



Trust Provision Can Designate Person Responsible for Investing Trust Assets

For years, wealthy individuals have struggled with how to preserve their wealth without losing access to it for unexpected needs or changing financial circumstances. Likewise, financial service representatives have struggled with how to maintain control of their client relationship when, at the death of the insured, the life insurance death benefit is paid to a trustee of an irrevocable life insurance trust. The following strategy suggests how both objectives may be achieved.

Facts: Consider the situation of a not so healthy, but wealthy, 70-year-old and his uninsurable spouse. Over the years, the client and his spouse have accumulated an estate in excess of \$5.5 million. Your clients' legal advisor has suggested the purchase of a \$1 million life policy inside an irrevocable life insurance trust to provide estate tax liquidity. Your clients like the idea, but want to know how they may have access to the policy and its cash value in the event of an unexpected need. And, they want to preserve the relationship their family has with you, their financial service professional.

Solution: The spousal support trust provides a means by which a husband and wife can avoid federal estate taxes on the life insurance proceeds at the death of either spouse while the noninsured spouse has access to the policy's cash value. A spousal support trust is an irrevocable life insurance trust where the noninsured spouse is named the income beneficiary and can have limited powers to access the trust principal for health, education, maintenance and support.

In addition to the provisions giving the non-insured spouse limited access, the clients can add a provision in the trust giving the financial service professional the responsibility for the investing.¹ This gives him/her the

¹ Check with your broker dealer to make sure you can act as an investment advisor.

ability to maintain a relationship with the clients' family at the death of the insured and the opportunity to help the family invest the death proceeds in investments suitable to the client (and be compensated).

Because life insurance policy cash values accumulate on a tax-favored basis and can be accessed on a tax-free basis by taking policy withdrawals down to basis and loans thereafter*, life insurance can avoid the ravages of income taxes which can be as high as 35% for trust income in excess of \$10,050 (2006 number). Variable life insurance is often the product of choice for spousal support trusts because it provides clients the choice of selecting investments from the sub-accounts providing opportunity for growth.

A PruLife® Custom Premier II policy is ideally suited to meet the needs of this situation. From the clients' perspective, the policy's competitive mortality costs and fee structure provide an excellent opportunity for cash value accumulation. From the financial service representative's perspective, compensation is not reduced for older age or impaired risk clients and the policy provides asset-based trail compensation.

The attached chart shows how the spousal support trust works.

CHART ON THE NEXT PAGE

*Of course, withdrawals and loans will affect policy values and death benefit, may affect any guarantees against lapse, and may have tax consequences. Also a reduction in death benefit may cause the policy to become a Modified Endowment Contract (MEC). Distributions, including loans, from a MEC receive less favorable tax treatment than policies that are not classified as MECs. This also applies to distributions made within 2 years prior to the policy becoming a MEC.

PruLife® Custom Premier II 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, and offered through Pruco Securities, LLC. All guarantees are based on the claims-paying ability of the insurer. For more information, including charges and expenses, see the prospectus.

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.

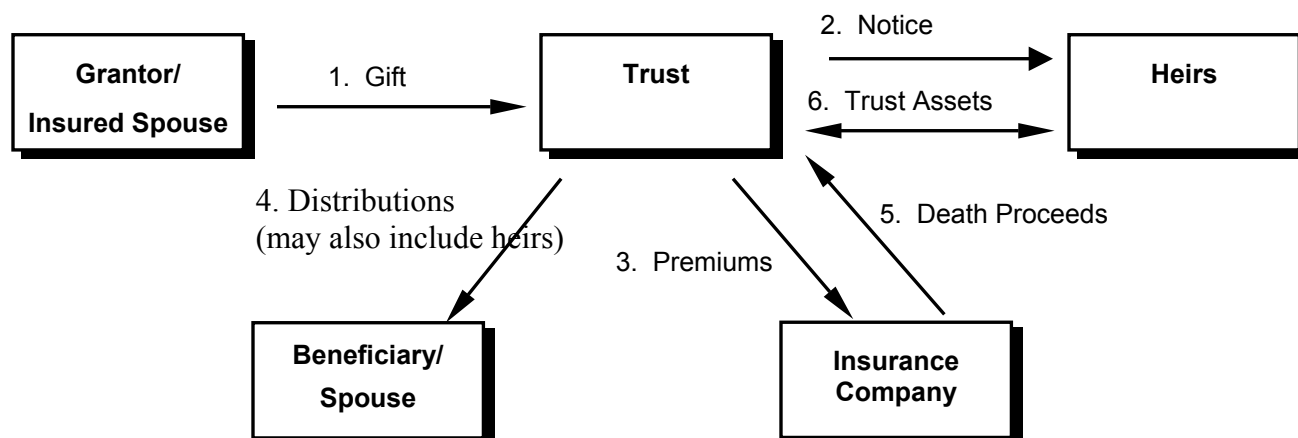
FOR INTERNAL USE ONLY. NOT FOR USE WITH THE PUBLIC.

QUESTIONS? CALL ADVANCED MARKETING

©2006 The Prudential Insurance Company of America
751 Broad Street, Newark, NJ 07102-3777
IFS-A062311 Ed. 02/06 Exp. 08/07

Prudential  **Financial**

Structure of the Spousal Support Trust



1. The grantor (insured spouse) makes gifts of separate property to a SST/ILIT to fund the payment of policy premiums. The noninsured spouse (beneficiary spouse) is the beneficiary of the trust with access to both income and principal of the trust.
2. The Trustee notifies the trust beneficiaries of the gift pursuant to the Crummey withdrawal provision in the trust document. (The beneficiary spouse can be trustee. However, the trustee powers should be reviewed with an adviser to make sure they don't result in trust assets being included in the spouse's estate. Typically, this means the trust should prohibit distributions to the spouse in excess of health, education, maintenance and support).
3. If the beneficiaries fail to exercise the withdrawal right, the trustee may use the gifts to pay premiums for the life insurance policy on the insured spouse's life.
4. During the lifetime of the beneficiary spouse, the trustee can invade the trust for the benefit of the spouse and other beneficiaries as permitted by the trust.²
5. At the insured spouse's death, the insurance company pays the death proceeds to the trust. The proceeds are then used to provide for the beneficiary spouse during his/her lifetime.
6. At the beneficiary spouse's death, the trust functions like a traditional ILIT. The trust assets pass estate tax free to the heirs.

² Life insurance policy cash values are accessed through withdrawals and/or policy loans. Unpaid loans and withdrawals reduce a policy's cash value and death benefit and may affect any guarantees against lapse. Loans are at interest. In general, loans are not taxable, but withdrawals are taxable to the extent they exceed basis in the contract. Loans outstanding at policy lapse or surrender prior to death of the insured will cause immediate taxation to the extent of gain in the contract. For policies that are Modified Endowment Contracts, distributions (including loans) are taxable to the extent of income in the contract and an additional 10% federal income tax penalty may apply. Consult your tax advisor for advice regarding your particular situation.