

ADVANCED SALES NEWS BLAST



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From: Dick Kait, 2nd Vice President, Advanced Sales and Director,
Premium Financing
To: West Coast Life Agents and Distributors
Subject: Tax Relief Act of 2010 (Part 3) – Capturing Sales Opportunities
Date: February 1, 2011

The Tax Relief Act (TRA) of 2010 Ushers in a Two-Year Period of Opportunities for Clients and Agents

As promised in our previous News Blasts, the Advanced Sales Team of West Coast Life is developing sales ideas that we see flowing from the TRA of 2010.

Summary of the Act

- Two-year extension of Bush income tax relief, keeping unchanged the individual income, capital gains and dividends tax rates for most Americans.
- Continued Alternate Minimum Taxable Income (AMTI), child care credits, and 2% reduction in the Social Security withholding.
- Increased Federal gift and estate exemption to \$5 million, with “portability” (meaning that the surviving spouse may enjoy an exemption up to \$10 million, without sophisticated planning on the first death).
- Reduced top Federal estate and gift tax rate of 35%.

Main planning pointers—

We will enjoy planning certainty for two years—but only for two years. The Act expires at the end of 2012, and the 2001 tax rules will again threaten to return (“Sunset II”). We could see a \$1 million exemption and 55% top rate unless Congress enacts a new compromise.

The TRA of 2010 opens the door for many opportunities to utilize life insurance to meet consumer needs. For a range of markets (middle, emerging affluent, and high net worth) we see a broad path for using permanent life insurance with the rules in place through 2012. For many households, there will be a new emphasis on more simplified planning rather than sophisticated estate tax planning. For advisors, planning will be more focused on family protection needs, legacy planning, business planning, financial planning and income-tax strategies using life insurance in retirement.

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WCL LifeTime Platinum III UL, policy form WC-U15 and state variations thereof, is a flexible premium universal life insurance policy. Product features and availability may vary by state. Consult policy for benefits, riders, limitations, and exclusions. Policy is subject to underwriting, and up to a two-year contestable and suicide period. Policies may not be available in all states. Benefits adjusted for misstatements of age or sex. In Montana, unisex rates apply.

The Income Provider Option endorsement, form number WC-UE35. Actual terms and conditions contained in the universal life policy and Income Provider Option endorsement govern all benefits provided. Please see the endorsement for more detailed information. Not available in all states. State variations may apply.

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Here are some of our key sales ideas for “Two Years of Tax Certainty”

- 1. Grand legacy gifts using GUL.** Rather than focusing on tax-driven techniques as much, products can be sold for reasons closer to the client’s heart—as a meaningful inheritance to loved ones or as a charitable bequest. Using West Coast Life’s Income Provider Option (IPO), clients can consider how a LifeTime Platinum IIISM contract can provide a lump sum death benefit for the grandchildren (distributed by a Dynasty Trust), while providing another portion of the policy as installments to the Trust for annual distribution to the insured’s immediate children.
- 2. Liquidity on first death.** Life insurance remains a powerful solution for clients desiring liquidity on the first death (even if the tax need for second death liquidity is less of a concern):
 - For “blended families” to provide a timely inheritance for the client’s children of the previous marriage.
 - For the surviving spouse’s liquidity for lifetime needs.
- 3. Lifetime gift opportunities are opened up.** Lifetime gifts and other transfers become an active planning area, given the new \$5m/\$10m exemption, along with unified gift and estate taxes, portability, and indexing.
 - One major example is how clients can “pre-fund” an ILIT or Credit Shelter Trust (B-Trust) with little or no gift tax. Portability is a major new benefit of the Act. Portability may at first appear to eliminate the need for trusts on the first death. That is a misconception. Funding B-Trusts will remain important for these reasons: (1) protecting inheritance from creditors and divorces; (2) the possibility of a spouse remarrying after the first death (and potentially disinheriting the children by a step-parent); (3) to preserve a legacy in case the client has grandchildren; (4) when the B-Trust is already part of client’s estate plan; (5) when the client lives in a state with a state estate tax; (6) when client is concerned that Congress might come back with substantial taxes in the future; (7) to move asset appreciation out of both estates; (8) for greater control of distributions; (9) to protect the “portable” exemption upon remarriage of the owner.
- 4. Leveraging gifts and charitable donations.** The higher exemption keeps the door wide open for leveraging family gifts, charitable bequests, and transfers of business interests. Private financing will remain important as a leverage technique for the larger wealth transfers, to minimize gift taxes and keep the plan flexible.

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5. **Planning with flexibility remains an important concept.** Since the new rules last for only two years, long term uncertainty remains a challenge. These ideas offer the planning flexibility needed during times of uncertainty:
 - ILITs with flexible provisions that can adjust to future tax alternatives. If the Trust is no longer needed for tax-related liquidity, it can still work for pure legacy purposes (e.g. as a Dynasty Trust for future generations).
 - The Spousal Lifetime Access Trust (SLAT) can hold a cash value UL or VUL policy to provide the non-grantor spouse access to policy cash values (if necessary) in order to fund a variety of lifetime needs—health care, retirement, educational expenses, and other priorities.
 - As a “wait-and-see” strategy, consider a client buying joint survivorship term insurance for potential estate tax liquidity needs, and to preserve medical underwriting, while monitoring tax changes in early 2013. Depending on the next tax rules, the client may wish to convert to permanent coverage, if deemed the best approach.
6. **Strategies for low interest rates and low asset values remain hot.** With U.S. interest rates still historically very low, the TRA of 2010 supports a number of more sophisticated wealth transfer strategies—GRATs, sales to intentionally defective grantor trusts (IDGTs), Charitable Lead Unitrusts (CLUTs), and valuation discounts techniques (e.g., Family Limited Partnerships). The TRA of 2010 did not restrict these techniques.
7. **The shift to other planning benefits of permanent life insurance.** It is possible that the estate tax concerns of many households will recede (at least temporarily) with the higher \$5m exemption. If so, the focus should shift to planning ideas not directly linked to gift and estate taxes. For example, we anticipate increased interest in:
 - **Small business planning opportunities** (key person, bonus arrangements, buy-sell agreements, and deferred compensation).
 - **Estate equalization** for owners of small business, farms and ranches, to provide the liquidity for a “fair and equitable” inheritance among the owner’s children, some of whom are not active in the business.
 - **Income tax efficient strategies for retirement and other financial planning strategies.** The TRA of 2010 also extends the Bush income tax cuts through



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2012—not simply individual income tax rates and brackets, but the historically low capital gains and dividends rates as well.

8. Potential rising income taxes in future years. While predicting future income taxes is not possible, clients have reason to anticipate that income taxes may be rising in light of federal and state deficits. With that expectation, the role of life insurance serves as an important income tax-efficient vehicle (apart from its primary mission to provide death benefit and income replacement). We know that permanent life insurance permits income tax deferral of any potential gain in policy cash values; tax-free withdrawals (up to basis); and ultimately income-tax free benefits of life insurance proceeds (for non-MEC contracts). With these income tax advantages, life insurance may help individuals:

- Supplement their retirement income (with LIRP and NQDC)
- Create a more diversified portfolio
- Increase the predictability of the legacy
- Execute capital transfer techniques—redeploying (where appropriate) tax-inefficient assets such as IRA accounts, qualified annuities, pension plans
- Seek stock maximization (to enjoy lower capital gains taxes while liquidating a stock portfolio)
- Facilitate Roth IRA conversions with life insurance on the life of the IRA owner (and spouse)

While we don't have the luxury of long-term certainty, this is not a time for clients to stand still. We strongly believe that this is a time for advisors to connect with clients to address their planning concerns, consider the many opportunities open to clients under the TRA of 2010. These opportunities should lead to strong insurance sales during 2011 and 2012.

Look for the next edition of News Blast from your Advanced Sales Team for additional thoughts on this important legislation. If you have any questions or comments, feel free to contact me at (800) 628-6390, option 3, ext. 1537, or my teammate, Victor Gentner, ext. 4840.

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