AN INTRODUCTION TO CONCEPTS AND STRATEGIES

Wealth Transfer: Leaving a Legacy

Life Insurance

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ADVANCED MARKETS TEAM
EXPERIENCED GUIDANCE FOR COMPLEX CHALLENGES

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The Prudential Insurance Company of America

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HOW PRUDENTIAL CAN HELP

This brochure provides a general discussion of some of the possible tools and strategies involved in the wealth transfer planning process. It is not meant to suggest a course of action, to serve as legal or tax advice, or to replace professional advice. The Prudential Insurance Company of America and its affiliates cannot provide tax or legal advice.

Prudential offers a wide range of insurance products that can help your family meet not only the liquidity needs of your estate, but also other potential family financial needs. Whether you have estate tax obligations or other wealth transfer concerns, Prudential can help.

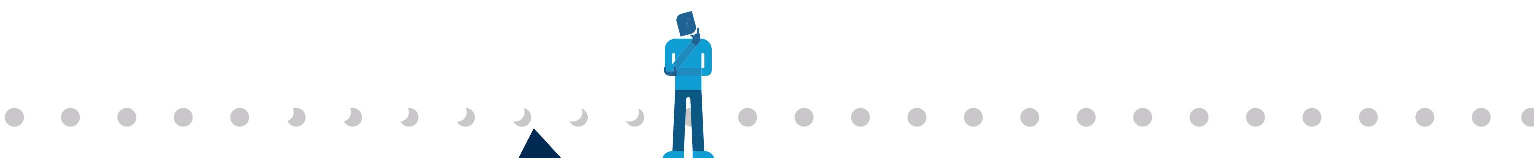
The Importance of Wealth Transfer

SAVING, PROTECTING, INVESTING.

One of the reasons you work so hard is for the benefit of people you love and organizations that have meaning for you. That's why it's important that they continue to benefit, even when you die. You want to see to it that your wishes for them come to fruition, creating a lasting legacy for future generations. You can help to do this by deliberately preparing for the transfer of your assets.

Wealth transfer is fundamentally about transferring your assets to the people and organizations of your choosing when and how you'd like. It is about building a strategy that can continue your legacy.

No matter at what stage you are in your financial life, it is never too early or too late to explore the effects of wealth transfer, your financial strategy's final component. Thinking about your will, trusts, competency issues, and transfer-tax consequences and the role they will play can help you successfully meet your financial goals for you and your family.



No matter at what stage you are in your financial life, it is never too early or too late to explore the effects of wealth transfer.

WHAT IS A WEALTH TRANSFER STRATEGY?

The objective of a wealth transfer strategy is to conserve and transfer your assets through a logical process that helps reduce legal entanglements and taxes while increasing the wealth transferred to your beneficiaries. A wealth transfer strategy can include, but may not be limited to, any of the following:

- Will.
- Trust.
- Power of attorney.
- Living will.
- Life insurance or other funding source.

An effective wealth transfer strategy is an ongoing process and includes these key steps:

- Setting goals and objectives.
- Assessing your current situation.
- Selecting strategies to transfer your wealth and reduce or eliminate unnecessary expenses, delay, publicity, taxes, risk, or other challenges.
- Determining income and liquidity needs for your beneficiaries.
- Executing your plan.

A common misconception about a wealth transfer strategy is that it is only for the wealthy.

While the wealthy may require more involved wealth transfer techniques, the process is beneficial to everyone who has assets to transfer upon death. Depending on your age, family status, and assets, the process could be:

- No more involved than establishing a will or revocable trust and identifying or providing the necessary liquidity for debts, beneficiary needs, and potential taxes. Taxes can consist of federal estate taxes, state estate and inheritance taxes, and income in respect of a decedent (IRD).
- As complex as establishing and funding various trusts, and setting in place a variety of tax-reducing strategies.

FOR SMALL BUSINESS OWNERS

If you are a small business owner, creating a strategy for your business is also an important process. Points to consider in your strategy include:

- Should business ownership be transferred to beneficiaries or new owners, perhaps current key employees?
- Is there a current business continuation agreement in place? Is it funded? If so, how?
- Will the business assets be liquidated and distributed? Is there a ready market?
- How would selling the business while you are alive affect your estate?

Basic Wealth Transfer

Wealth transfer can begin with such tools and strategies as wills, trusts, and powers of attorney. From there, you can choose from among various types of trusts and consider facets of setting them up and naming trustees and beneficiaries. Charitable giving and life insurance may also be a part of your strategy.

WILLS

A will is a legal instrument, usually written, that lists your wishes for the distribution of your property after death and identifies who will manage the distribution and who will care for your children. If you die without a will, state laws (called intestacy statutes) will dictate how those matters are handled. The requirements for a valid will vary from state to state. In many jurisdictions, you may change a will by amending your existing will or revoke the current will by executing a new one that indicates your intention to revoke the old will.

Without a will, intestacy laws will determine the distribution of your assets and guardianship of your minor children. The outcome may not be what you intend. Even with a will, your estate will go through the probate process. If you are a single person with assets of less than $5.45 million in 2016, consider establishing a simple will that distributes your assets as you choose, after debt obligations are satisfied. Many married couples write wills that leave all assets to each other and establish contingency instructions if both spouses die simultaneously.

The new tax rules and your estate

The American Taxpayer Relief Act of 2012 (ATRA) made permanent changes to estate, gift, and generation-skipping transfer (GST) taxes. Some estate planning highlights are that it:

- Maintains unification of the estate, gift, and generation-skipping tax applicable exclusion amounts.
- Continues to index the applicable exclusion amount for inflation. In 2016, the exclusion is $5,450,000 or $10,900,000 for a married couple.
- Sets the maximum rate for estate, gift, and generation-skipping tax at 40%.
- Permanently maintains the portability provision that makes any applicable exclusion amount remaining unused after the death of the first spouse available to the surviving spouse, unless she or he remarries. A timely filed federal estate tax return is required, even if no taxes are due, to qualify portability of the decedent’s unused applicable exclusion amount.

The unlimited marital deduction. Due to the unlimited marital deduction, a surviving spouse can inherit the entire estate without estate tax liability, depending on the date of death. The surviving spouse must be a U.S. citizen to qualify for this deduction. If the surviving spouse is not a U.S. citizen, a special trust known as a Qualified Domestic Trust can be used. However, for 2016, if more than $5.45 million is bequeathed from either spouse's estate to someone other than the surviving spouse, then the estate could be subject to an estate tax liability. As with all matters of a tax or legal nature, be sure to consult with your own tax or legal counsel for advice.

LIVING WILLS AND POWERS OF ATTORNEY

If you have children, there are additional considerations you may want to discuss with your attorney, such as your wishes for custody of any minors and what each child will receive through a potential inheritance and when. There are other personal considerations you may make when preparing your estate, including creating a living will and naming a power of attorney for health care and financial decisions:

- **A living will** allows you to make decisions about prolonging your life through various means prior to a time when you may be incapable of making such decisions, relieving your family of the burden of making these decisions.
- **Naming a health care power of attorney or health care proxy** places medical decisions in trusted hands.
- **A durable power of attorney** is a written document authorizing another person (the "attorney in fact") to act on the principal's behalf. A power of attorney authorizes another individual to enter into and discharge virtually all legal obligations on behalf of the principal.

NAMING AN EXECUTOR

All wills require an executor. Often people name a family member as executor since such a person is familiar with the family's situation and may be more sensitive to their needs.

However, naming a corporate executor may have advantages as well, including knowledge and objectivity. Many banks offer this service through their trust departments. You may also name co-executors. Many events can result in the need for updating an existing will. It is generally a good idea to review your will regularly with an attorney to determine whether any changes are needed.

GIFTING

Gifting is one "simple" mechanism that can be used to reduce the size of an estate. An individual donor can currently gift annually up to $14,000 per person, as long as the gift qualifies as a gift of a present interest. A present interest gift is one in which the recipient of the gift has an immediate right to use, possess, and enjoy the property that was gifted.

EXAMPLE: Jeff and Marlene, husband and wife, have five children and want to gift assets totaling $1.4 million. They could each gift $14,000 of assets to each of their five children in one year, resulting in a total gift by them of $140,000. If they repeat this process annually for 10 years ($14,000 gift x 5 children x 10 years from each spouse), they accomplish their goal.

Gift tax exclusion amounts. In addition to the gift tax annual exclusion amount, each individual has a lifetime federal gift tax exclusion amount of $5.45 million (in 2016). As long as no individual donee receives more than $14,000 from an individual donor in a calendar year, no portion of the donor's $5.45 million gift tax exclusion is utilized. However, any use of the applicable exclusion amount during life reduces the applicable exclusion amount available at death. Therefore, if a person makes a lifetime gift of $1 million, that person's applicable exclusion amount at death is reduced by the same $1 million. (and so, it would be reduced to $4.45 million if the death occurred in 2016).

TAXES

Under the provisions of ATRA, many estates will not be susceptible to federal estate taxes, with an exemption of $5,450,000 (2016 tax year) per spouse (as indexed) and portability of the decedent's applicable exclusion amount. Many states continue to have state estate and/or inheritance taxes. Qualified retirement assets and gains on non-qualified deferred annuities will be susceptible to income tax when distributed to your beneficiaries. These amounts and other untaxed income are Income in Respect of a Decedent (IRD).

TRUSTS

A trust is a legal arrangement, usually created by a written document, under which one party (the trustee) manages property for the benefit of others (the beneficiaries). A trust can be one of the most powerful and flexible tools you can use to help pass assets to future generations, reduce estate and income taxes, safeguard yourself in case of incapacity, and potentially reduce the costs and delays of probate. The trust provisions specify:

- Whether it is revocable or irrevocable.
- The rules of operation of the trust.
- The powers of the trustee.
- How the trustee is to divide the income and principal among the beneficiaries.

THE BASICS OF FOUR COMMON TRUSTS AND ESTATE ISSUES THEY CAN HELP ADDRESS

Revocable Living Trust

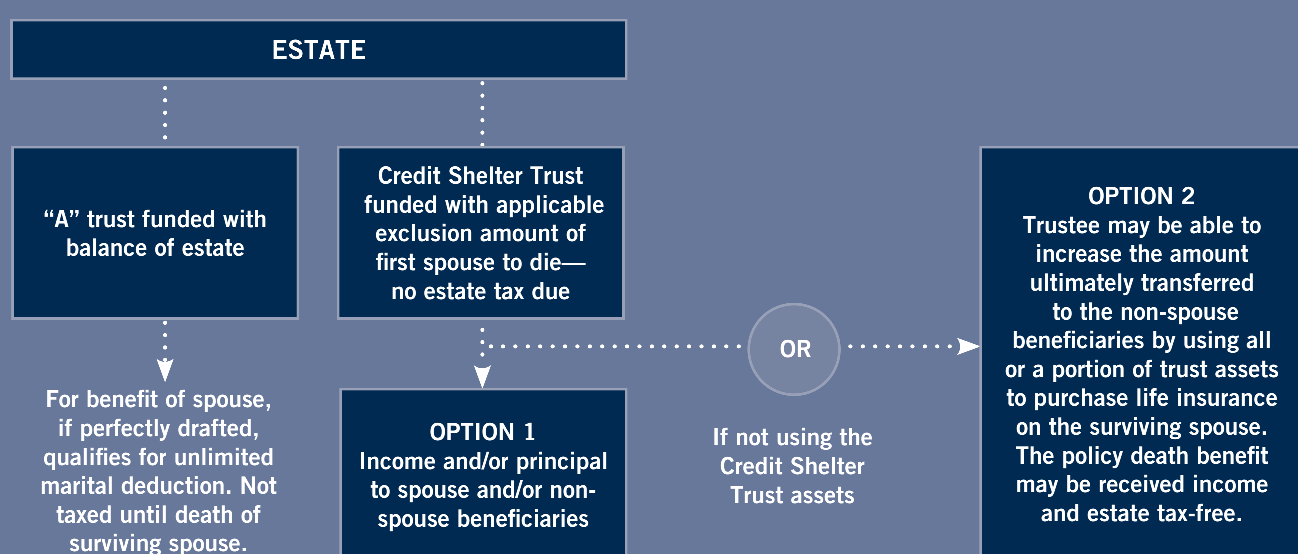
A **Revocable Living Trust** contains instructions for the management of an individual's assets during the individual's life and in the event of disability. It also, similar to a will, contains instructions for the disposition of the individual's assets after death. You should consult with your attorney for the tax implications of naming yourself rather than someone else as trustee of your living trust, as well as for any implications of transferring the titles of your assets to the trust. If properly constructed and funded, a living trust can reduce or eliminate the time and possible expense of probate and retain privacy for the family.

The probate process is public, while transfers through a living trust can remain private. Only assets titled to the trust avoid probate. Consult your attorney to find out what will work best for your situation.

Irrevocable Life Insurance Trust (ILIT)

If you are planning to use life insurance as a means of funding your estate settlement costs, a properly drafted **ILIT** can remove the death benefit proceeds from your estate for federal estate tax purposes. Refer to "The Role of Life Insurance" in this brochure for more on the structure and benefits of an ILIT.

CREATIVE USES OF CREDIT SHELTER TRUSTS



Credit Shelter Trust (CST)

"Credit Shelter Trust (CST)," "B Trust," "Bypass Trust," "Family Trust"—by any name, this tried-and-true estate strategy device is known to most financial professionals. It allows the first of a wealthy couple who dies to direct assets equal to his or her estate tax applicable exclusion to a trust for the survivor's benefit. When properly structured, the trust shields assets from being included in the estate of the surviving spouse, potentially reducing the estate tax incurred at the second death.

Under the provisions of ATRA, any unused federal estate tax applicable exclusion at the first spouse's death is portable to the surviving spouse. The surviving spouse can now add the unused applicable exclusion amount of the deceased spouse to his or her own applicable exclusion amount, automatically creating tax benefits similar to some of those that a Credit Shelter Trust is designed for. On top of that, with portability the survivor has complete control over all the assets the couple enjoyed together, unlike a Credit Shelter Trust, which limits control based upon the terms of the trust.

More about a Credit Shelter Trust (CST)

- Appreciation of the assets in the CST escape further estate taxation.
- Generation-skipping tax allocations are not portable.
- Asset protection can be provided with a CST.
- The deceased spouse's unused applicable exclusion may be limited if the surviving spouse remarries and survives his or her next spouse.

Qualified Terminable Interest Property (QTIP) Trust

Through a **QTIP Trust**, a person can provide for a surviving spouse's lifetime and define the ultimate beneficiaries of the assets upon the death of the spouse. Couples who use an all-to-spouse will and have children may face an extra challenge if the surviving spouse remarries.

Imagine that a surviving wife, for example, brings her deceased husband's assets to a new marriage. What if that couple then establishes a simple spousal will and the wife predeceases her new husband? The first husband's assets are ultimately transferred to her new husband, diluting or even eliminating any inheritance to the children of the first marriage. The issue can become even more complicated if the second marriage produces children, too.

The QTIP Trust is one approach to avoiding this potentially complex situation. Thus, a couple can take comfort in knowing that they have provided for a surviving spouse while protecting the ultimate interests of the children, regardless of future relationships.

NAMING A TRUSTEE

An important component of any trust is naming the trustee. Based on the trust and the goals you want to accomplish, you may or may not be advised to name yourself, your spouse, or your children as trustees. Additionally, professional trustees are available to lend expertise and help avoid any potential conflicts of interest.

Trustee responsibilities include:

- Implementing the trust's terms.
- Distributing or reinvesting any returns.
- Providing accounting services for the trust, including:
  - Tracking principal and income.
  - Filing tax returns.
  - Tracking cost bases.
  - Arranging payment of any of the trust's debt obligations.

The Role of Life Insurance

Life insurance is a popular and effective tool in helping to meet estate strategy goals due to its tax advantages.

Regardless of estate tax laws, life insurance plays a pivotal role in transferring wealth. Life insurance is a popular and effective tool in helping to meet estate goals due to its tax advantages. You use a portion of your assets to pay your life insurance premiums, purchasing death benefit coverage. When you die, the death benefit is paid to beneficiaries, generally income tax-free, as provided in Internal Revenue Code Section 101(a). If you maintain ownership, the proceeds can then be used to pay your estate tax bill and other expenses. When compared with other funding options, such as borrowing or liquidating high-yielding assets, life insurance can be an extremely cost-effective means of funding estate expenses.

Like all components of your estate strategy, there are special considerations for your life insurance choice. If you are the owner of the policy, the death benefit will be included in your estate for federal estate tax purposes. As a result, life insurance purchases for estate strategies are typically made through an Irrevocable Life Insurance Trust (ILIT).

Using an ILIT. The ILIT is the owner and the beneficiary of the life insurance policy. You make gifts to the ILIT to cover the premium costs. The ILIT then purchases the life insurance. Since a properly drafted ILIT is not part of your federally taxable estate, the death benefit proceeds are generally received free of both income and estate taxes. There may be federal gift tax consequences associated with the funding of an ILIT. In addition, gifts made to the trust to cover premium payments reduce the value of your taxable estate and any accumulation of the life insurance account value occurs outside the estate, as well.

LIFE INSURANCE CAN BE AN IMPORTANT TOOL IN HELPING TO ACCOMPLISH A NUMBER OF WEALTH TRANSFER OBJECTIVES:

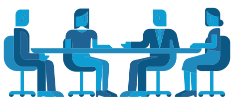
- **Maintain heirs' lifestyles.** Your death may result in a significant reduction of your family's current income. Life insurance proceeds can help to replace your lost earning power.
- **Provide immediate liquidity.** The death benefit can help pay debts, mortgages, and expenses such as fees and probate, funeral, or final medical costs. Even large estates are often cash poor if they are composed primarily of assets such as closely held business interests, real estate, or collectibles.
- **Purchase assets from, or loan funds to, your estate.** Under current tax law, an estate above a certain financial threshold can be significantly reduced by federal and state death taxes that can approach 25% to 45% of its value at death. Life insurance can help provide liquidity for tax liabilities.
- **Equalize estate distributions.** The death benefit can be used as a means to help balance inheritances among heirs. If one child, for example, inherits the family business, the life insurance death benefits of approximately equal value can go to the other children.
- **Increase bequests.** Because the premium payments for a life insurance policy are often much less than the death benefit purchased, you may be able to give a larger gift to charities or family members.

A WORD ABOUT ADVANCED ESTATE PLANNING

If your assets in 2016 total more than $5.45 million ($10.90 million if married) or whatever the current applicable exclusion amount is in the year of your death, a more advanced estate strategy is generally necessary. Be aware that many people underestimate the size of their estates. Your estate includes all of your assets, both liquid and illiquid. This includes your investment portfolio, bank accounts, real estate, business interests, life insurance you own on your own life, qualified plan balances, IRAs, automobiles, jewelry, and even collectibles. A proper estate review with a qualified financial professional, attorney, and tax advisor can help ensure that any tax liability is not greater than you may perceive.

Depending on when you die, estate taxes could still consume up to 25% to 45% of your estate. An effective strategy now can save your heirs potential future issues. For instance, without a proper strategy, your beneficiaries may be forced to liquidate assets, potentially at a loss. If there is an estate tax liability, it usually must be paid to the federal government within nine months of death, and state taxes are possibly due even sooner.

Revisiting Your Strategy



Creating an estate strategy is not something you can do once and then forget about. Your life can change, tax laws change, and your needs and priorities may change. Your estate strategy is too important to put on autopilot. It is a good idea to conduct an annual review of your entire strategy with any financial, tax, and legal professionals you have involved. However, you should review your strategy more frequently when you experience certain events, such as:

- Moving to a new state.
- Death of a spouse or any stated beneficiary.
- Marriage or divorce.
- Birth or adoption of a child.
- Change in the value of assets.
- Change in asset structure, such as shifting from stocks to real estate.
- Any beneficiaries marry, divorce, or have children.
- Tax law changes.

A proper estate strategy should be flexible enough to be able to adjust to change, but it is important that you review it regularly to identify what and when any action may need to be taken.

Some means of funding your estate tax bill

- **Cash on hand:** Some estates may have enough cash available to cover estate expenses.
- **Liquidating assets:** This could include the sale of such things as securities, real estate, collectibles, or business assets.
- **Borrowing:** A loan may be secured to cover the expenses, buying time at the cost of interest.
- **Life insurance:** This option uses a portion of the estate now to pay life insurance premiums to provide the death benefit proceeds to cover estate liabilities.

Wealth Transfer Strategy at a Glance

STEP ONE: Setting your goals and objectives

- Who should inherit your assets?
- What assets should they inherit?
- When and how should they inherit the assets?

STEP TWO: Assessing your current situation

- Identify assets and assemble all related paperwork: titles, recent statements, tax filings, etc.
- Designate property ownership and beneficiaries.
- Assemble any necessary professionals.
- Identify:
  - Estate value and asset types (liquidity analysis).
  - Retirement needs.
  - Federal and state estate tax liability.
  - Income in respect of a decedent (IRD).
  - Funding sources.

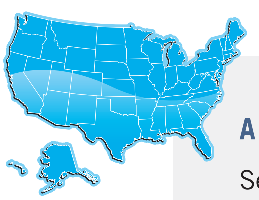
STEP THREE: Selecting strategies to transfer your wealth

- Last will and testament.
- Living will.
- Health care power of attorney.
- Durable power of attorney.
- Potential trust strategies.
- Portability vs. Credit Shelter Trust.
- Assets greater than the applicable exclusion amount: transfer outright vs. marital trust vs. QTIP trust.
- Gifting: annual exclusion gifts first, then advanced strategies using lifetime gift exclusion amount.
- Irrevocable Life Insurance Trust (ILIT).
- Charitable giving.
- Business transfer issues, if applicable.

Getting Started

A simple way to begin is by completing the Wealth Transfer Checklist on the following page. After you have completed this questionnaire, meet with your financial professional to discuss your particular insurance and financial needs. Insurance and financial products offered by The Prudential Insurance Company and its affiliates can help you protect and preserve what you have spent years building so that you may provide a legacy for those you love.

Your financial professional can provide you with insurance and investment products and services that can complement the wealth transfer strategy that you do with your legal, tax, and other advisors. Be sure to seek the advice of qualified legal and tax advisors before implementing any wealth transfer strategy.



A NOTE ON COMMUNITY PROPERTY STATES

Several states (AK, AZ, CA, ID, LA, NV, NM, TX, WA, and WI) have adopted some form of community property laws. Since community property laws affect the ownership of assets, living—or having lived—in a community property state will come into play in your estate strategy process. In community property states, ownership of a married couple's assets is defined based on how and when the assets were obtained. Generally:

- Assets obtained prior to marriage are owned as separate property by the spouse who obtained them.
- Assets obtained by gift or inheritance during marriage belong to the person who received them.
- Other assets obtained during marriage are owned equally by both spouses, regardless of who obtained them.

The rules of community property are extremely important when calculating estate tax liability. When a person living in a community property state dies, that person's estate consists of 100% of his or her separate property and 50% of the value of assets owned as community property. Many community property states allow spouses to enter into agreements that transfer property from individual or community ownership to the other. If you are a community property resident, as in most estate strategy situations, professional advice from your tax and legal advisors can help you achieve your goals within your individual circumstances.

Take the Next Step

WEALTH TRANSFER CHECKLIST		
1	Do you have a will?	☐ YES ☐ NO
2	Is your state of residence the same as it was when your wealth transfer strategy was developed?	☐ YES ☐ NO
3	Is your family's status the same as when your wealth transfer strategy was developed?	☐ YES ☐ NO
4	Does your will name a guardian for your children in the event both you and your spouse are deceased?	☐ YES ☐ NO
5	Are you comfortable with the executor(s) and trustee(s) you have selected?	☐ YES ☐ NO
6	Have you made sure that your property ownership and beneficiary designations are coordinated with your wealth transfer documents?	☐ YES ☐ NO
7	Is the value of your estate generally the same as when your wealth transfer strategy was developed?	☐ YES ☐ NO
8	If you have a revocable living trust, have you changed the title of your assets to the name of the trust?	☐ YES ☐ NO
9	Have you executed a durable power of attorney and the appropriate health care documents?	☐ YES ☐ NO
10	If either spouse is a resident but not a citizen of the United States, have you considered including QDOT (Qualified Domestic Trust) provisions in your wealth transfer strategy?	☐ YES ☐ NO
11	If your estate will be subject to estate tax, do you and your spouse each own enough assets to take advantage of your full estate tax applicable exclusion amounts?	☐ YES ☐ NO
12	If each spouse owns enough assets to take advantage of the estate tax applicable exclusion amount, are both your wealth transfer strategy and your spouse's designed to take advantage of this amount?	☐ YES ☐ NO
13	Have you considered taking advantage of the annual gift tax exclusion?	☐ YES ☐ NO
14	Will your estate have sufficient liquid assets to pay the debts and taxes that become due at death?	☐ YES ☐ NO
15	Does your wealth transfer strategy provide sufficient income for your surviving spouse to maintain his or her lifestyle?	☐ YES ☐ NO
16	Are you certain your wealth transfer strategy is up-to-date and takes into account potential tax-saving strategies?	☐ YES ☐ NO

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