



LIFE INSURANCE IN A DYNASTY TRUST

Four Reasons Why It Makes Sense

A Dynasty Trust can preserve and protect your estate assets over an extended period of time. By funding a Dynasty Trust with life insurance, you can maximize the legacy you leave for children, grandchildren and future generations.

Reason 1

Leverage Gifts to Future Generations

Large gifts to grandchildren or later generations may be subject to the Generation-Skipping Transfer Tax (GSTT). This tax is in addition to the estate, income and gift tax. Fortunately, a lifetime GSTT exemption is available to each taxpayer allowing GSTT-free transfers of \$3.5 million in 2009. The GSTT exemption can be leveraged by purchasing life insurance in a Dynasty Trust because the exemption will be based on premiums, as opposed to the death benefit or policy cash value.

Reason 2

Diversification of Assets

Life insurance offers a unique combination of tax and non-tax advantages that make for efficient wealth transfer. Consequently, wealthy families are viewing life insurance in a new light—as an alternative investment strategy. Life insurance is an attractive asset class when measured by the internal rate of return, which for life insurance is the interest rate at which the premiums paid into a policy will have to grow to equal the death benefit. Furthermore, the amount paid by the insurance company at death will not be impacted by market conditions. Having an asset in the trust that is non-correlated to market performance can be considered another aspect of asset diversification.

Reason 3

Tax-Efficiency Preserves Wealth

The death benefit of a Dynasty Trust-owned life insurance policy will generally pass income and estate tax-free to your named beneficiaries.¹ In addition, the money that you gift to a Dynasty Trust to pay premiums may be sheltered from gift tax and will reduce your estate for estate tax purposes. Furthermore, life insurance policy cash values grow on a tax-deferred basis and can be accessed in a tax-favored manner.²

Reason 4

Instant Liquidity

The majority of your net worth may be tied up in illiquid assets such as your home, commercial real estate and/or a family business. Upon your unexpected passing, it may be necessary to sell these assets for a price well below market value in an effort to generate quick cash. Alternatively, a life insurance policy can infuse your Dynasty Trust with cash, which may be borrowed by or used to purchase assets from your estate, generating the liquidity to: (1) pay off debt; (2) pay taxes; (3) fund the transfer of a family business.

¹ Life insurance death benefits are generally excludable from the beneficiary's gross income for income tax purposes.

² Income taxes are only paid on the growth if the policy is surrendered.

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