Dynasty Trust

Using Life Insurance

Leaving a Legacy for Future Generations

PACIFIC LIFE

AD-OC-717B

Dynasty Trust

Using Life Insurance

MAXIMIZING WEALTH TRANSFER TO HEIRS

Leaving a legacy for your children, grandchildren and future generations may be one of the most important goals you want to accomplish in your lifetime. But with a federal transfer tax system designed to tax property each time it passes from one generation to the next, you might ask, "Is there a tax-efficient strategy to accomplish my goal?" A dynasty trust funded with life insurance may be the right tool for you to preserve your wealth for the financial security of generations to come.

KEEPING ASSETS IN TRUST

A dynasty trust is an irrevocable trust that uses some or all of the gift and generation-skipping transfer tax (GST tax) exemptions[1] of the grantors to protect the trust assets from the GST tax and shelter the assets from estate taxation in the estates of future generations. Unlike other types of irrevocable trusts, a dynasty trust is designed to continue for multiple generations.

The duration of the 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 structured properly, the dynasty trust can provide income to future generations without subjecting the trust assets to GST or estate taxation in the estates of future generations. But, the trust may terminate in the future if the state law under which it is established limits the duration of a trust.

UTILIZING GST TAX EXEMPTION

With the help of an attorney, a couple establishes an irrevocable trust set up as a dynasty trust to benefit as many future generations as allowable under state law. The couple allocates their gift and GST tax exemptions to transfer cash or other assets to the dynasty trust. Depending on the amount of the premiums, the grantors may be able to shield all of the gifts of premiums to the trust from gift tax by using their applicable exemption amounts.[1]

The allocation of GST tax exemption insulates future appreciation in the value of the trust assets from the GST tax. Therefore, a life insurance policy insuring the grantors and owned by the dynasty trust may be an excellent vehicle to maximize wealth transferred to junior generations.[2]

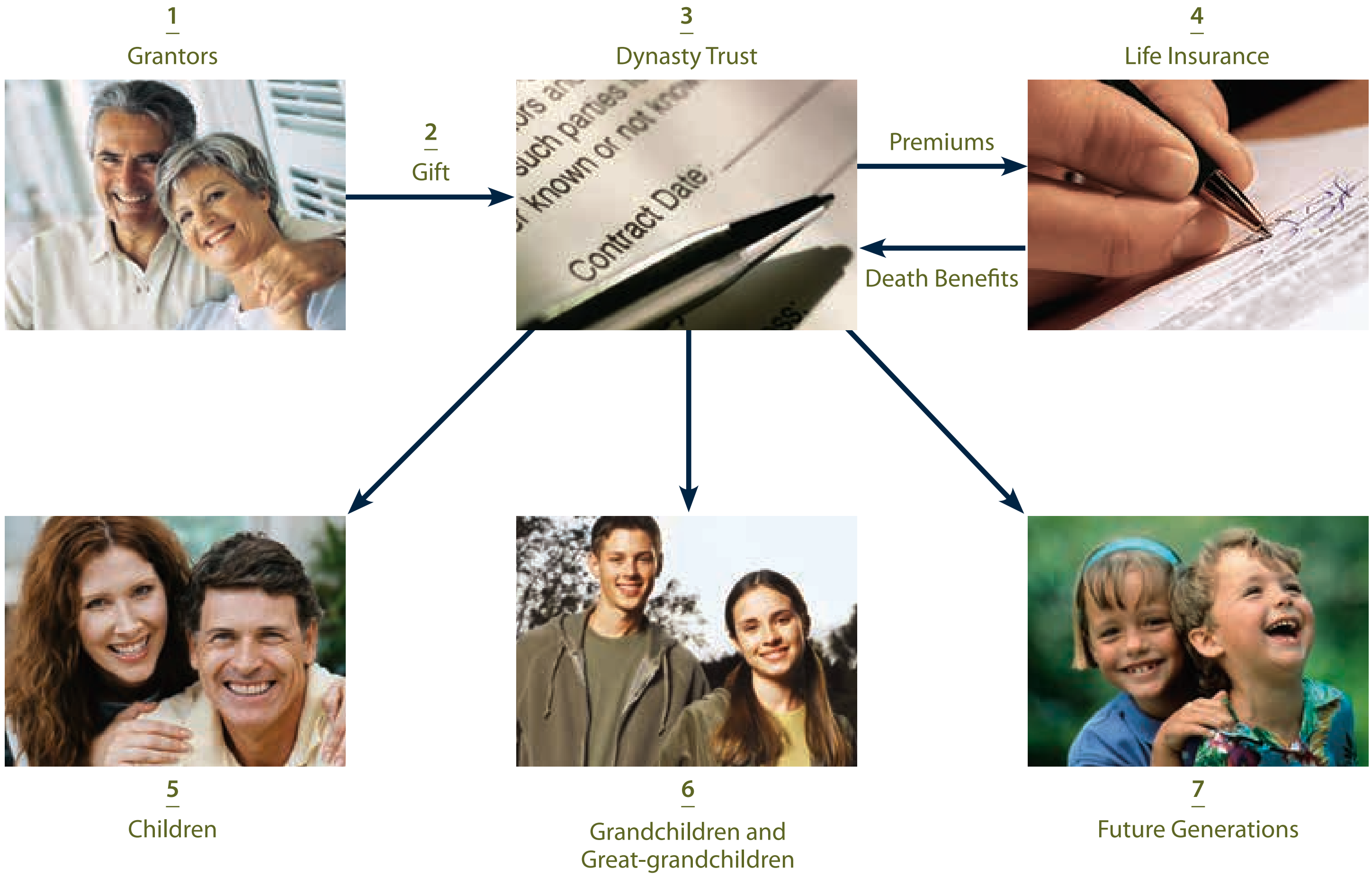
When the insureds die, the life insurance death benefit proceeds are paid to the dynasty trust free of estate, GST and income tax.[3] The heirs may receive distributions from the dynasty trust unencumbered by estate or GST tax. The trust continues as long as state law permits. When the trust terminates, the trust assets are includable in the last generation's estate. 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.

1 *According to the American Taxpayer Relief Act of 2012, the federal estate, gift and generation skipping transfer (GST) tax exemption amounts are all $5,000,000 (indexed for inflation effective for tax years after 2011); the maximum estate, gift and GST tax rates are 40%. As of January 1, 2013, the annual gift tax exclusion is $14,000 per donee (indexed for inflation).*

2 *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.*

3 *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).*

4 *The trustee appointed should not be the insured or the insured's life insurance producer. A life insurance producer 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.*



1 **Grantors:** Grantors, with the help of an attorney, create a dynasty trust, an irrevocable trust designed to provide benefits to future generations.

2 **Gift:** Grantors use their gift and GST tax exemptions to make gifts to the dynasty trust. This gift may be gift tax-free depending on the grantors' ability to use their applicable exemption amounts.

3 **Dynasty Trust:** Trustee,[4] in his or her discretion, purchases a life insurance policy insuring the grantors' lives.

4 **Life Insurance:** After the deaths of the insureds, the death benefit proceeds should pass to the trust income, estate and GST tax-free.[1,3]

5 **Children:** During children's lifetimes, the trustee has the discretion to distribute income and principal to them from the dynasty trust. The remaining trust assets should not be included in children's estate.

6 **Grandchildren and Great-Grandchildren:** During grandchildren's and great-grandchildren's lifetimes, the trustee has the discretion to distribute income and principal to them from the dynasty trust. If properly structured, the remaining trust assets should not be included in their estates.

7 **Future Generations:** If the trust expires due to the rule against perpetuities, the trust proceeds will be included in the estate of the last generation. If the trust is created in a state with no rule against perpetuities, the trust can continue indefinitely for the benefit of future generations.

ADVANTAGES INCLUDE:

- As the trust grantors, a couple creates a legacy for future generations.
- The life insurance policy helps to maximize the wealth passed to younger generations.
- When the insured(s) die, the life insurance death benefit proceeds are paid to the dynasty trust free of estate, GST and income taxes.[1,5]
- Trust assets, including the life insurance death benefit proceeds, can provide income to future generations without subjecting the trust assets to GST or estate taxes in the estates of the future generations.
- Trust proceeds are only subject to estate taxes when the trust expires. Some states allow trusts to continue indefinitely. Other states limit the duration of a trust to a number of years. In those circumstances, the trust would terminate according to state law. Trust assets would be subject to estate taxes at that time.

DISADVANTAGES INCLUDE:

- Taxation of trusts can be complex — tax and legal advisors should be consulted before establishing trusts.
- Tax laws may change in the future and may not meet the needs of beneficiaries and/or grantor(s).
- Assets transferred to the dynasty trust will stay in the dynasty trust for the duration of the trust, subject to the dispositive provisions of the trust.

5 *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).*

Dynasty Trust

This fact finder is provided to help you and your life insurance producer better understand your goals and objectives. Please return the information to your life insurance producer and not to Pacific Life as we cannot and do not provide financial, legal or tax advice.

VITAL INFORMATION

Insured: ______________________________ Date of Birth: ______________________

Spouse: ______________________________ Date of Birth: ______________________

Client Risk Status: ☐ Select ☐ NS ☐ S

Spouse Risk Status: ☐ Select ☐ NS ☐ S

Address: ______________________________ State: ______________________

Total Gross Estate Value: ______________________________

Life Insurance Death Benefit Need: ______________________________

Illustrate Level Death Benefit: ______________________________

Premium Payment Mode: ______________________ Solve? or Amount? ______________________

Anticipated Years to Pay: ______________________ Hypothetical Earnings Rate (if Variable): __________

Life Insurance Product to Illustrate: ______________________________

What would you like to accomplish for your:

children? ______________________________

grandchildren? ______________________________

future generations? ______________________________

Attorney Name: ______________________________ Phone: ______________________

Address: ______________________________

Accountant Name: ______________________________ Phone: ______________________

Address: ______________________________

Pacific Life Insurance Company
Newport Beach, CA
(800) 800-7681 • www.PacificLife.com

Pacific Life & Annuity Company
Newport Beach, CA
(888) 595-6996 • www.PacificLife.com

Pacific Life refers to Pacific Life Insurance Company and its affiliates, including Pacific Life & Annuity Company. Insurance products are issued by Pacific Life Insurance Company in all states except New York and in New York by Pacific Life & Annuity Company. Product availability and features may vary by state. Each insurance company is solely responsible for the financial obligations accruing under the products it issues. Insurance products and their guarantees, including optional benefits and any fixed subaccount crediting rates, are backed by the financial strength and claims-paying ability of the issuing insurance company, but they do not protect the value of the variable investment options. Look to the strength of the life insurance company with regard to such guarantees as these guarantees are not backed by the broker-dealer, insurance agency or their affiliates from which products are purchased. Neither these entities nor their representatives make any representation or assurance regarding the claims-paying ability of the life insurance company.
Variable insurance products are distributed by **Pacific Select Distributors, Inc.,** (member FINRA & SIPC), a subsidiary of Pacific Life Insurance Company, and an affiliate of Pacific Life & Annuity Company, and are available through licensed third-party broker-dealers.

Please Note: This brochure is designed to provide introductory information in regard to the subject matter covered. Neither Pacific Life nor its representatives offer legal or tax advice. Consult your attorney or tax advisor for complete up-to-date information concerning federal and state tax laws in this area.

____
Life Insurance Producer's Name

____
State Insurance License Number
(or affix your business card)

AD-OC-717B

15-25969-05 4/13