



## Estate Tax Repeal Hedge Plan

Are some of your wealthy clients taking a wait-and-see attitude towards the purchase of survivorship life insurance coverage because of the possibility of estate tax repeal or reform? If so, we have a potential product solution.

**Facts:** Assume your clients, ages 56 and 54 and in good health, have accumulated a significant net worth. Their attorney has advised them that under the current estate tax laws they can expect to incur taxes and expenses at the surviving spouse's death of approximately \$2,000,000. Your clients are hesitant to proceed with the purchase of a survivorship policy because they heard that the estate tax was repealed in 2001. You have explained to your clients that the legislation repeals the estate tax for only one year in 2010 and, given their current age and good health, it is likely they will live past the repeal. They are still hesitant. You want to know what we have to help overcome the estate tax repeal objection.

**Solution:** A convertible term insurance policy issued by a Prudential Financial company can be changed to a survivorship policy by us during the conversion period. (Current practice, not contractually guaranteed.) Consequently, one simple solution is to establish an irrevocable life insurance trust and have the trust initially apply for term insurance coverage. If the client realizes during the conversion period that he/she will be subject to the estate tax, the term coverage can be changed on an attained age basis to a survivorship policy.

With the Term Elite<sup>®</sup> policy, the client receives a premium credit at the time of the policy change. This credit is then applied to the purchase of the survivorship policy. The premium credit is commissionable (in years 3-5) and is generally equal to the prior year's premium, excluding the cost of any rating extras. Thus, from a cost standpoint, the clients

may be in nearly the same position they would have been in if the purchase of the survivorship policy had not been delayed a year.

Alternatively, Term Essential<sup>®</sup> provides even more competitive premiums and can also be changed to survivorship. However, the conversion period may be shorter and the insured does not receive a premium credit towards the purchase of the survivorship policy.

There are two ways the term purchase can be structured. Assuming the client needs \$2,000,000 of survivorship coverage, one option is to have a trust purchase the full \$2,000,000 of term coverage on one of the insureds. The individual not covered by the term insurance will need to show proof of insurability when the change is made to a survivorship policy. If applicable, the premium credit in this situation will generally be based on \$1,000,000 of coverage.

The other option is to have a trust purchase \$1,000,000 of term coverage on each of the proposed insureds. If this option is elected, the individuals will be able to acquire \$2,000,000 of survivorship coverage without the need to show proof of insurability at the time of policy change. If applicable, the premium credit will generally be based on \$2,000,000 of coverage.

### Benefits:

- ◆ Client receives immediate insurance protection.
- ◆ The insured client locks into the underwriting classification.
- ◆ You may be able to finalize the sale.

In this time of uncertainty, our term and survivorship life insurance products provide you flexibility worth considering for your hesitant estate planning clients.

### CASE SUMMARY ON NEXT PAGE

Term Elite and Term Essential are issued by Pruco Life Insurance Company in all states except New York and New Jersey where they are issued by Pruco Life Insurance Company of New Jersey. PruLife SUL Protector is issued by Pruco Life Insurance Company, except in New York, where it is issued by Pruco Life Insurance Company of New Jersey. Both are Prudential Financial companies located in Newark, NJ. All guarantees are based on the claims-paying ability of the issuing company. Actual rates and availability are based on the satisfaction of our underwriting criteria.

This training material has been prepared to assist our licensed financial professionals. It is designed to provide general information in regard to the subject matter covered. It should be used with the understanding that Prudential is not rendering legal, accounting or tax advice. Such services should be provided by the client's own advisors.

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QUESTIONS? CALL ADVANCED MARKETING

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**Prudential**

**Year 1:****Case Assumptions:**

**Insureds:** John Jones, Male Age 56, Preferred Best  
 Marsha Jones, Female Age 54, Preferred Best  
**Policy Names:** Term Essential 10 and Term Elite 10

| Insured       | Face Amount        | Term Essential Annual Premium | Term Elite Annual Premium |
|---------------|--------------------|-------------------------------|---------------------------|
| John Jones    | \$1,000,000        | \$1,805                       | \$2,125                   |
| Marsha Jones  | \$1,000,000        | \$1,135                       | \$1,325                   |
| <b>Total:</b> | <b>\$2,000,000</b> | <b>\$2,940</b>                | <b>\$3,450</b>            |

**Year 2:****Case Assumptions:**

**Insureds:** John Jones, Male Age 57, Preferred Best  
 Marsha Jones, Female Age, 55, Preferred Best  
**Policy Name:** PruLife SUL Protector - Type A (Fixed) Death Benefit  
 Lifetime Guarantee Against Lapse Premium Paid All Years

| Insureds                             | Face Amount        | First Year Term Premium | Second Year SUL Premium | Less Term Conversion Credit | Total Premiums Policy Years 1 & 2 |
|--------------------------------------|--------------------|-------------------------|-------------------------|-----------------------------|-----------------------------------|
| John & Marsha Jones                  |                    |                         |                         |                             |                                   |
| <b>Convert Term <u>Elite</u></b>     | <b>\$2,000,000</b> | <b>\$3,450</b>          | <b>\$14,330</b>         | <b>(\$3,450)</b>            | <b>\$14,330</b>                   |
| <b>Convert Term <u>Essential</u></b> | <b>\$2,000,000</b> | <b>\$2,940</b>          | <b>\$14,330</b>         | <b>N/A</b>                  | <b>\$17,270</b>                   |

**Benefits:**

- Reduced risk through immediate insurance coverage
- Assured underwriting classification
- ***A finalized sale***