Dynasty Trusts

Strategy Summary

For those who want to create a multigenerational legacy to pass on

What is a Dynasty Trust?

- A form of irrevocable life insurance trust; also known as a Generation-Skipping Transfer Trust, Legacy Trust and Family Bank Trust.
- The trust is designed to allow its creator to pass wealth from generation to generation without the burden of transfer taxes, including estate, gift and the generation skipping transfer tax (GSTT) on subsequent generations.
- A central feature of the trust is its extended term. In some states, it can last for two or three generations and if the trust is established in a state that has eliminated the Rule Against Perpetuities, it can theoretically exist forever—benefiting many generations of beneficiaries.
- The terms of the trust can be designed to minimize a beneficiary's potential to mishandle an inheritance and keep trust assets out of the reach of a beneficiary's creditors or divorcing spouse.
- The terms of the trust can be tailored to promote positive behavior in beneficiaries by requiring that they adhere to specific standards in order to be entitled to trust distributions, while often giving the trustee the right to make distributions to beneficiaries for their health, education, maintenance and support.

Who is a Dynasty Trust candidate?

- Anyone—not just an "ultra-wealthy" individual—who would like to create a family legacy to benefit successive generations over a long period of time
- People who plan to leave substantial assets to grandchildren and therefore want to utilize GSTT exemptions as effectively as possible
- Those who would like to promote specific goals and values in future generations

Why create a Dynasty Trust?

- To preserve wealth by avoiding transfer tax that would otherwise erode assets passed from one generation to the next
- To create an ongoing legacy for future generations
- To preserve wealth by affording beneficiaries creditor protection and divorce protection for trust-owned assets
- To provide incentives for a beneficiary to succeed, become a useful and productive citizen, start a business, buy a home or enter an altruistic profession

Samples of Incentive Provisions

Incentive provisions included in a trust can be tailored to promote specific goals and values in future generations. For example:

- A client who is interested in encouraging children and grandchildren to enter a profession for the public interest (ministry, research, teaching, etc.) can insert a trust provision requiring the trustee to match or supplement a beneficiary's salary if he or she follows this path.
- A client who wants to promote an entrepreneurial spirit in future generations can include a provision which authorizes a trustee to make a loan to a beneficiary who presents the trustee with a business plan that meets certain criteria.

It should be noted that incentive provisions that run contrary to public policy risk being contested by a beneficiary and ultimately disregarded.

Example: Basil and Rosemary Mills

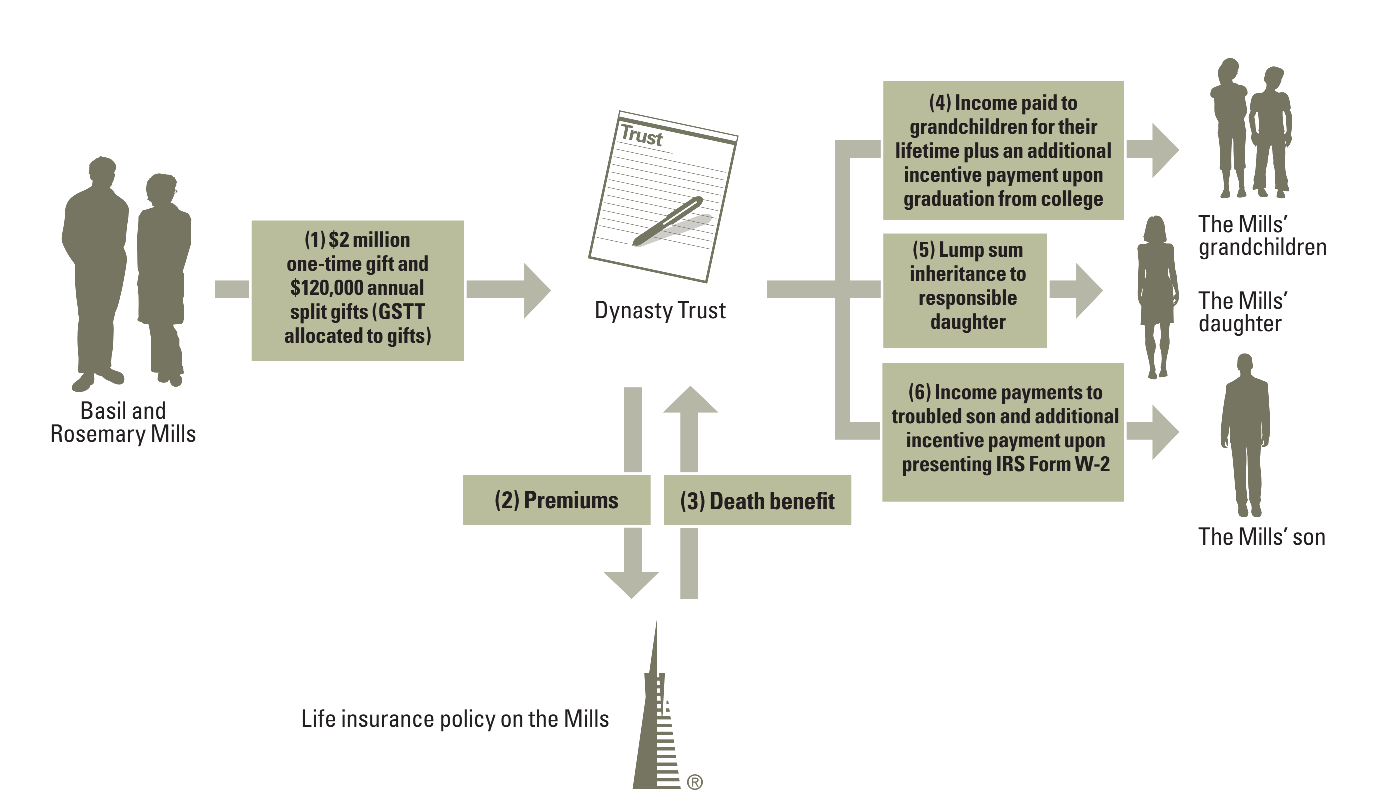
Facts:

- Basil and Rosemary, both age 71, are retired professionals with two children and two grandchildren.
- The Mills' children are polar opposites. One child is an advertising executive who is married with two children. The other has never been married. He is somewhat of a vagabond, following various rock bands across the country. He has a history of trouble with the law and some substance abuse.
- The Mills' current estate value exceeds $10 million, so they will probably have an estate tax liability upon the death of the survivor.

Goals and Objectives:

- Basil and Rosemary are considering transferring a large portion of their estate directly to their grandchildren and would therefore like to maximize the use of their GSTT exemptions.
- They place a strong value on education and want future generations to incorporate this value in their own lifestyles; therefore, they would like to provide incentives in their trust document that would encourage all of their descendants to obtain a college degree.
- Because of their son's history, Basil and Rosemary are nervous about leaving him a lump sum inheritance. Additionally, they would like to encourage him to settle down and get a steady job. Consequently, they decide to include an incentive provision in the trust which requires the trustee to match their son's salary—hoping this will provide him the incentive to give up his life on the road.

Here's how a Dynasty Trust works:



Policy Summary[1]

Basil and Rosemary Mills—Insureds

▪ Life Insurance Policy:	TransACE Survivor® 2008
▪ Annual Premiums:	$81,166
▪ Death Benefit:	$5,000,000
▪ Duration of Payments:	Life

[1] TransACE® Survivor 2008 universal life insurance policy, male, Preferred Nonsmoker, age 71, and female, Preferred Nonsmoker, age 71, based on a current rate of interest of 4% and current charges. Policy illustrated with "No-Lapse Guarantee Endorsement."

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