454	1000000<
20	74/67	0&	229139	228801	1000000<
Total		166910			
21	75/68	0&	236660	236660	1000000<
22	76/69	0&	243876	243876	1000000<
23	77/70	0&	250682	250682	1000000<
24	78/71	0&	256944	256944	1000000<
25	79/72	0&	262484	262484	1000000<
26	80/73	0&	267088	267088	1000000<
27	81/74	0&	270516	270516	1000000<
28	82/75	0&	272501	272501	1000000<
29	83/76	0&	272770	272770	1000000<
30	84/77	0&	270980	270980	1000000<
Total		<u>166910</u>			

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

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

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