Zero Estate Tax Strategy

AN ESTATE STRATEGY USING LIFE INSURANCE,
A FAMILY FOUNDATION, AND A WEALTH REPLACEMENT TRUST

ADVANCED PLANNING

Life Insurance

Investment and Insurance Products:
Not Insured by FDIC, NCUSIF, or Any Federal Government Agency.
May Lose Value. Not a Deposit of or Guaranteed by Any Bank,
Credit Union, Bank Affiliate, or Credit Union Affiliate.

Prudential

The Prudential Insurance Company of America

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KNOWING IF THIS STRATEGY IS RIGHT FOR YOU

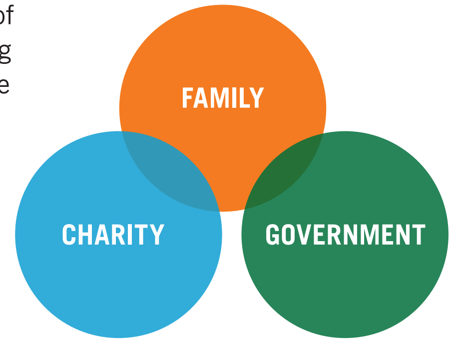
You have several options available to you for passing along your wealth. Certain factors can help you determine whether to consider the strategy presented here.

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

- Have a net worth of $20 – $30 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

Family. Charity. Government.

Upon death, affluent individuals cannot avoid benefiting at least two of the three. A certain amount of your wealth is "social capital," meaning it will be returned to society, either through taxes or through charitable contributions. Knowing this, you can create a strategy that guides the distribution of your wealth, based on your wishes and beliefs.



WHICH WOULD YOU PREFER?

- Leave your legacy to your family and the government?
- Leave your legacy to your family and your favorite charity?

Many affluent people are either unaware of the extent to which estate taxes could erode their legacies, or unfamiliar with the strategies that could help them to transfer their wealth more effectively.

The History of Estate Taxes

The debate over the estate tax is nothing new. Originally enacted in 1797, the tax has been reformed, repealed, or reenacted over 20 times in its 200-plus years of existence. So, executing an effective estate strategy is like trying to hit a moving target.

It is hard to predict whether the tax will be in effect, its rate, or what exemption it will offer. In response to this uncertainty, individuals typically choose one of the three options below:

1. Do nothing, leaving an estate, along with a tax bill, to beneficiaries
2. Use life insurance to replace the amount of wealth estimated to be lost to taxes
3. Implement a strategy that combines charitable giving and life insurance to leave the full value of an estate to loved ones and favored charities

Traditional Estate Strategy

Those who take steps to prepare for the potential liability of estate taxes typically purchase a survivorship (second to die) life insurance policy. The death benefit is received generally income tax-free* and may even be estate tax-free if the policy's ownership is within a properly structured trust. Proceeds from the policy are typically used to replace the value of assets lost to taxes, thereby preserving the estate for the benefit of the heirs.

There are many benefits to this strategy. However, it does fail to provide flexibility to individuals who may be charitably inclined and want to use their estate to benefit the people and the causes they care about the most.


*Death benefit proceeds are generally received federal income tax-free, as provided in Internal Revenue Code Section 101(a).

Zero Estate Tax Strategy

With the Zero Estate Tax Strategy, you can benefit your loved ones and pass the portion of your estate subject to estate taxes to your favorite charities, thereby minimizing what you pay to the government.

How the strategy works:

- Make full use of each spouse's applicable exclusion amount (estate tax exemption equivalent) through appropriate will provisions, which may allow assets to pass to heirs estate tax-free.
- Make gifts to a Wealth Replacement Trust that uses the proceeds to purchase life insurance. The death benefit provided by the policy is received estate tax-free and can help to make your estate whole or potentially enhanced for beneficiaries. Gifts to the Wealth Replacement Trust can make use of your lifetime and annual gifting exclusions if they are available. Amounts in excess of available gifting exclusions may be subject to gift tax.

Consider this strategy if you:

- Have an estate that may be subject to federal estate taxes
- Would rather see money going to charity than the government
- Are charitably inclined
- Would like to control who benefits from your wealth

This strategy effectively allows you to:

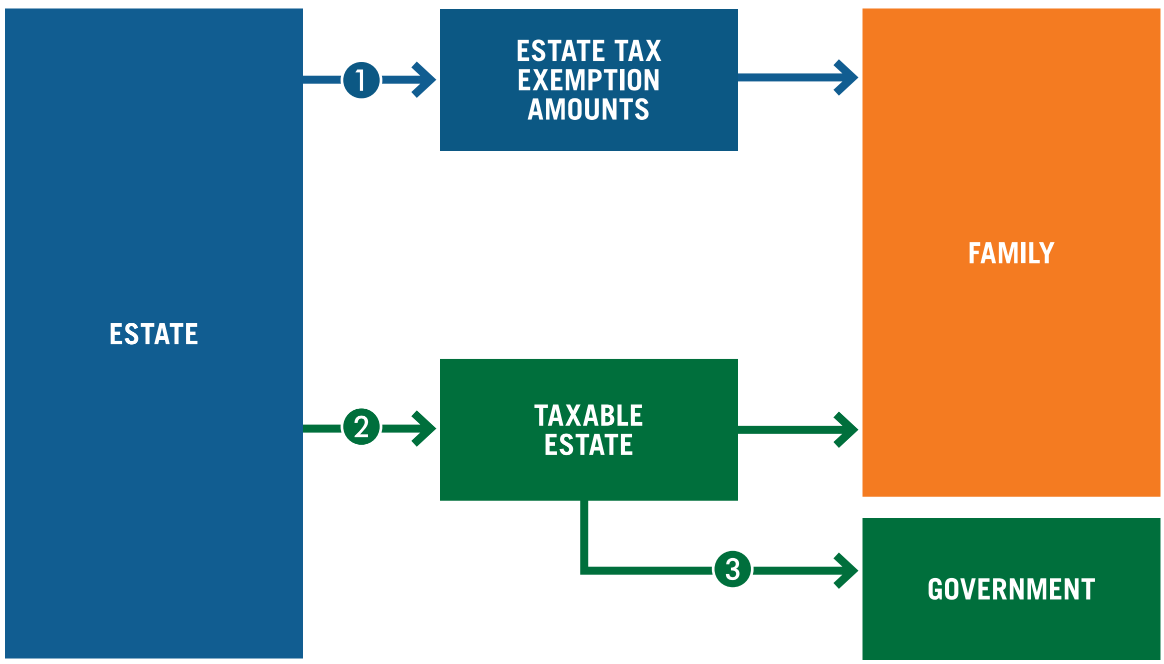
- Pass to beneficiaries a value equivalent to your full estate.
- Retain family control over charitable donations.
- Reduce or possibly eliminate your estate tax exposure.
- Be flexible and adjust to changes in the estate tax. Using the tools in this brochure, a financial professional can explain your options and help you determine the strategy that fits with your values, beliefs, and objectives.

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

Current Situation

TECHNIQUES

- Full Use of Estate Tax Exemptions



1. Value of estate equal to estate tax exemption amounts passes to family
2. Value of estate in excess of estate tax exemption amounts is subject to estate tax
3. Estate tax payable is typically due within nine months of death

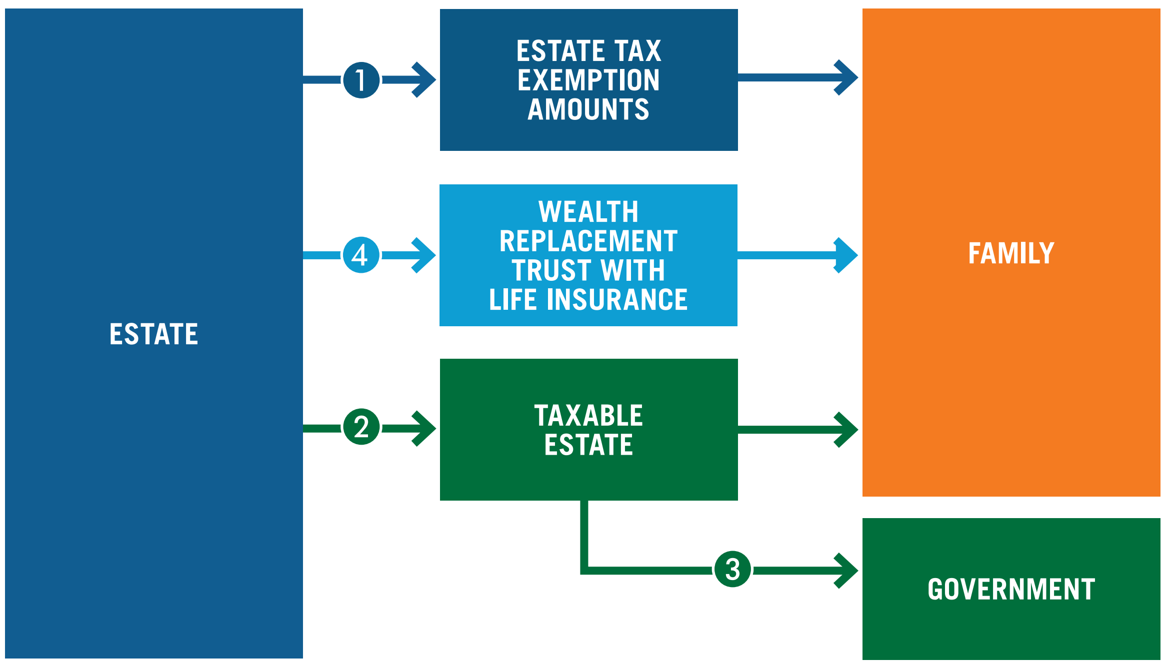
The current estate tax laws allow individuals to pass a certain amount to a non-spouse beneficiary free of federal estate tax (currently $12,920,000 for 2023). Portability, which allows a surviving spouse to use a deceased spouse's unused estate tax exclusion, could increase the surviving spouse's exclusion to $25,840,000. The exemption will be reduced by 50% after Dec. 31, 2025. The amount in excess of this is subject to federal estate tax.*

**Indexed annually for inflation.*

Wealth Replacement Strategy

TECHNIQUES

- Full Use of Estate Tax Exemptions
- Irrevocable Life Insurance Trust (Wealth Replacement Trust)



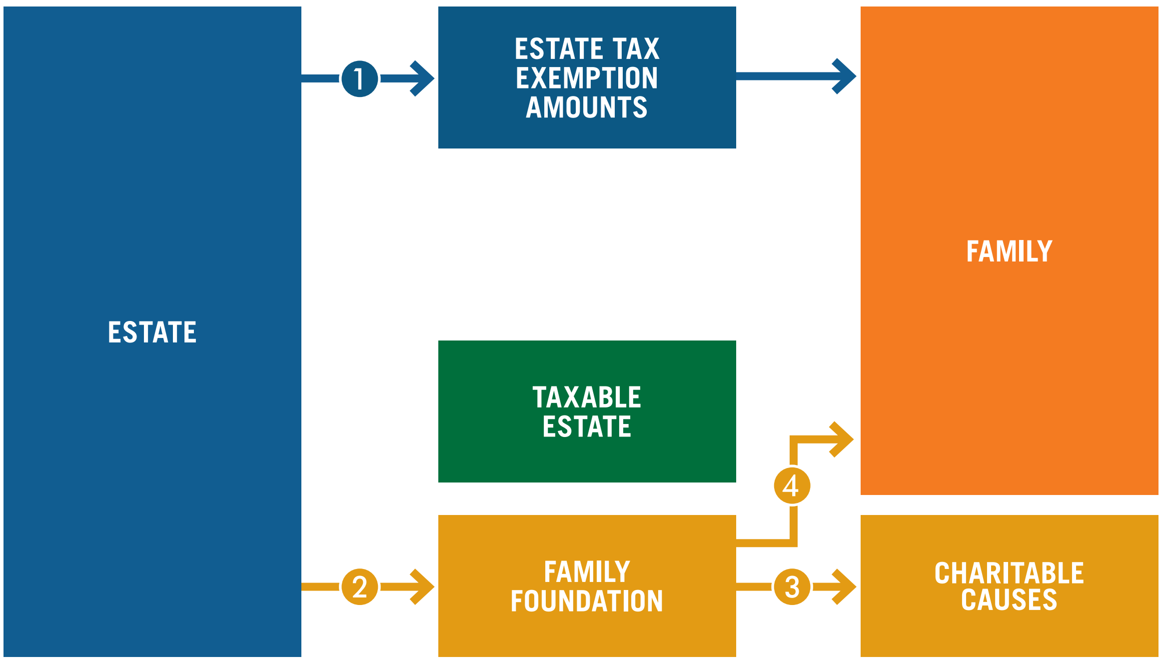
1. Value of estate equal to estate tax exemption amounts passes to family
2. Value of estate in excess of estate tax exemption amounts is subject to estate tax
3. Estate tax payable is typically due within nine months of death
4. Annual gifts while living to a Wealth Replacement Trust, which pays premiums for a life insurance policy owned by the trust to offset wealth lost to taxes

With this approach, a Wealth Replacement Trust funded with life insurance could replace what is lost to federal estate taxes over the exemption amount to help restore the value of the estate.

Zero Estate Tax Strategy: Phase One

TECHNIQUES

- Full Use of Estate Tax Exemptions
- Family Foundation



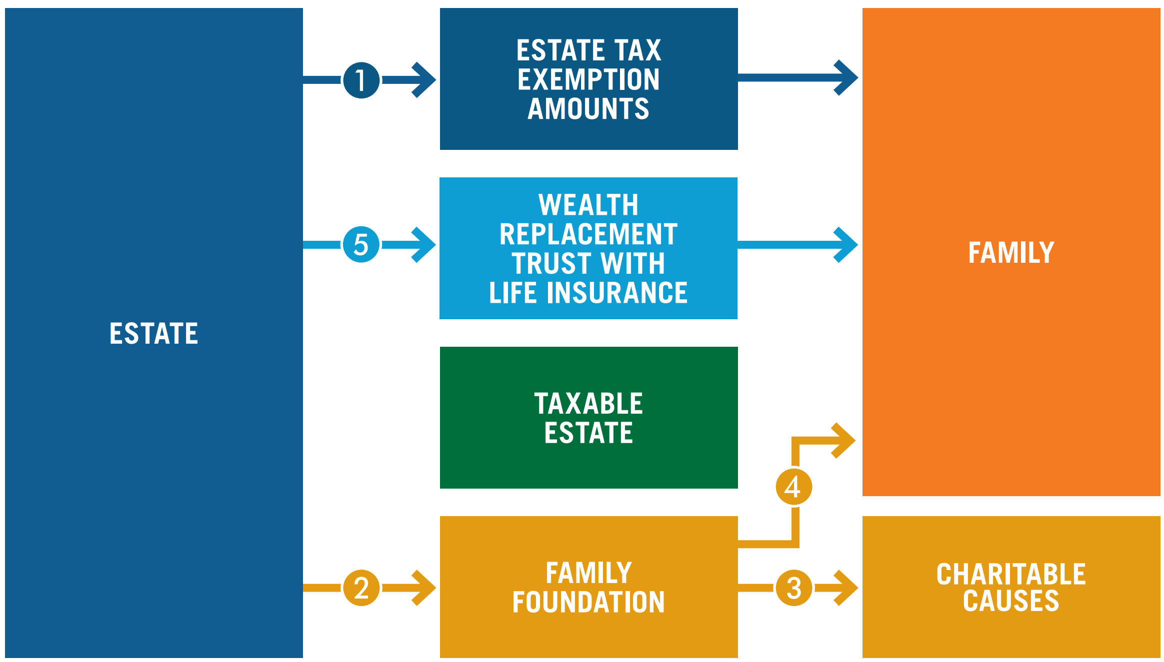
1. Value of estate equal to estate tax exemption amounts passes to family.
2. Value of estate in excess of estate tax exemption amounts passes to Family Foundation estate tax-free.
3. At least 5% of foundation assets must be distributed to a qualified charity annually. Other IRS guidelines apply and should be considered.
4. Heirs can be paid reasonable compensation for services rendered as foundation directors.

With a Zero Estate Tax Strategy, the portion of the estate subject to estate taxes (the value over the exemption amount) is redirected to a charitable beneficiary, which can be a family foundation.

Zero Estate Tax Strategy: Phase Two

TECHNIQUES

- Full Use of Estate Tax Exemptions
- Family Foundation
- Wealth Replacement Trust (Irrevocable Life Insurance Trust)



1. Value of estate equal to estate tax exemption amounts passes to family.
2. Value of estate in excess of estate tax exemption amounts passes to Family Foundation estate tax-free.
3. At least 5% of foundation assets must be distributed to a qualified charity annually. Other IRS guidelines apply and should be considered.
4. Heirs can be paid reasonable compensation for services rendered as foundation directors.
5. Annual gifts while living to a Wealth Replacement Trust, which pays premiums for a life insurance policy owned by the trust to replace wealth given to a charitable cause.

In this last phase, a Wealth Replacement Trust is used with life insurance to replace the amount to the family that is passing to the family foundation.

ESTATE TAXES

The federal estate tax is levied upon the transfer of an estate at death. To eliminate the burden of the estate tax on the majority of estates, the federal government provides the Applicable Exclusion Amount (also known as the Estate Tax Exemption Equivalent Amount). Estate taxes are assessed on all assets that exceed the applicable exclusion threshold. Transfers made to either public or private charities are not subject to estate tax. Furthermore, most transfers made to a surviving spouse qualify for an unlimited marital deduction, which effectively delays the estate tax until the death of the surviving spouse. There may be state gift and estate tax considerations.

2023 Applicable Exclusion Amounts (Estate Tax Exemption Equivalents)	**$12,920,000***
2023 Top Federal Estate Tax Rates	**40%**

**Indexed annually for inflation.*

WEALTH REPLACEMENT TRUST

A Wealth Replacement Trust (WRT) is an Irrevocable Life Insurance Trust (ILIT) that purchases life insurance designed to replace the value of the assets for the children that are given to charity. An ILIT is designed to hold life insurance and pass the death benefit on to the trust beneficiaries in the most tax-efficient manner. To accomplish its purpose, the WRT must be both the owner and the beneficiary of the policy. The life insurance premiums are typically paid with gifts made to the trust from the creators of the trust. In many situations, gifts made to a WRT will qualify for the annual gift-tax exclusion so that there are no adverse gift-tax consequences associated with the gifts to the trust. In cases where the premium exceeds the available annual exclusions, some of the client's applicable exclusion amount may be used. Otherwise, gift-tax consequences may apply. Upon the death of the insured, the trust will collect the life insurance death benefit proceeds and distribute or hold them according to the trust document. The life insurance proceeds are generally received income tax-free by the trust, and, assuming the trust is properly drafted and administered, the life insurance proceeds will also be outside the estate of the insureds. Life insurance policies contain fees and expenses, including cost of insurance, administrative fees and premium loads, surrender charges, and other charges or fees that will impact policy values. There may be gift tax consequences with funding a WRT.

FAMILY FOUNDATION

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 publicly traded securities contributed). It can provide the donor and their family with the ability for 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 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 a stake in a family-owned business and are subject to annual IRS charitable reporting requirements.

Additional Considerations

BEFORE IMPLEMENTING THIS STRATEGY

- Any investment that you plan to purchase or pay for during retirement involves the structuring 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 a tax and legal advisor 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 policy may lapse 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.
- 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 you can no longer make premium payments, the life insurance death benefit may terminate and the results illustrated may not be achieved.

This material is being provided for informational or educational purposes only and does not take into account the investment objectives or financial situation of any client or prospective clients. The information is not intended as investment advice and is not a recommendation about managing or investing your retirement savings. If you would like information about your particular investment needs, please contact a financial professional.

We do not provide tax, accounting, or legal advice. Clients should consult their own independent advisors as to any tax, accounting, or legal statements made herein.

All guarantees and benefits of the insurance policy are backed by the claims-paying ability of the issuing insurance company. Policy guarantees and benefits are not backed by the broker-dealer and/or insurance agency selling the policy, nor by any of their affiliates, and none of them makes any representations or guarantees regarding the claims-paying ability of the issuing insurance company.

Life insurance is issued by The Prudential Insurance Company of America, Pruco Life Insurance Company (except in NY), or Pruco Life Insurance Company of New Jersey (in NY). All are Prudential Financial companies located in Newark, NJ. Each is solely responsible for its own financial condition and contractual obligations. Our policies contain exclusions, limitations, reductions in benefits, and terms for keeping them in force. We can provide you with costs and complete details.

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