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LIFE INSURANCE

PROTECTING ASSETS IN THE ESTATE WITH LIFE INSURANCE

Under current tax law, individuals owe federal (and potentially state) estate taxes at their death on the value of any assets they own beyond their Lifetime Exemption amount. The three most common ways to pay estate taxes are to 1) sell assetsin the estate, 2) take a loan from the government or commercial bank, and 3) buy life insurance. For clients with illiquid and sentimental assets, life insurance is often the simplest and cheapest way to plan for future estate taxes.

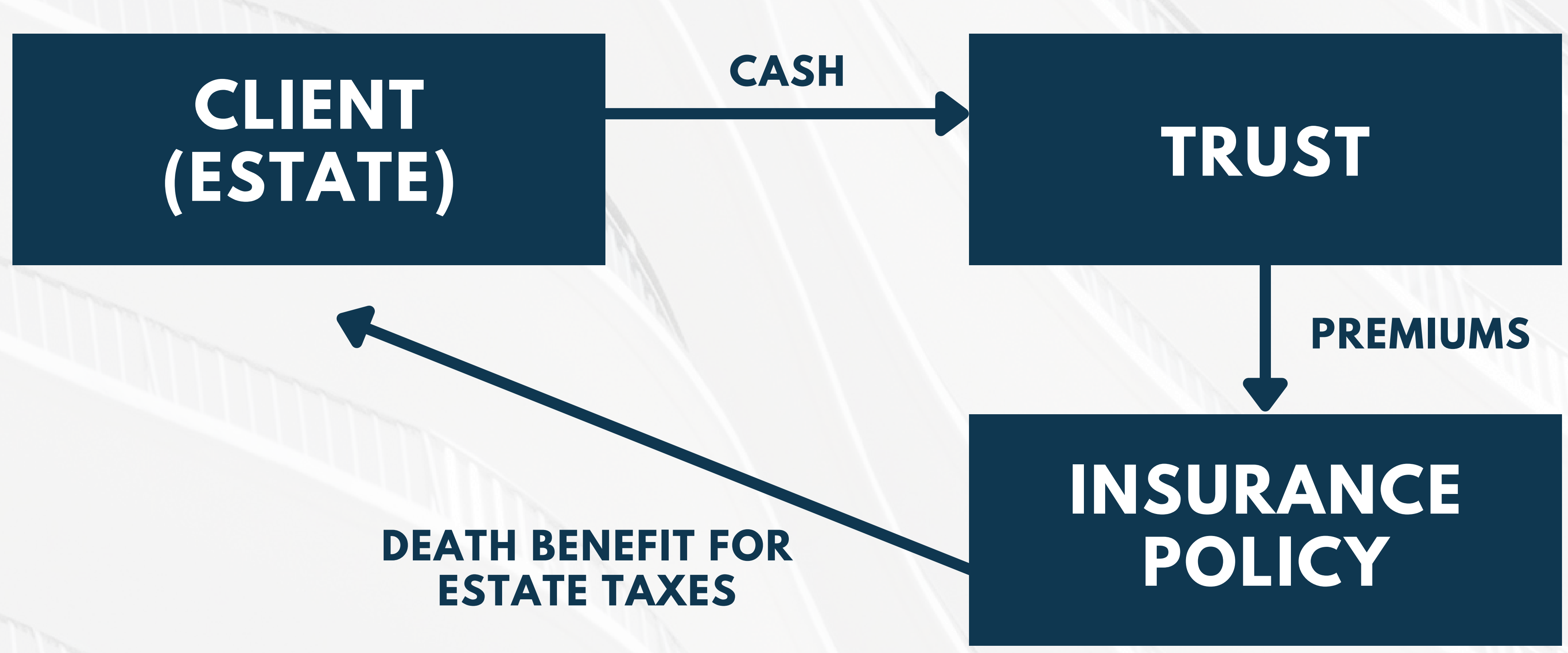
LIFE INSURANCE WORKS WELL FOR CLIENTS WHO:

- *Own predominantly illiquid assets, such as real estate, business interests, private equity, etc., which may be difficult to liquidate on short notice and may need to be sold at steep discounts to Fair Market Value.*
- *Own sentimental assets, such as family estates, ranches, collectibles, etc. which are meant to be passed down.*
- *Have used all their lifetime gifting and other estate planning techniques.*
- *Have not done any estate planning because they do not want to lose ownership and control of assets.*

HOW LIFE INSURANCE FOR ESTATE PLANNING WORKS:

1. Client has or creates an Irrevocable Life Insurance Trust (ILIT), which will own the policy.
2. Client gifts or loans cash to the ILIT to pay premiums on a life insurance policy.
3. ILIT uses death benefit proceeds at the Client's passing to pay estate taxes.

-SEE CASE STUDY ON NEXT PAGE-



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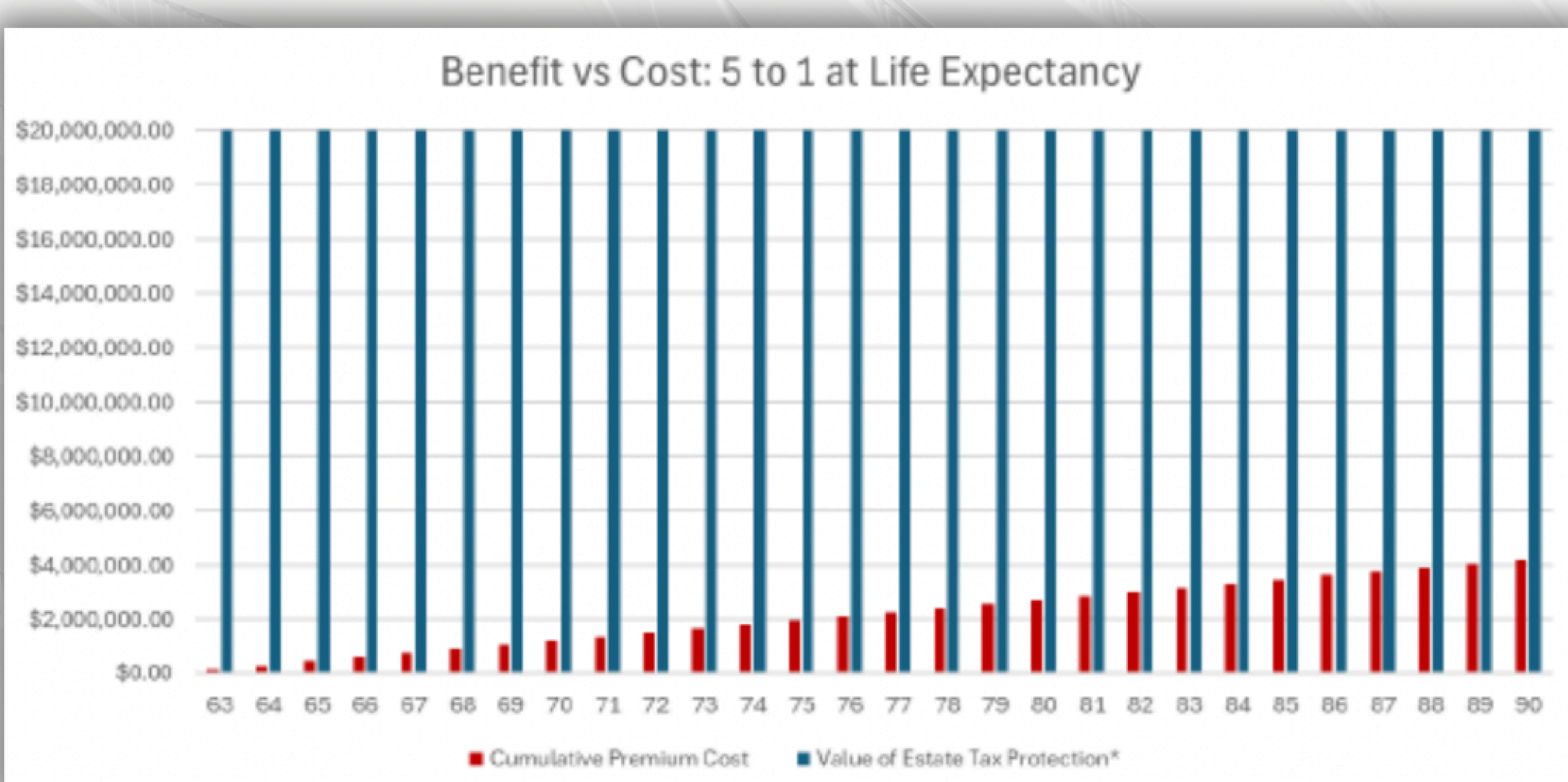
CASE STUDY: LIFE INSURANCE

CASE STUDY: REAL ESTATE DEVELOPER IN AZ

Jim and Mary are husband and wife in their early 60's, who develop and manage commercial real estate properties in southern Arizona. The couple have built a net worth of over $50,000,000, with the real estate representing nearly the entire value. The couple is actively involved in the ongoing management of the properties and have been hesitant to gift large amounts to trust for their three children, who are between 25 and 35 years old. The couple understand that they currently have estate tax exposure of about $10 (40% x $25M taxable estate above lifetime exemption). This liability will likely double or triple during their lifetime without any additional estate planning. The couple decide that the safest way to plan for this liability is to fund a second-to-die life insurance policy in a trust. An annual premium of $150k purchases a $20M death benefit, which will protect $50m of assets in the couple's taxable estate from being sold. The annual cost to protect $50M of real estate from having to be liquidated to pay estate taxes is approximately 25bps.



WHAT DETERMINES THE BENEFITS?

The benefits of life insurance are a function of many factors, including:

- *Size of taxable estate (the larger the estate, the larger the taxes due)*
- *Type of assets in the taxable estate (families with significant cash or cash equivalents may recognize less value*
- *than families with significant real estate and business interests)*
- *Willingness to engage in other estate planning techniques (gifting, sales, charitable planning, etc.)*

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