

PLANNING OPPORTUNITIES ABOUND!

The Tax Act of 2010 (The Act) has opened up many planning opportunities. The exemption amount, now unified with a \$5M exemption (\$10M per couple) for gift, estate, and GST taxes, greatly simplifies planning. This higher exemption is available only for 2011 and 2012, and therefore provides families with a two-year window to transfer a significant amount of wealth free of gift taxes.

BEWARE: The exemption reverts to \$1,000,000 on January 1, 2013! This makes a compelling case for the wealthy to make transfers to their family now.

Planning Opportunity: Leveraging the Lifetime Exemption

To illustrate how much wealth the increase in the exemption can transfer to multiple generations, take a look at a snapshot of a case scenario that includes a lifetime exemption gift made to an Irrevocable Life Insurance Trust (ILIT) of both \$1M and \$5M, respectively.

CASE SNAPSHOT

Assume Steve and Anna Sellers, both age 65 and Non Smoker Preferred health risks, have an estate valued at \$25,000,000. Assume they make a lump-sum gift to an ILIT that is earning a 4% net rate of return. In one scenario, assume they make a \$1M gift and in the other a \$5M gift from which premiums are paid based on the 4% trust return so that the principal of the gift does not need to be liquidated. The premium is paid by the trust annually and is based on a John Hancock Performance SUL policy.

Assume Steve and Anna (generation 1) have a joint life expectancy¹ of 30 years at which point their oldest child (generation 2) has reached age 64. Also assume that life expectancy for generation 2 is 61 years at which point their oldest grandchild (generation 3) will be 64.

Scenario 1: Steve and Anna make a \$1M gift to a trust that will be used to fund a level premium of \$38,462 on a SUL policy for \$3,248,208. Take a look at the leverage of the exemption amount over two generations...

\$1M EXEMPTION

Property Available to Heirs	Lifetime Gifts to a Dynasty Trust @ 4% Net Return without Insurance	Lifetime Gifts to a Dynasty Trust @ 4% Net Return with Insurance
Year 30 – Trust Balance for Children’s Benefit	\$3,243,398	\$4,248,208
Year 61 – Trust Balance for Grandchildren’s Benefit.	\$10,940,413	\$14,329,772

This is a supplemental illustration. Not all benefits and values are guaranteed. The assumptions on which the non-guaranteed elements are based are subject to change by the insurer. Actual results may be more or less favorable. For non-insurance figures – The data shown is taken from a hypothetical calculation. It assumes a hypothetical rate of return and may not be used to project or predict investment results.

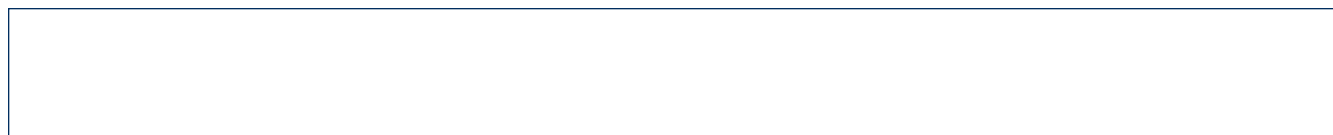
Scenario 2: Steve and Anna make a \$5M gift to a trust that will be used to fund a level premium of \$192,308 on a SUL policy for \$16,284,214. Take a look at the leverage of the higher exemption amount over two generations...

\$5M EXEMPTION

Property Available to Heirs	Lifetime Gifts to a Dynasty Trust @ 4% without Insurance	Lifetime Gifts to a Dynasty Trust @ 4% with Insurance
Year 30 – Trust Balance for Children’s Benefit	\$16,216,988	\$21,284,214
Year 61 – Trust Balance for Grandchildren’s Benefit.	\$54,702,063	\$71,794,493

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Results: In either scenario, the use of insurance provides an additional 30% to heirs. Having the ability to make a larger tax free gift — BEFORE January 1, 2013 — not only removes the gift and its growth from the taxable estate, but provides for a larger legacy to benefit multiple generations.



1. Based on 2008 Valuation Basic Table (VBT).

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MLINY01181114168 01/11

