

Estate Taxes *Are Back:* Protect the Family Fortune



Forward-Looking Wealth Transfer Strategies
Combined with Life Insurance for 2011 and Beyond



Client Brochure

It's not what you have, it's how much your heirs can keep.

It's not what you have, it's how much your heirs can keep.

You have spent a lifetime building and accumulating wealth. You want to pass your estate to your family in a fair and efficient manner. Conserving and properly distributing your hard-earned wealth requires proper planning. With assistance, you can design and implement an estate plan that may accomplish your objectives.



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Investment and Insurance Products: Not a Deposit — Not FDIC Insured —
Not Insured by any Federal Government Agency — No Bank Guarantee — May Lose Value

The Fate of Your Estate: 2011 and Beyond

Estate taxes are back. Now is the time for you to protect the family fortune. Life insurance can help you plan now for 2011 and beyond.

Here are five key changes in 2011 that could impact your legacy:

1. Estate taxes jump to 55% on estates greater than \$1,000,000 or greater than \$2,000,000 for combined marital estates.¹
2. Portions of estates exceeding \$10,000,000 are now subject to an additional 5% surtax.
3. Gift taxes jump to 55% on gifts exceeding \$13,000 annually and exceeding \$1,000,000 for the cumulative lifetime.
4. Cumulative lifetime gifts between \$10,000,000 and \$17,184,000 are now subject to an additional 5% surtax.
5. Generation-skipping transfer taxes jump to 55% on estates greater than \$1,000,000 or \$2,000,000* for combined marital estates.

Pacific Life offers a variety of life insurance strategies that can help you navigate these and other legacy-impacting changes. Even if your estate does not currently fall within the range of estate taxation, life insurance may be able to help you address other unplanned taxes, liabilities, and expenses.

Turn the page to pinpoint your concerns and strategies to consider.

**Indexed for inflation.*

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Take Estate Planning Beyond Estate Tax Liquidity

What do you want to do with your estate? Find your goal or question in the chart. The corresponding “Strategies to Consider” will help you understand how combining life insurance with a strategy will help you meet your goal.

Your Goals	Your Questions	Strategies to Consider	See Page
You want to transfer your business to family members active in the business without disinheriting those who are not	<p>If my spouse is not active in the business, how can a family member active in the business buy the business from my estate or my spouse at death?</p> <p>How can I leave my business to family member(s) active in the business without disinheriting those who are not active in the business?</p> <p>Is there a way to equalize my estate to my children by leaving my family business to one child and cash to another?</p>	<ul style="list-style-type: none"> • Family Buy-Sell • Wealth Equalization 	<p>5</p> <p>6</p>
You want to provide for your current spouse and for your children from a prior marriage	<p>Can I provide for my current spouse to maintain his or her lifestyle after my death without disinheriting my children from a prior marriage?</p> <p>Is there a way to provide an inheritance for my children from a prior marriage at my death rather than after my current spouse’s death without triggering estate tax?</p> <p>Is there a way to provide a more equitable division of assets if I have children from a prior marriage?</p>	<ul style="list-style-type: none"> • Blended Family 	7
You have a special needs child or heir that you want to provide for	<p>Is it possible to provide for my child with special needs in my estate plan but not disqualify my child from the government benefits he or she currently receives?</p>	<ul style="list-style-type: none"> • Special Needs Trust 	8

Your Goal	Your Questions	Strategies to Consider	See Page
You have significant debts that you want paid off when you die, without liquidating your assets	How can I pay off my debts at death without a “fire sale” of assets such as a business or real estate?	<ul style="list-style-type: none"> Liquidity for Debts, Liabilities, and State Taxes 	10
You live in a state that will require you or your heirs to pay state estate or inheritance taxes	How can I provide liquidity to my estate or heirs to pay state estate/inheritance taxes?	<ul style="list-style-type: none"> Liquidity for Debts, Liabilities, and State Taxes 	10
You are unmarried, but in a long-term relationship, and want to maximize the wealth transferred to your partner and heirs	How can I efficiently transfer wealth to my partner?	<ul style="list-style-type: none"> Unmarried Couples 	9
If the estate and gift tax exemptions are permanently reunified with a higher exemption amount, you want to take advantage of the ability to use more of your exemption during life	How can I take advantage of the permanent reunification of the estate and gift tax exemption amounts to maximize wealth transfer to my heirs?	<ul style="list-style-type: none"> Grantor Retained Annuity Trust 	14
	What are some gift tax saving strategies I can use to transfer my assets to my children? Is there a way to transfer my assets while retaining some income from it?	<ul style="list-style-type: none"> Intentionally Defective Irrevocable Trust Charitable Lead Trust 	16 13
You want to leave assets for the benefit of your children, grandchildren, and future generations	How can I leave assets to help provide for my children, grandchildren, and future generations?	<ul style="list-style-type: none"> Generation-Skipping Transfer Tax Planning 	18
	If my children are already wealthy, how can I benefit my grandchildren and other future generations in an efficient manner?	<ul style="list-style-type: none"> Dynasty Trust Using Life Insurance 	19
You are concerned that market volatility will adversely affect your assets and leave a smaller inheritance for your heirs	Is it possible to protect my estate from the volatility of the financial and real estate markets?	<ul style="list-style-type: none"> Wealth Stabilization 	20



Blended Family

Traditional estate plans do not anticipate the special considerations and planning needed for blended families. If you have children from a prior marriage, a life insurance policy on your life may help provide an equitable division of assets.

With the assistance of an attorney, an irrevocable life insurance trust (ILIT) will be established to be the owner and beneficiary of a life insurance policy insuring your life and the beneficiaries of this ILIT will be the children from your previous marriage. You will transfer cash to the ILIT in order for the trustee² of the ILIT to pay life insurance premiums. Whether or not these transfers are subject to gift tax depends on the availability of annual exclusions or lifetime gift tax exemption amount. At your death, all the assets owned by the ILIT, including the life insurance death benefit proceeds, will be excluded from your taxable estate and, as a result, will not be

subject to estate tax. The death benefit proceeds will be distributed to your children from your previous marriage as directed by the terms of the ILIT. This will provide your children an inheritance without having to wait until the death of your current spouse, thereby reducing any possible discord. The rest of the estate should pass to the surviving spouse estate tax-free using the unlimited marital deduction.

Considerations:

- Will children from a previous marriage also benefit from your assets distributed from your will or living trust?
- Who will be the trustee of the ILIT?
- Who will be the beneficiaries of the ILIT?
- When will the beneficiaries receive the ILIT assets?
- Who will help the trustee administer the ILIT?
- How will the ILIT be funded?
- Will annual gift tax returns need to be filed when funding the ILIT?

See relevant endnotes on page 18.



Charitable Lead Trust

A charitable lead trust (CLT) is an irrevocable trust established to benefit a charity for a period based on a term of years, on your life or the lives of you and your spouse. Once the period is over, the CLT assets can revert back to you as donor or can pass to your heirs depending on the type of CLT used. If the CLT is established to benefit your heirs, there will be gift tax consequences when the CLT is first established but the gift tax value will be based on the calculated value of the gift going to the heirs as reduced by the charity's interest in the CLT. There are many different types of CLTs and, depending on the type that you select, you may or may not qualify for an income tax deduction.

With the help of an attorney, you establish a CLT and transfer assets to the CLT. During the term of the CLT, distributions will be made to the charity of your choice. Once the term is over, the assets remaining in the CLT will be distributed according to the trust provisions.

Since the charity will no longer receive distributions from the CLT after the term of the CLT is over, you may consider purchasing a life insurance policy on your life or the lives of you and your spouse for the benefit of the charity to replace the income from the CLT. If the charity owns and is the beneficiary of the policy, you may get an income tax deduction for life insurance premiums contributed to the charity. If you own the life insurance policy and name the charity as beneficiary, your estate should get an estate tax deduction for life insurance death benefits paid to the charity.

Considerations:

- What type of CLT will you use?
- How long will the term of the CLT be?
- Which charity do you want to name as beneficiary of the CLT?
- What assets do you own that could be used to fund to the CLT?
- Who will be the trustee² of the CLT?
- Who will help the trustee administer the CLT?
- Who will receive the CLT assets at the end of the CLT term?
- Will a gift tax return need to be filed when funding the CLT?
- Do you want to use life insurance to replace the income that the charity will stop receiving after the end of the CLT term?

Dynasty Trust

A dynasty trust is an irrevocable life insurance trust used by those clients who want to leave a legacy for children, grandchildren, and future generations. Unlike other types of irrevocable trusts, a dynasty trust is designed to continue for as many generations as permissible under state law. The primary objective with this type of trust is to protect assets from not only gift and estate taxes but also the generation-skipping transfer (GST) tax. While a dynasty trust can be funded with many types of assets, life insurance is often used to maximize the amount of wealth transferred to the trust beneficiaries.

With the assistance of an attorney, you establish a dynasty trust to be the owner and beneficiary of a life insurance policy insuring your life or the lives of you and your spouse. You transfer cash to the trust in order for the trustee² to pay life insurance premiums. Whether or not these transfers are subject to gift tax depends on your ability to make annual exclusion gifts and/or to use your lifetime gift tax exemption. In addition, you will need to allocate some or all of your GST tax exemption to the contributions made to the dynasty trust to avoid the GST tax.

If structured properly, assets owned by a dynasty trust, including the life insurance death benefit proceeds, will be excluded from your taxable estate and, as a result, will not be subject to estate tax or GST tax. The duration of the dynasty trust may be indefinite or limited to a number of years, depending on the applicable state's rule against perpetuities, which limits the duration of a trust. If the trust is established in a state with no rule against perpetuities, the trust continues indefinitely for the benefit of future generations until the trust assets are depleted.

Considerations:

- Who will be the trustee of the dynasty trust?
- Who will help the trustee administer the trust?
- Should a corporate trustee or a corporate co-trustee be named since the dynasty trust will continue for many years?
- Who will be the beneficiaries of the dynasty trust?
- When will the beneficiaries receive the trust assets?
- How will the trust be funded?
- Who will help file the annual gift tax returns necessary since the GST tax exemption will need to be allocated to the contributions to properly fund the dynasty trust?

See relevant endnotes on page 18.

Family Buy-Sell

The family buy-sell strategy is designed to provide family members who are active in the family business with a source of cash to purchase the business from your estate or from your surviving spouse after you have passed away. Your children who are active in the family business will be the owners and beneficiaries of a life insurance policy insuring your life. Because these children most likely are employees or partial owners, the family business can help pay the life insurance premiums. Generally, this would be accomplished through bonus payments. The active family members would use these bonus payments, after paying income tax, to pay premiums on a life insurance policy insuring your life.

Upon your death, the business will be included in your estate but should pass estate tax-free to your spouse using the unlimited marital deduction. The life insurance death benefit proceeds should be paid income tax-free* to the active family members who in turn, would use these funds to purchase the family business from your estate or your surviving spouse under the terms of the family buy-sell agreement. Your surviving spouse will use those funds for living expenses. By using this strategy, the business will pass to those family members active in the business while your surviving spouse will be provided for.

Considerations:

- Which family members will be the owners and beneficiaries of the policy insuring your life?
- How will life insurance premium payments be made?
- What assets will be distributed to children not involved in the family business?
- Who will benefit from your assets distributed from your will or living trust?

* For federal income tax purposes, life insurance death benefits generally pay income tax-free to beneficiaries pursuant to IRC Sec. 101(a)(1). In certain situations, however, life insurance death benefits may be partially or wholly taxable. Situations include, but are not limited to: the transfer of a life insurance policy for valuable consideration unless the transfer qualifies for an exception under IRC Sec. 101(a)(2) (i.e. the "transfer-for-value rule"); arrangements that lack an insurable interest based on state law; and an employer-owned policy unless the policy qualifies for an exception under IRC Sec. 101(j).





Generation-Skipping Transfer Tax Planning

Leaving a legacy for your children, grandchildren, and future generations may be one of the most important goals for larger estates. With a federal transfer tax system designed to tax property each time it passes from one generation to the next, efficient generation wealth transfer requires planning. In addition to the federal estate tax, the federal government imposes a generation-skipping transfer (GST) tax,³ which taxes the transfer of wealth from one generation to another more than one level below it. For example, if a grandparent transfers money to a grandchild, it is potentially subject to the GST tax. Each individual is given a GST tax exemption, similar to the estate and gift tax exemptions.

The possible permanent reunification of the gift and estate tax exemption at higher amounts would increase GST tax planning opportunities. Unlike the gift and estate tax exemptions, the GST tax exemption amount is the same for lifetime and testamentary gifts. Without reunification, you would pay gift tax on amounts above \$1,000,000 gifted to grandchildren or individuals more than one generation below you. For this reason, GST tax planning rarely calls for transfers above the gift tax exemption amount during life.

With possible reunification, GST tax planning increases in importance as it would allow you to fully utilize the GST tax exemption without paying any gift tax. If leaving a legacy for multiple generations is a goal of yours, estate tax reform may give you the ability to maximize the amount going to your heirs. This can be accomplished with the use of a dynasty trust that uses some or all of your GST tax exemption, which would protect the trust assets from GST tax as well as from estate taxation of future generations. Depending on your state's laws, a dynasty trust may last indefinitely or be limited to a number of years.

See relevant endnotes on page 18.

Grantor Retained Annuity Trust

A GRAT is an irrevocable trust that allows you to retain an income stream for a defined time period⁴ with the remainder passing to your designated trust beneficiaries. While there is an initial gift when the property is contributed to the GRAT, the taxable gift is equal to the fair market value of the property reduced by your retained annuity interest. Based on the term and the retained annuity stream of the GRAT, there may be little or no gift tax imposed at the time the GRAT is established.⁵ A GRAT is a defective trust. This means that you are responsible for all income tax generated in the trust but are not again taxed on the annuity payments. At the expiration of the term of the GRAT, ownership of the remaining property passes to the remainder beneficiaries of the GRAT without the imposition of additional gift tax. If you fail to survive the selected term of the GRAT, all or a portion of the trust will be included in your estate for estate tax purposes. Similar to other types of irrevocable trusts, a GRAT should be established only with the assistance of an estate planning attorney.

If your desire is to benefit grandchildren, a GRAT would not be an appropriate strategy because the generation-skipping transfer (GST) tax exemption cannot be allocated to the initial transfer of assets to the GRAT.⁶

Life insurance should not be purchased in the GRAT because there is the possibility that you will die during the GRAT term

which would cause a part of the GRAT assets, including the life insurance death benefit proceeds, to be included in your taxable estate. However, a GRAT can be used in conjunction with a separate ILIT.

With the assistance from an estate planning attorney, you establish an ILIT in addition to the GRAT and name your heirs as beneficiaries of the ILIT. The ILIT is named as the beneficiary of the GRAT. The ILIT will be the owner and beneficiary of a life insurance policy insuring your life. You transfer cash to the ILIT in order for the trustee² of the ILIT to pay life insurance premiums. A portion of the income you receive from the GRAT can be used as the source of funds to transfer to the ILIT. Whether or not these transfers are subject to gift tax depends on your ability to make annual exclusion gifts or to use your lifetime gift tax exemption. At the end of the GRAT term, any assets remaining in the GRAT should pass to the ILIT without any additional gift tax. The ILIT can use those assets to pay the remaining life insurance premiums or to repay any obligations that the ILIT may have. At your death, all assets owned by the ILIT, including the life insurance death benefit proceeds, will be excluded from your taxable estate and, as a result, will not be subject to estate tax.

Considerations:

- What highly income-producing and appreciating assets do you have which would be appropriate to fund to a GRAT?
- What is the anticipated growth rate of the assets in the GRAT?
- Who will be the beneficiaries of the GRAT?
- Who will be the trustee of the GRAT?
- Who will help the trustee administer the GRAT?
- Who will help file the gift tax return if a portion of the lifetime gift tax exemption will be used when the GRAT is established?
- Who will be the trustee of the ILIT?
- Who will be the beneficiaries of the ILIT?
- Who will help the trustee administer the ILIT?
- When will the beneficiaries receive the ILIT assets?
- How will the ILIT be funded?
- Will annual gift tax returns need to be filed when funding the ILIT?

Intentionally Defective Irrevocable Trust

An intentionally defective irrevocable trust (IDIT) sale is a deferred sale arrangement between you and an irrevocable life insurance trust (ILIT). The IDIT is “intentionally defective” for income tax purposes. Transfers to the trust are incomplete for income tax purposes even though they are complete for gift and estate tax purposes. This means that you, as grantor, are responsible for all income taxes generated in the trust. This type of irrevocable trust is also known as a “grantor trust.”

With the help of your attorney, you establish an IDIT. You gift cash or some assets to the IDIT to “seed” the trust using all or a portion of your lifetime gift tax exemption. If the IDIT is drafted as a dynasty trust to benefit many future generations of your family, your GST tax exemption should also be allocated to this initial gift. These “seed” assets should give the IDIT economic substance in order to enter into the installment sale. Next, you sell property to the IDIT in exchange for an interest-bearing installment note



See relevant endnotes on page 18.

payable over a term of years you select. The trustee² of the IDIT uses the income from the assets held by the IDIT to make the installment note payments. Because the IDIT is “intentionally defective,” all income generated by the assets held in the IDIT is reported on your income tax return. There will be no change from an income tax perspective after the IDIT has been established. As a consequence, the installment note payments from the IDIT to you are not subject to income tax.

The IDIT sale allows you to reduce your taxable estate if the assets sold to the IDIT produce income and appreciate in value greater than the interest the IDIT owes on the installment note because the IDIT retains excess income and appreciated asset value. If you die during the term of the

installment note, the value of the remaining note payments will be included in your estate for estate tax purposes.

Oftentimes, the IDIT has sufficient excess income after making the annual payments on the installment note to fund the purchase of a life insurance policy insuring your life. By having the IDIT as the owner and beneficiary of the life insurance policy, the income generated by the assets in the IDIT will pay the life insurance premiums due. This avoids the need to establish a separate ILIT and also eliminates the need to make further gifts to a trust to fund life insurance premiums. Upon your death, all assets owned by an IDIT, including the life insurance death benefit proceeds will be excluded from your taxable estate and, as a result, will not be subject to estate tax.

Considerations:

- What highly income-producing and appreciating assets do you have which would be appropriate to sell to an IDIT?
- Who will be the beneficiaries of the IDIT?
- Who will be the trustee of the IDIT?
- Who will help the trustee administer the IDIT?
- Who will help file the gift tax return necessary because all or a portion of lifetime gift tax exemption will be used when the IDIT is established?
- What interest rate is used for the installment assets in the note?
- What is the anticipated growth rate of the IDIT?

Liquidity for Debts, Liabilities, and State Taxes

An irrevocable life insurance trust (ILIT) can provide liquidity to your estate to pay any debts or liabilities you may have. At the death of the first spouse, it is common for the estate plan to call for paying off the debts owed by the couple. These debts may include, but are not limited to, mortgages, credit cards, other personal loans, and business loans. Depending on the amount of the debt and the composition of your estate, you may or may not have the liquidity to pay these debts. Furthermore, you may not want to liquidate some of your current assets to meet the debt obligations. The ILIT can purchase assets from or lend money to your estate to pay any debts at your death.

An ILIT can also be used to provide the liquidity necessary to pay any state estate/inheritance taxes your estate owes. An often overlooked tax at death is the tax that states impose on its residents. While many states tie their estate or death tax systems to the federal government, some states have their own estate tax structure which does not follow the federal estate tax levels. Additionally, some states have inheritance taxes, which must be paid by the person who receives the inherited property. This means that even though you may not need to pay any federal estate taxes, depending on the state you live in, you or your heirs may face some state estate or inheritance tax.

Considerations:

- Who will be the trustee² of the ILIT?
- Who will be the beneficiaries of the ILIT?
- When will the beneficiaries receive the ILIT assets?
- Who will help the trustee administer the ILIT?
- How will the ILIT be funded?
- Will annual gift tax returns need to be filed when funding the ILIT?



See relevant endnotes on page 18.

Special Needs Trust

Planning by parents for a disabled child should be aimed at creating a structure to provide for this beneficiary's welfare and financial security. A special needs trust typically refers to an irrevocable trust with certain provisions which control how distributions for the benefit of a disabled child will contribute to the beneficiary's quality of life; the amounts and purposes of such distributions will be determined in the discretion of the trustee.² These special needs provisions can be used in any trust, revocable or irrevocable. With the assistance of an attorney who specializes in special needs planning, you will establish a special needs trust to be the owner and

beneficiary of a life insurance policy insuring your life. Your transfers of cash to the special needs trust in order for the trustee of the special needs trust to pay life insurance premiums will use all or a portion of your lifetime gift tax exemption. All assets owned by a special needs trust, including the life insurance death benefit proceeds, will be excluded from your taxable estate and, as a result, will not be subject to estate tax. The terms of the trust allow the trustee the discretion to make distributions of life insurance death benefit proceeds for the benefit of the disabled child in order to contribute to the beneficiary's quality of life.⁷

Considerations:

- Who will be the trustee of the special needs trust?
- Who will be the beneficiaries of the trust?
- Who will help the trustee administer the trust?
- How will the trust be funded?
- Who will help file the annual gift tax returns necessary because lifetime gift tax exemption will be used in order to properly fund the trust?
- What impact will the special needs trust have on the government benefits available for the disabled child?
- What assets will be distributed to children who are not beneficiaries of the trust?
- Who will benefit from your assets that are distributed from your will or living trust?

Unmarried Couples

Traditional estate planning does not anticipate the special considerations and planning needed for unmarried couples. In many states, unmarried couples may not have the same legal rights as married couples. This status affects inheritance rights, powers to act in the event of a health care emergency, and powers to act on behalf of a partner for financial matters. Beyond legal rights, a typical estate plan designed to benefit a surviving spouse and to minimize estate taxes using the unlimited marital deduction does not work for unmarried couples. The lack of an unlimited marital deduction may result in greater estate taxes due at the death of the first partner.

If you are unmarried and have a partner, you can provide resources for the surviving partner, as well as pay any estate taxes due on your death using life insurance. Life insurance also provides you with the ability to make specific bequests to other individuals to whom they want to pass assets at death.

During your lifetime, with the help of an attorney, you create a will and or living trust that will pass your estate at your death. You also establish an irrevocable life insurance trust (ILIT) to be the owner and beneficiary of a life insurance policy insuring your life. The beneficiaries of this ILIT will be your partner and other individuals you wish to benefit. You will transfer cash to the ILIT in order for the trustee² of the ILIT to pay life insurance premiums. Whether or not these transfers are subject to gift tax depends on the availability of annual exclusions or lifetime gift tax exemption amounts. At your death, all the assets owned by the ILIT, including the life insurance death benefit proceeds will be excluded from your taxable estate and, as a result, will not be subject to estate tax. The death benefit proceeds will be distributed to your partner and/or other heirs as directed by the terms of the ILIT.

Considerations:

- Will your partner also benefit from assets distributed from your will or living trust?
- Who will be the trustee of the ILIT?
- Who will help the trustee administer the ILIT?
- How will the ILIT be funded?
- Will annual gift tax returns need to be filed when funding the ILIT?

See relevant endnotes on page 18.

Wealth Equalization⁸

Often in a family, it can be difficult to equalize wealth among family members. While you want to benefit all your heirs, it is not practical or equitable to distribute all assets equally. For example, if you have a family business in which some of your heirs are active and others are not, you will want the business to go into the hands of those who participate in the business. In such situations, life insurance can be an effective way to equalize the estate.

With the help of an attorney, you will establish an irrevocable life insurance trust (ILIT) to own and be a beneficiary of a policy on your life or the lives of you and your spouse. You will gift cash to the ILIT in order for the trustee² to make premium payments. Those gifts may be gift tax-free depending on your ability to use annual exclusions and/or lifetime gift tax exemption. You will choose who the beneficiaries of the trust will be and how much each beneficiary will receive. By doing so, you can choose to equalize your estate the way you want. At your death, the death benefit proceeds will pass free from estate tax and income tax* to the ILIT and the ILIT trustee will distribute the trust proceeds according to the terms of the ILIT.

Considerations:

- Who will be the beneficiaries of the ILIT?
- How much will each beneficiary receive from the ILIT?
- When will the beneficiaries receive the ILIT assets?
- Who will be the trustee of the ILIT?
- Who will help the trustee administer the ILIT?
- How will the ILIT be funded?
- Will annual gift tax returns need to be filed when funding the ILIT?

* For federal income tax purposes, life insurance death benefits generally pay income tax-free to beneficiaries pursuant to IRC Sec. 101(a)(1). In certain situations, however, life insurance death benefits may be partially or wholly taxable. Situations include, but are not limited to: the transfer of a life insurance policy for valuable consideration unless the transfer qualifies for an exception under IRC Sec. 101(a)(2) (i.e. the "transfer-for-value rule"); arrangements that lack an insurable interest based on state law; and an employer-owned policy unless the policy qualifies for an exception under IRC Sec. 101(j).



Wealth Stabilization

Wealth stabilization involves a combination of planning techniques, diversification strategies, and life insurance to help reduce the impact and volatility a down market has on your wealth transfer plans. It is a more holistic approach to wealth management and estate planning. If your estate contains a significant portion of assets that are exposed to the volatility of the financial and real estate markets, a down market could wreak havoc on the transfer of wealth to your heirs. One possible wealth stabilization technique is to reposition some of the more volatile assets in your portfolio to create a more diversified portfolio.

Life insurance is a potential asset that may offer less volatility, because the death benefit generally bears no relationship to financial market fluctuations.⁹ The life insurance death benefit can create liquidity in the estate so other assets are not sold. In the alternative, it can help replenish the buying power of assets diminished by market volatility as the estate passes from one generation to another.

With the wealth stabilization strategy, you liquidate part or all of an asset you desire to reposition. You then use the proceeds from the liquidated asset to purchase life insurance naming your spouse or heirs as the beneficiary of the policy. Upon your death, your spouse or heirs receive the death benefit proceeds.

Considerations:

- Do you have assets subject to market volatility that exceed your risk tolerance?
- Do you have assets that have conservative rates of returns (such as bonds or certificates of deposit)?
- Do you have an overweighted equity invest portfolio that you would like to reposition?

See relevant endnotes on page 18.

Endnotes

- 1 Congress continues to consider legislation that, if passed, may change current federal estate tax laws. Please consult with your tax and legal advisors as to what impact such changes may have on your estate plans.
- 2 The trustee appointed should not be the insured or the insured's insurance professional. An insurance professional who is paid a commission on the sale of a life insurance policy represents both his or her personal interest and the interests of the trust, creating a conflict of interest.
- 3 The GST tax is a flat tax at the highest federal gift and estate tax rate that applies to transfers during lifetime or at death to skip persons (i.e., persons who are two or more generations younger than the transferor). This tax is assessed in addition to other transfer taxes, such as gift and estate taxes.
- 4 On June 15, 2010, the U.S. House of Representatives passed legislation (H.R. 5486) that would require any GRAT funded after the date of enactment of the bill to have a term of no less than 10 years. The U.S. Senate has not addressed the bill but, if it passed by the Senate, the minimum term of a GRAT would be 10 years.
- 5 The gift to the GRAT may be valued at zero or at an amount close to zero for gift tax purposes if the GRAT is structured as a "zeroed-out GRAT." With a zeroed-out GRAT, the retained annuity interest is structured high enough so that the gift tax value of the gift is close to zero.
- 6 IRC Sec. 2642(f) prohibits the allocation of GST tax exemption during the selected term of a GRAT.
- 7 Because of the various federal and state programs available to disabled individuals, as well as the relevant state's eligibility requirements for receiving government benefits, it is important that the client contact an attorney who is licensed to practice law in the state where the disabled person resides and who is knowledgeable in government assistance programs and experienced in drafting Special Needs Trusts.
- 8 As with all uses of life insurance, the amount of life insurance coverage asked for in conjunction with this concept may be limited by Pacific Life's financial underwriting guidelines. Financial underwriting is an assessment of whether the proposed death benefit is a reasonable replacement for the financial loss caused by the death of the insured.
- 9 Death benefits having no correlation with fluctuations in the financial markets assumes that the policy remains in force, the death benefit is Option A, and the death benefit is not the Minimum Death Benefit as that term is used in the policy. Cash value, especially with variable life insurance policies, can correlate with fluctuations in the financial markets due to either the impact of market fluctuations on the performance of your investment options, or in the reduction of your policy's current crediting rate. To the extent cash value is less than illustrated, additional premiums may be required to keep the policy in-force until death. Cash value also has a direct impact on the death benefit with all death benefit options other than level. Finally, to the extent cash value is less than illustrated – due to the impact of market fluctuations, failure to pay premiums as illustrated, increased policy charges, or otherwise – the policy's net amount at risk will be increased, which will increase the cost of insurance charges.



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Pacific Life & Annuity Company
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State Insurance License Number
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