



## Dynasty Trust

CREATING A MULTI-GENERATIONAL LEGACY  
USING LIFE INSURANCE

## ADVANCED PLANNING



# Life Insurance

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**Prudential**



## PLEASE NOTE

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The strategies presented in this brochure are complex techniques that may not be appropriate for everyone and should be entered into only with the advice of competent legal counsel. The outcome of each strategy is not certain and will depend upon your individual circumstances, including actual trust and life insurance policy costs, your life expectancy, and future tax law changes.

# The Dynasty Trust

There are many estate strategies that can help you pass on your monetary wealth. But if you are also interested in passing on your traditions, your values, and the other components that make up your real wealth, consider using a Dynasty Trust. In addition to helping you leave a legacy that includes both your monetary and non-monetary values, it can be designed to last into perpetuity.

## KNOWING IF THIS STRATEGY IS RIGHT FOR YOU

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You have several options available to you for passing along your wealth. Certain factors can help you determine whether to consider the strategy presented here.

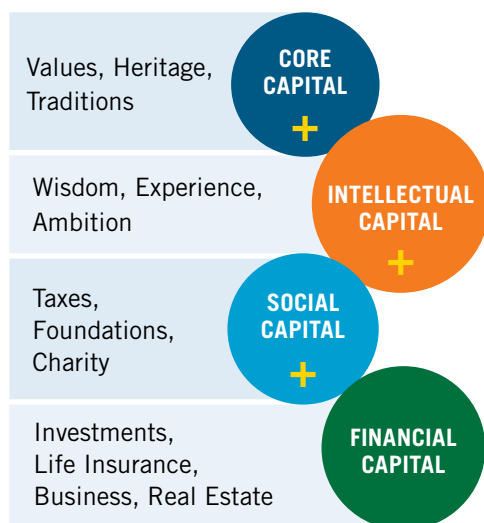
**This gifting strategy may benefit you and your family if you:**

- Have a net worth of \$25 million or more
- Are family-oriented
- Have a financially conservative lifestyle
- Are involved in your community or have a favorite charity
- Have estate or income tax concerns



# Creating a Dynasty Trust

## YOUR REAL WEALTH ...



To create a Dynasty Trust, you give or bequeath your assets to the trust to benefit your heirs. (You can also sell assets to the trust.) Your spouse, your descendants, or even charities can be designated to receive income or borrow money from the trust.

## PASS ON YOUR REAL WEALTH

While a Dynasty Trust is primarily designed to provide potential tax benefits, it can also help you to pass on your real wealth. By making distribution provisions discretionary, you can attach “strings” to the income. Therefore, you could instruct trustees to provide income only to those heirs who adhere to your values. These controls, established by you and your attorney, can help you pass on, not just your financial capital, but also the core, intellectual, and social capital that made you successful.

For example, beneficiaries may be required to:

- Meet certain academic standards
- Be employed
- Perform public service
- Avoid substance abuse
- Show family unity

## ENHANCE FAMILY WEALTH

A Dynasty Trust could also be a low-interest and less onerous alternative to commercial lenders for your heirs. In addition to benefiting family members, the income generated could help to grow the trust’s value. For example, loans\* could be provided to beneficiaries to help:

- Pay for graduate school
- Buy a home
- Start a business

## PROVIDE ESTATE LIQUIDITY

The trustee can purchase life insurance on your and/or your spouse’s life to help fund the capital needs of the trust at your death and to provide liquidity to your estate for estate tax and other wealth transfer costs. The trust can even own life insurance on the lives of the trust beneficiaries. At the beneficiary’s death, the trust receives new capital to help fund those beneficiaries’ transfer costs and further preserve wealth for the next generation.

*\*Outstanding loans and withdrawals will reduce policy cash values and the death benefit and may have tax consequences.*

Two key considerations to note with Dynasty Trusts are the **Rule Against Perpetuities** and the Generation-Skipping Transfer Tax (**GSTT**).

### RULE AGAINST PERPETUITIES

The Rule Against Perpetuities is a complex rule designed to prevent trusts from lasting forever. However, a number of states have abolished or significantly modified the rule, including AK, AZ, CO, DE,\* DC, FL, ID,\* IL, ME, MD, MI,\* MO, NE, NH, NV, NJ, NC, OH, PA, RI, SD, TN, UT, VA,\* WA, WI, and WY. WY and UT have limited the duration of trusts to 1,000 years, FL and TN have limited it to 360 years, NV to 365 years, and WA to 150 years. This is not intended to be an exhaustive list. Check with your tax advisor regarding your state.

*\*Repealed with respect to personal property.*

### GENERATION-SKIPPING TRANSFER TAX (GSTT)

The GSTT is levied on property transfers to persons two or more generations younger than the transferor. The tax compensates Treasury for transfers that “skip” estate taxation at the intermediate generation (i.e., second generation) level. The GSTT is equal to the highest marginal estate tax rate at the time of the transfer. GSTT annual exclusion rules differ from those for present interest gifts for gifts made in trust.

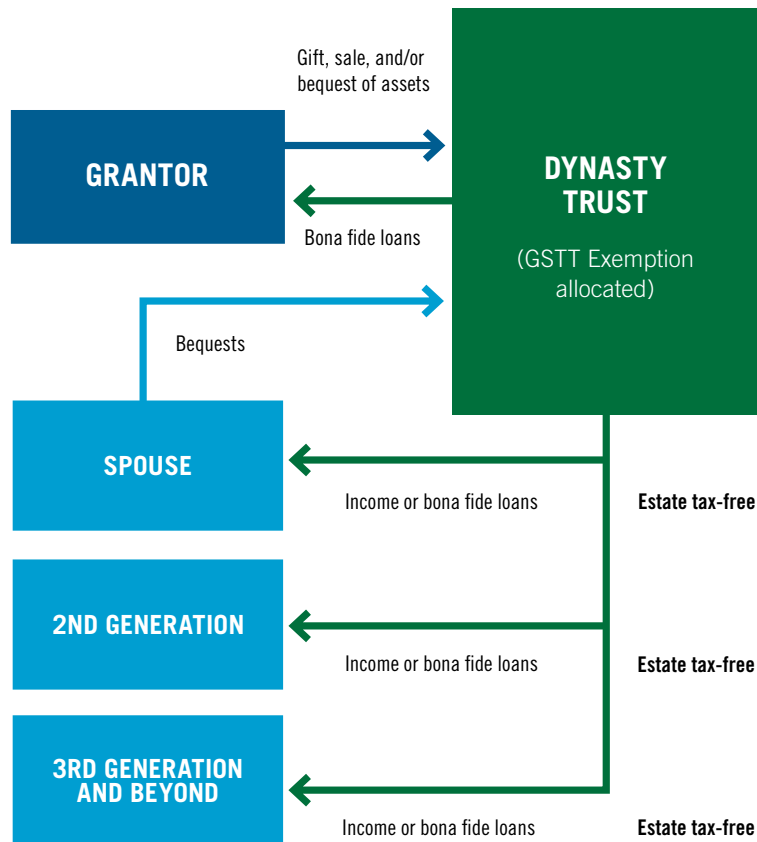
With the GSTT exemption, the amount of tax-free transfers that can be made to a Dynasty Trust is \$12.92 million for tax year 2023; it's indexed annually for inflation. This amount will also reduce the exemption available for gift and estate tax, which happens to be the same amount.

A generation-skipping transfer can occur in one of three ways:

- 1 A transfer made directly to a skip person** (i.e., grandchild), either during lifetime or at death, is a direct skip. A transfer made to a trust in which all beneficiaries are skip persons is also a direct skip.
- 2 A taxable distribution** occurs when trust distributions are made to beneficiaries who are skip persons. If the trust terminates and distributes assets to skip persons, those assets are taxable distributions subject to GSTT rules.
- 3 A taxable termination** occurs when a trust loses its last non-skip person and only skip persons remain as beneficiaries. As long as the trust maintains a non-skip person beneficiary, a taxable termination will not occur, but at the death of the last non-skip person, the value of the interests passing to the skip beneficiaries is taxable.

## DESIGN OF A DYNASTY TRUST

This chart shows the design of a Dynasty Trust. As you can see, the grantor and spouse fund the trust to benefit each subsequent generation.



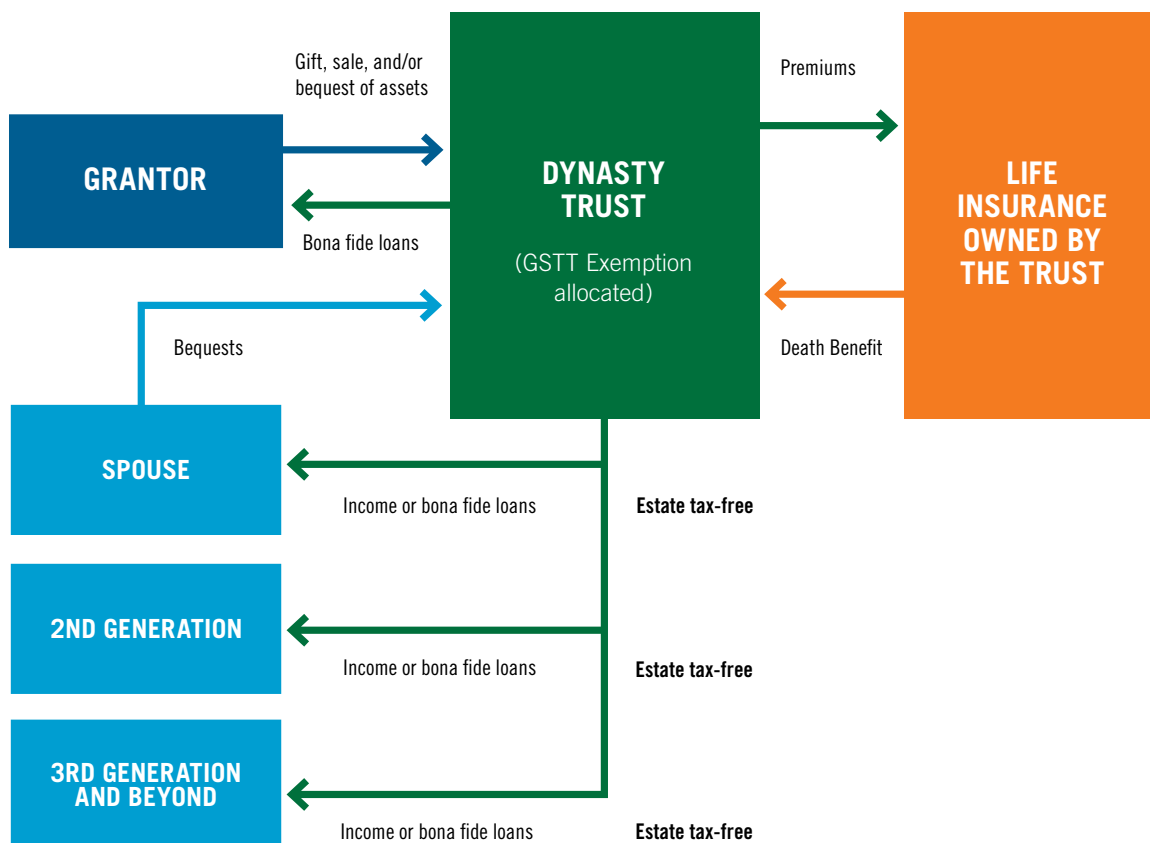
A Dynasty Trust is an irrevocable trust that can be designed to last into perpetuity to which you, as grantor, can gift, sell, or bequest valuable assets. With a Dynasty Trust:

- Your GSTT Exemption can be allocated to help reduce estate taxes and other transfer costs among trust beneficiaries.
- Your spouse can be an income beneficiary and/or receive indirect access to trust assets via the trustee. They can also bequeath assets at death to the trust.
- Distributions can be structured as discretionary and based on incentives (i.e., “strings attached”).
- Your trust beneficiaries who follow your rules and adhere to your values can have a cheap source of capital and/or bonus income.
- You can pass down non-monetary wealth (e.g., core and intellectual capital) such as your values, traditions, responsibility, ambition, and work ethic.
- You can help protect your wealth from mismanagement, divorce, financial creditors, and estate taxes among trust beneficiaries.

*There may be federal and/or state gift tax consequences with the funding of a Dynasty Trust, and the gifts necessary to pay the premiums may reduce the size of the estate and/or the amount of lifetime gift tax exemption and/or estate tax exemption. Additionally, Dynasty Trusts may restrict the beneficiaries' rights to access trust principal.*

## HOW A LIFE INSURANCE POLICY CAN HELP WITH A DYNASTY TRUST

This chart shows how a life insurance policy can help to enhance the value of a Dynasty Trust. As you can see, trust assets are used to purchase a life insurance policy on the life of the grantor (and potentially the spouse and beneficiaries). The death benefit provided by the life insurance policy adds to the value of the trust.



The trustee can purchase life insurance on the grantor, the grantor's spouse, and potentially some trust beneficiaries (if there is an insurable interest), and/or invest the gifted amounts to help enhance the ultimate value received by current and future beneficiaries.

**Life insurance owned by the trust could have a number of potential benefits. It can help provide:**

- Security for your beneficiaries after your lifetime
- Immediate leverage at death for your beneficiaries and liquidity to help fund the trust
- A generally income tax-free death benefit
- Potential for high internal rate of return in the event of a premature death
- A potential guarantee, which can help establish an element of predictability regarding the capital ultimately received by the trust
- Certainty for wealth transfer to help balance out volatility in other estate assets at death
- Liquidity for estate taxes of the first generation as well as for trust beneficiaries if the trustee purchases policies on them as well

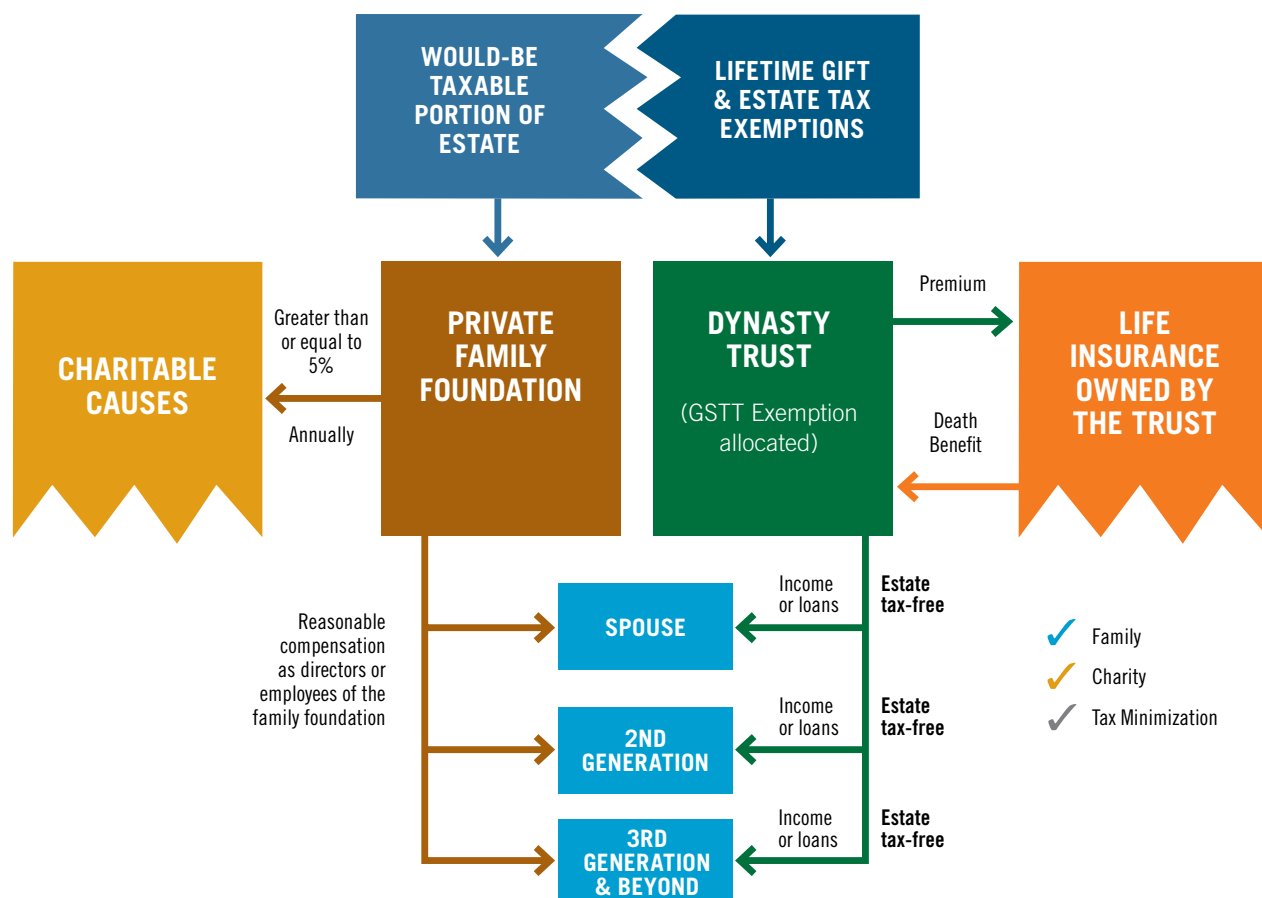
*Life insurance contains fees and expenses, including cost of insurance, administrative fees, premium loads, surrender charges, and other charges or fees that will impact policy values.*

*Guarantees and benefits within the policy are based on the claims-paying ability of the issuing company.*



## A DYNASTY TRUST AND A PHILANTHROPIC STRATEGY

This chart shows how a Dynasty Trust in combination with a philanthropic strategy can potentially eliminate estate taxes. As you can see, the taxable portion of the estate is passed to a non-profit Private Family Foundation. The assets in the Family Foundation are used to benefit charitable organizations and to pay family members who work for the foundation.



- The strategy can be employed in conjunction with philanthropic strategies, such as a Private Family Foundation, to help reduce estate taxes and give you and your family the ability to allocate your social capital to causes that are consistent with your values. It can also unite family members in charitable decision-making from generation to generation, instilling in your family a sense of excitement about supporting specific social and charitable causes.
- The would-be taxable portion of your estate can be directed to the Foundation estate tax-free with the amounts equal to your lifetime gift and estate tax exemptions passing to the Dynasty Trust. This approach could help preserve wealth by allowing your family to minimize taxes by choosing to distribute to charity.
- A foundation can provide a few incidental benefits to your family including being paid reasonable compensation as employees or directors and recognition in the community, which could be particularly beneficial if you desire to perpetuate your name after your lifetime. There could also be opportunities for employee family members who own or manage a separate, for-profit business by attracting recognition among the community's more prominent figures through fundraising activities.

*There may be federal and/or state gift tax consequences with the funding of a Dynasty Trust, and the gifts necessary to pay the premiums may reduce the size of the estate and/or the amount of lifetime gift tax exemption and/or estate tax exemption. Additionally, Dynasty Trusts may restrict the beneficiaries' rights to access trust principal.*



# Other Things to Know About This Strategy

## DYNASTY TRUSTS

- Restrict beneficiaries' access to the trust principal.
- If made a grantor trust for income tax purposes, more wealth may grow inside the trust.
- After the grantor's death, though, any distributable net income retained by the trust will be subject to trust income tax rates that increase to the maximum 37% rate more quickly than for individuals. The 3.8% net investment income tax also applies to trusts if the trust's adjusted gross income for the year exceeds the dollar amount at which the highest tax bracket begins.

## LIFE INSURANCE

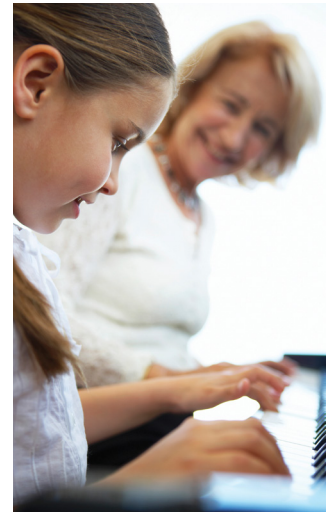
- Contains fees and expenses, including cost of insurance, administrative fees, premium loads, surrender charges, and other charges or fees that will impact policy values.
- Death benefit proceeds are not paid to the trust until the insured's death.
- Family wealth ultimately received by the Dynasty Trust may be reduced if the policy lapses.

## PRIVATE FAMILY FOUNDATIONS

A Family Foundation is a not-for-profit entity established by an individual, family, or business exclusively for charitable purposes. It must be educational, religious, scientific, or literary as set forth in IRC §501(c)(3). The donor or donor's family is able to retain control over assets contributed, including investment and grant-making decisions. The donor or donor's family can receive reasonable compensation for services rendered as directors of the foundation. Essentially, it is a family-run charitable business.

Income tax deductions for amounts contributed are typically limited to 30% of adjusted gross income (20% for public traded securities contributed). It can provide the donor and their family with the ability to enable family philanthropy to last for multiple generations.

Family Foundations are subject to strict IRS guidelines, including a requirement to distribute at least 5% of the foundation's assets per year to a qualified charity. The IRS also strictly prohibits self-dealing, preventing disqualified individuals from engaging in transactions with the foundation. Disqualified individuals include the donor, donor's spouse, children and their spouses, parents, and any employees of the foundation. Self-dealing transactions include buying from or selling to the foundation, personal use of foundation assets, borrowing from the foundation, and retaining foundation assets on private premises. Foundations also cannot own stakes in a family-owned business and are subject to annual IRS charitable reporting requirements.



# Important Considerations

## BEFORE IMPLEMENTING THIS STRATEGY

- Any investment that you plan to purchase or pay for during retirement involves the planning and use of your income or other assets. You should be certain you will have sufficient liquid assets to support your current and future income and expenses before considering the purchase of a life insurance policy. Equity in the home should not be considered a liquid asset.
- You should develop a comprehensive financial strategy to take into account current and future income and expenses in conjunction with implementing the strategy discussed here.
- We recommend that you consult your tax and legal advisors to discuss your situation before implementing the strategy discussed here.

## ABOUT THIS CONCEPT

- This concept is only intended to be used for assets that will not be needed for living expenses for the expected lifetime of the insured. It is your responsibility to estimate these needs and expenses and it is recommended that you consider developing a comprehensive financial strategy in conjunction with implementing the strategy being considered. The accuracy of determining future needs and expenses is more critical for individuals at older ages who have less opportunity to replace assets used for the strategy.

## IF YOUR FINANCIAL OR LEGACY SITUATION CHANGES

- If you can no longer make premium payments, the life insurance death benefit may terminate and the results illustrated may not be achieved.

## WHEN THIS STRATEGY MAY NOT BE IN YOUR BEST INTEREST

- Depending on your life span, it is possible that the Trust beneficiaries may receive more by just investing the assets used to pay the life insurance premiums rather than by receiving the death benefit of the life insurance policy that was purchased.

## TAX AND OTHER FINANCIAL IMPLICATIONS

- There may be tax and other financial implications as a result of liquidating assets within an investment portfolio to purchase life insurance. If contemplating such a strategy, it is important to understand that life insurance is a long-term strategy to meet particular needs.
- The sale or liquidation of any stock, bond, IRA, certificate of deposit, mutual fund, annuity, or other asset may have tax consequences, early withdrawal penalties, or other costs or penalties as a result of the sale or liquidation.

## ABOUT LIFE INSURANCE

- The death benefit protection offered by a life insurance policy can be a key component of a sound financial strategy.
- It is important to fully understand the terms and conditions of any financial product before purchasing it.

## OTHER NOTES

- You should consider that life insurance policies contain fees and expenses, including cost of insurance, administrative fees, premium loads, surrender charges, and other charges or fees that will impact policy values.
- If premiums and/or performance are insufficient over time, the life insurance policy could require additional out-of-pocket premiums to keep it in force.



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1011767-00004-00 Ed. 01/2023