American General
Life Companies

Insurance Planning in the New Economy

A CONSUMER'S GUIDE

Important Information

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The intent of this guide is to communicate the potential benefits of several insurance and estate planning strategies. It is not an exhaustive list of possible advantages and disadvantages for each strategy. It is important to understand that, although every effort was made to ensure the accuracy of the information, the presentation is strictly for illustrative and educational purposes only and no representation or warranty, express or implied, is made by AGL or US Life as to the accuracy or completeness of the information. All sample scenarios are hypothetical and software was used for some of the calculations. Many values were rounded to aid in presentation. To determine whether a strategy described herein is appropriate for your situation, seek the advice of tax, legal and financial advisors.

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Fiscal Cliff Avoided?

In early January 2013, after a highly publicized political debate, President Obama signed into law "The American Taxpayer Relief Act of 2012" (ATRA). While ATRA enabled the country to avoid going over the so called "fiscal cliff," that doesn't mean that nothing of consequence changed. While the debate and the media focus centered largely on personal income tax rates, the law that Congress enacted touches nearly every aspect of taxation in the United States. Personal income taxes, capital gains taxes, taxes on dividends, payroll taxes estate taxes, generation skipping transfer taxes and gift taxes were all impacted to some degree.

Every new tax law provides an impetus for us to review our financial plans in light of the new tax climate and a law as pervasive as ATRA is certainly no exception. Now is a very opportune time to:

1. Assess to what extent the law may impact you;
2. Determine whether your present plans and financial products are still appropriate; and
3. Evaluate whether new planning strategies and/or financial products will better achieve your objectives in the current economic and tax environment.

It is generally recommended that you meet periodically with your professional advisers to review your financial plans and products. This material outlines several potential planning opportunities which, depending on your circumstances, might be appropriate to discuss during that process.

Opportunity One: Survivor Income Needs

Planning for survivor income needs and potential sources of income is a universal concern for American families at various levels of affluence. In light of the current economic environment and the income tax provisions of ATRA, all families should re-evaluate the plans and life insurance coverage they have in place to provide income to surviving family members following a premature death.

The majority of American households rely on two working parents today and the need to supplement income at the loss of either parent can be substantial. This includes the cost to provide childcare, but families should also take into account that the surviving spouse, now a single parent, may have to devote less time to his/her career with a corresponding temporary or permanent reduction in future earnings.

The ongoing low interest rate environment produces an unprecedented low return on savings and consequently less that can be counted on when calculating income for survivors. Coupled with market volatility and uncertainty and the future of inflation, this makes it more difficult for families to "self-insure" to meet survivor income needs. Insurance coverage put in place to meet survivor income needs may no longer be sufficient under current economic conditions. You will also want to consider whether any of the ATRA income tax changes may affect survivor income plans.

ATRA INCOME TAX CHANGES

While ATRA extended some of the "Bush era tax cuts," the new law does contain several important income tax provisions which affect various income levels:

- **Payroll Tax Furlough:** Because ATRA discontinued the payroll tax furlough ("Social Security tax"), every taxpayer who receives a W-2 now receives less net income than immediately prior to this new law.

- **Federal Income Tax Rates:** Joint filers with income over $450,000 and single filers with income over $400,000 will experience an income tax rate increase and now pay taxes at the marginal rate of 39.6% for income in excess of these amounts.

- **Dividend and Capital Gains Tax Rates:** The tax rate on capital gains and qualified dividends for taxpayers with income above the 39.6% thresholds has increased from 15% to 20%. Ordinary dividends above the 39.6% thresholds will be taxed at 39.6%. These 39.6% threshold amounts will be adjusted for inflation for tax years after 2013.

- **Personal Exemption and Itemized Deduction Phase-out:** Joint filers with income over $300,000 and single filers with income over $250,000 will be subject to a personal exemption reduction equal to 2% for each $2,500 (or portion thereof) by which the taxpayer's adjusted gross income exceeds these thresholds. Under this formula, personal exemptions are completely phased out at $375,000 for single individuals and at $425,000 for married joint filers. Itemized deductions for single filers and joint married filers with incomes above the thresholds will be reduced by 3% of the amount by which their adjusted gross income exceeds the thresholds. This reduction will not exceed 80% of the otherwise allowable itemized deductions. The thresholds are also indexed to inflation.

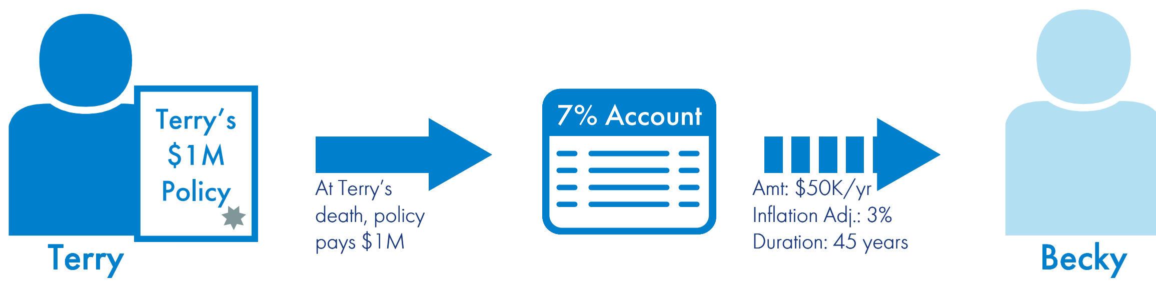
- **Not Just ATRA – 0.9% Healthcare Tax and 3.8% Surtax Increase:** In addition to the ATRA tax increases described above, the Patient Protection and Affordable Care Act (PPACA), that became law on March 23, 2010, added a new 0.9% Healthcare tax and a 3.8% Surtax beginning on January 1, 2013. The 0.9% Healthcare tax is imposed on wages and self-employment income over $250,000 for married taxpayers filing jointly and $200,000 for single taxpayers. There is no employer match for this tax, and the thresholds for this tax are not indexed to inflation. The 3.8% Surtax applies to individuals, trusts and estates that have certain types of investment income. The threshold amount for this tax is $250,000 for married couples and $200,000 for single taxpayers. The surtax thresholds are not indexed to inflation for future years.

IMPACT ON SURVIVOR INCOME NEEDS

Families affected by any or all of these tax changes should factor them into an assessment of their survivor income needs and the adequacy of existing life insurance coverage. For example, survivor income is often premised on assumptions regarding dividends and the sale of capital assets and both may now be subject to higher taxes under the new law.

Regardless of your income bracket, however, the interest rate environment and the uncertain inflation future are reason alone for a reassessment. Now, let's look at a hypothetical example.

2007 Plan



In 2007, Terry and Becky, with the help of their insurance representative, decided that, if Terry were to predecease Becky they would like a survivor income of $50K per year, inflating each year for 45 years; until Becky reaches age 90. To determine the appropriate insurance amount, they had to provide two key factors:

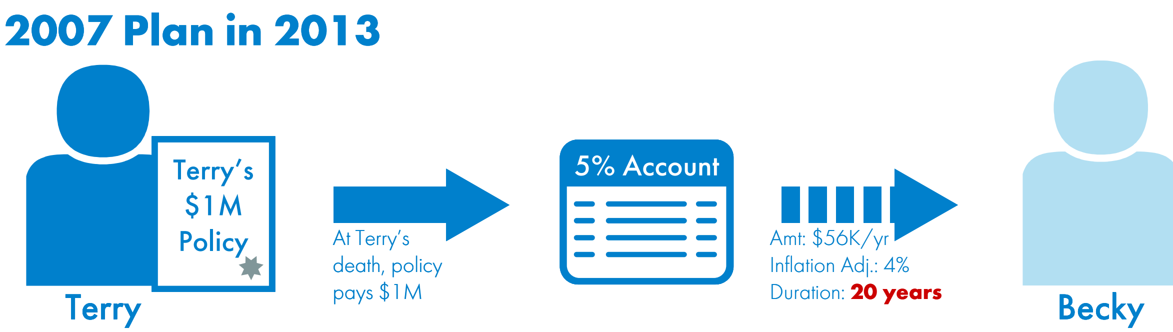
1. **Rate of Return:** The rate of return that they would expect to earn on the insurance proceeds in order to provide the income; and

2. **Inflation Rate:** The inflation rate by which to increase Becky's survivor income each year.

In 2007, they felt that a 7% return was a conservative, long-term investment rate while a 3% inflation assumption would be adequate. Based on these factors, it was determined that a $1,000,000 policy would provide enough funds to create the survivor income stream they required.

Now it is six years later. Terry and Becky are meeting with their representative again and they have a much different view of the economy – as do most Americans. They no longer feel that 7% is an achievable, long-term, conservative investment rate. Additionally, they fully expect that inflation will return in rates greater than their original 3% assumption. They opt for a 5% investment rate and a 4%

inflation rate. As it is six years later, they adjust their $50,000 desired income level for inflation since 2007, making the goal now $56,000 per year.



The insurance representative checks the adequacy of the $1,000,000 at 5% to provide $56,000 per year, inflating at 4%. The result? The money runs out in 20 years – Becky's age 71 – not the age 90 goal they desired.

Their representative informs them that, in order to provide the survivor income they desire, using the new interest and inflation rate factors, a total of $1,800,000 of insurance is required. Terry and Becky purchase an additional $800,000 of coverage on Terry.

The current interest rate environment
and a more-conservative view on inflation
increased their need by $800,000

Now is the time to re-examine survivor income needs, sources of survivor income and potential gaps through the prism of the new economic and tax environment. Whether a survivor income shortfall is caused by increased taxes, low interest rates, inflation expectations or a combination of the three, life insurance is often the most effective tool to help close the gap.

Opportunity Two: Tax Diversification

As we contemplate the impact of ATRA on the income taxes of the American taxpayer, it is important to consider that even though income taxes increase for many of the more affluent, taxation as a whole is still relatively low. When planning for retirement, a common practice is to plan for a lower tax bracket at retirement. This leads many to consider accounts that offer tax-deductible contributions with tax-deferred growth, only to pay taxes at the distribution of those funds at retirement. But, planning on being in a lower tax bracket when you retire may no longer be the best course of action.

Historically, the top federal income tax bracket has been greater than current top bracket for **63 out of the last 101 years**

While many people diversify portfolios, through asset allocation, to reduce market risk, the current income tax environment gives rise to a new form of diversification – to reduce risks of an uncertain income tax future – Tax Diversification.

Tax Diversification allows people to diversify their retirement savings into three types of vehicles or accounts, where asset growth is taxed at different times: Taxed Now; Taxed Later; and Taxed Never.

In the table below, various asset types have been classified based on the tax treatment of different elements of cash flow and growth.

	Tax-Deductible Contributions	Tax-Deferred Growth	Tax-Free Withdrawals	Unlimited Contributions
GROWTH TAXED *NOW*				
CD's & Money Markets	No	No	Yes	Yes
Mutual Funds[1]	No	No	Yes	Yes
Corporate Bonds	No	No	Yes	Yes
Stocks	No	Partial	Partial	Yes
GROWTH TAXED *LATER*				
401(k) Plans	Yes	Yes	No	No
IRA Accounts[2]	Yes	Yes	No	No
Deferred Annuities	No	Yes	No	Yes
GROWTH TAXED *NEVER*				
Roth Accounts	No	Yes	Yes	No
Municipal Bonds	No	Yes	Yes	Yes
Cash Value Life Insurance[3]	No	Yes	Yes	Yes

1 When withdrawing from (selling) mutual fund holdings, you will be taxed on all amounts above your basis. Due to the typically high turnover rate of the holdings within mutual funds, the amount above basis is likely to be low, resulting in little taxation when shares are sold (i.e., withdrawn).

2 The deductibility of an IRA contribution may be phased out if you or your spouse has access to a qualified plan at work.

3 Cash value life insurance policies are subject to Modified Endowment Contract rules that discourage over funding based on face amount, insured's age and other factors. Consult a policy illustration for details.

Tax-Deductible Contributions: "Contributions" can mean contributions, deposits, purchases and premiums, depending on the type of asset;

Tax-Deferred Growth: While each of these asset types grow, is their an annual tax bill to be paid? Growth can be in the form of interest, dividends and capital appreciation and it is assumed that all growth is reinvested;

Tax-Free Withdrawals: This attribute asks the question, "If I had $1M of this asset type and choose to convert $100K of it to cash, would the growth in the asset be taxed? Withdrawals can mean a sale, distribution, withdrawal, annuitization or, in the case of life insurance, policy loans;

Unlimited Contributions: Many asset types are regulated by the Federal government as to the amount of money that may be deposited.

As you can see, the **Taxed Now** group mostly consists of assets that offer no Tax-Deductible Contributions or Tax-Deferred Growth, while they do offer Tax-Free Withdrawals and Unlimited Contributions.

The **Taxed Later** group generally offers Tax-Deductible Contributions and Tax-Deferred Growth, but the withdrawals are taxed and there are limits on the contributions that can be made. The exception, here, is the deferred annuity.

The **Taxed Never** group generally offers no tax deduction on the contributions, but can enjoy tax-deferred growth, tax-free withdrawals and unlimited contributions, with Roth Accounts being the exception to this last characteristic.

IN SUMMARY

If you have retirement assets allocated to qualified accounts (e.g., 401(k), IRA) and other assets in non-qualified accounts (e.g., mutual funds), it may make sense to begin funding the **Taxed Never** category. For many, Roth contribution limits prevent significant deposits here. And, the municipal bonds available in your particular area may not offer the returns you are looking for – especially in today's environment.

A cash-value life insurance policy may be the solution. If you have an insurance need, there are certainly many low-cost, no- or low-cash-value options available (e.g. term insurance). But, by purchasing an insurance policy with an accumulation objective – such as certain universal life, indexed universal life and variable life policies – the additional amounts invested grow tax-deferred, at a competitive rate of return and, if set up correctly, can be withdrawn tax free when needed. **The most unique feature?** If you do not make it to retirement, the policy 'self completes' by paying a tax-free death benefit (less any policy loans) to your surviving beneficiary.

Opportunity Three: Defer Capital Gains Taxation

A third opportunity relates to the higher taxation on capital gains for more affluent Americans. The total taxes that one may pay on capital gains rose significantly from 2012 to 2013. Looking at the table below, we find the following:

- Due to ATRA, the top Federal income tax on capital gains increased from 15 to 20%;
- The 3.8% surtax on investment income brought to us by the Patient Protection and Affordable Care Act of 2010 (PPACA), which doles out its impact on taxation over time. In 2013, the PPACA timeline switched on the new surtax for taxpayers with an income over $200,000 or joint taxpayers over $250,000;
- The states have been active as well. A survey of state capital gains tax rates finds that, from 2012 to 2013, the average cap gains rate rose from 4.1% to 4.7%;
- Finally, the phase out of itemized deductions for taxpayers with $250,000 of adjusted gross income (AGI), or $300,000 for joint filers, comes back in 2013. Nicknamed after the congressman who proposed it, the Pease Limitation was made law in 1990, repealed in 2001, and set to return in 2010 when those laws sunset. The repeal was extended through 2012, but it is now back in full force. For a couple looking to sell appreciated assets in 2013, assuming they have an AGI of $300K or more, the impact of the phase-out of the deductions could result in 1.2% or more of additional taxes on the transaction. Of course, the actual impact would depend on the couples' circumstances.

INCOME TAX ITEM	2012	2013
Federal Capital Gains Rate	15.0%	20.0%
PPACA Surtax on Investment Income	0.0%	3.8%
Average State Capital Gains Rate	4.1%	4.7%
Pease Limitation on Deductions	0.0%	1.2%
Total	19.1%	29.7%
Percent Increase		55.5%

The combination of these items means that the taxation on capital gains moves from approximately 19% to almost 30% for appreciated assets sold in 2013 versus 2012 – an increase of over 55% in taxes! If someone wanted to liquidate a highly appreciate asset to fund a retirement income stream, how can they do so in this new economy, without being subject to this tremendous increase in taxation? One way that is seeing an increase in activity is the Charitable Remainder Trust.

CHARITABLE REMAINDER TRUSTS CONVERT ASSETS TO INCOME

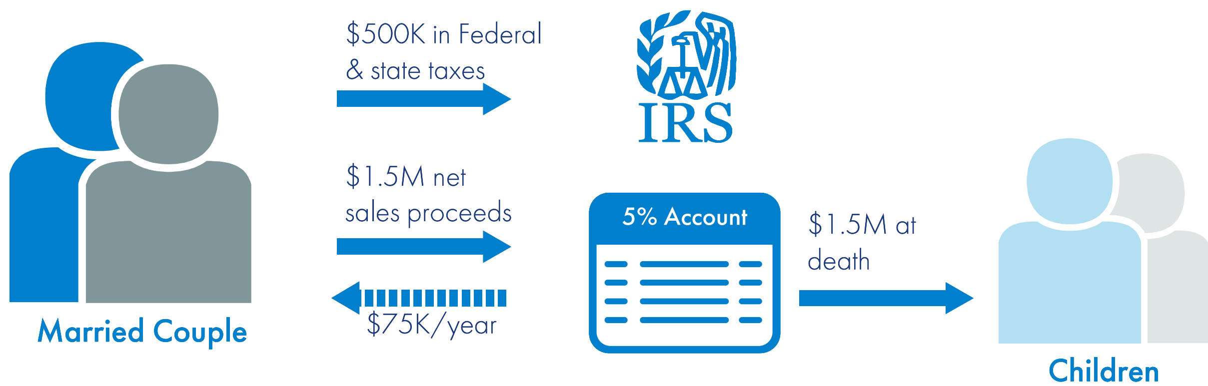
The Charitable Remainder Trust is an estate and income tax planning strategy that may appeal to individuals interested in converting highly appreciated assets into income without paying the increased capital gains tax burden – particularly if they are also motivated to benefit a charity. Charitable Remainder Trusts are firmly established in the Internal Revenue Code and it is not considered an aggressive planning strategy.

The types of assets that make sense for this strategy could be income producing real estate, a business, collectible art work, an appreciated stock portfolio, etc.

Let's take a look at another hypothetical example to see how this strategy can benefit a family with the right circumstances.

CURRENT PLAN: SELL A $2M ASSET WITH A BASIS OF $250K

In the flowchart below, we see a couple, ages 65 and 62, that desires to sell a $2,000,000 stock portfolio with a basis of $250,000. Upon the sale, the couple must pay $500,000 in taxes to the IRS and their state. The net proceeds of $1,500,000 are then re-invested in an account generating 5% in income, or $75,000 per year. If we assume that they live another 15 years, the $1,500,000 will pass to their heirs at their death – subject to estate taxation and probate expenses. The total income realized? $1,125,000 over the 15 years.



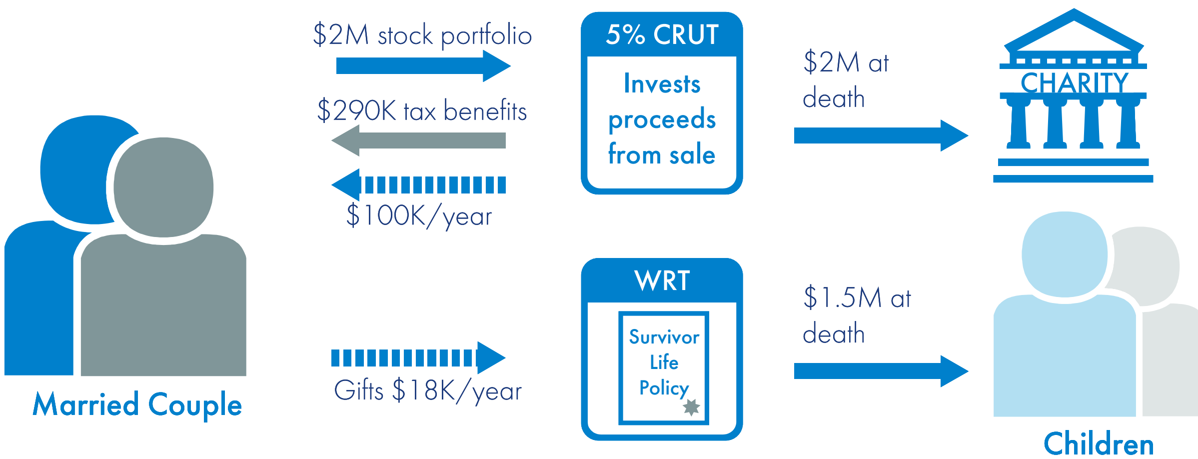
Let's look at the alternative.

PROPOSED PLAN: FUND CRUT AND WRT

Now we see the same couple fund a Charitable Remainder Unitrust, or CRUT with the stock portfolio. (There are several types of charitable remainder trusts and the CRUT fit this couple's needs.) The couple receives an immediate tax deduction of $625K, generating $290K of tax benefits in their bracket.

The trustees of the CRUT sell the $2,000,000 asset, avoiding the $500K taxes on the capital gains because the beneficiary charity is a tax-exempt organization. The CRUT reinvests the assets, and then distributes 5% or $100K/year, to the couple for the rest of their lives. After 15 years, this totals $1,500,000.

At the couple's death, the designated charity receives remaining $2,000,000 of trust assets.



But what about the kids? In the prior scenario, the children received $1,500,000 in assets and now the CRUT is receiving the assets. To replace the value for their children, the couple creates an irrevocable trust known as a Wealth Replacement Trust (WRT), with the children as beneficiaries. This trust purchases a $1.5M survivorship life insurance policy on the couple. The couple uses some of the $100,000 per year to gift the $18,000 annual premium amount to the trust. The trust pays the premium on the policy. At the second spouse's death, the trust pays $1.5M to the children – estate tax and probate free.

IN SUMMARY

Let's take a look at a summary of the results. In the table below, the first thing we notice is the increase in the living benefits. Due to the increased income and the charitable deduction – even accounting for the premiums paid – the couple sees nearly $400,000 of additional benefits during life.

If we add to this the $2,000,000 going to the charity at death, on top of the $1,500,000 that goes to the kids in either plan, the total benefits of the CRUT and WRT plan surpass the plan to simply sell the stock portfolio by a whopping 91%.

	Sell Asset	Fund CRUT & WRT
Total Income Received (over 15 years):	$1,125,000	$1,500,000
Charitable deduction benefits:	$0	$290,000
Premiums Paid (over 15 years):	$0	$(270,000)
Total Living Benefits:	$1,125,000	$1,520,000
Benefits to Children:	$1,500,000	$1,500,000
Benefits to Charity:	$0	$2,000,000
Total Benefits at Death:	$1,500,000	$3,500,000
Total Benefits:	$2,625,000	$5,020,000
Percent Increase: 91%		

As a result of the CRT strategy, the couple is able to:

1. Liquidate an appreciated asset without immediate capital gains tax;
2. Take an immediate income tax deduction;
3. Receive a lifetime income from the CRT;
4. Benefit one or more charities of their choice; and
5. Replace the gifted assets for the children in a tax efficient manner via life insurance.

Opportunity Four: Shifting Income to Lower Brackets

This strategy may appeal to some families with adult children as a possible simpler alternative to Charitable Remainder Trusts. It involves a parent gifting an appreciated capital asset to an adult child in order to take advantage of the child's lower income tax rates.

When one gifts a capital asset such as real estate, a home, a business, an art collection, etc., the recipient of the gift always assumes the cost basis of the donor for income tax purposes[1]. That means if the recipient subsequently sells the asset, he/she incurs the same amount of capital gain as the original donor. However, while the amount of capital gain upon the sale of the asset is the same, the child or grantor trust is often in a lower capital gains bracket than the parent and the PPACA surtax may be avoided as well. As a result, the sale produces higher net after-tax proceeds. Furthermore, when the child re-invests the after-tax proceeds, the income generated will be taxed in the child's lower personal income tax bracket, again resulting in a higher after-tax net yield.

This proceeds generated by this income tax leverage can among other things, be used to help fund premiums on individual or survivorship life insurance policies on the parents/donors as part of the overall family estate plan.

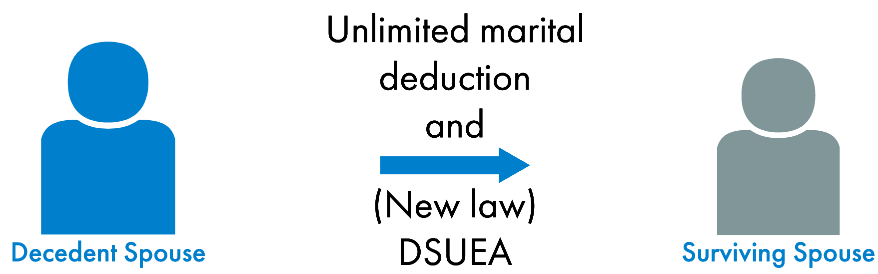
[1] If the gift is valued at an amount greater than the annual gift tax exclusion for the year ($14,000 in 2013), the parent must file a gift tax return.

Opportunity Five: Portability – Use it or Not

At death, a decedent may pass all assets to a surviving spouse using a benefit known as the 'marital deduction.' If, however, a person passes assets to someone other than their spouse (e.g., children), then estate taxes are due on amounts above an exemption.

The Federal estate tax exemption is the amount that you can leave to someone other than a spouse, at death, without incurring any estate taxes – in 2013, that amount is $5.25M. In the past, if a decedent left all of their assets to their spouse, their exemption went unused. At the death of the surviving spouse, all assets would pass to heirs with only the benefit of the surviving spouse's exemption to reduce the estate tax bill.

After a temporary introduction in the last couple of years, ATRA made permanent a benefit known as "portability." This refers to the ability of a decedent to leave any unused federal exemption (known as the deceased spouse's unused exempt amount or DSUEA) to a surviving spouse. The first-to-die can leave assets to the surviving spouse under the unlimited marital deduction and can also leave the spouse any portion of the unused exemption amount. This way, the surviving spouse can receive all of the decedent's assets without the imposition of a tax – thanks to the marital deduction – and then have as much as $10.5 million of federal exemption available at the surviving spouse's death when passing the assets on to the next generation. This is generally advantageous, but there are gaps and requirements that require consideration and portability may not be right in every situation.



REASONS TO USE PORTABILITY

- Portability can save legal and trust administration fees because all-to-spouse wills may suffice in lieu of more complex credit shelter trust arrangements;
- Portability can also give the surviving spouse total control of all the assets, unlike Credit Shelter Trust arrangements.

GAPS IN PORTABILITY

- Portability does not apply to state estate taxes, so using portability will not affect what can pass estate-tax-free at the second death under state estate taxation;
- Unlike in a credit shelter trust arrangement, assets left to the surviving spouse are subject to claims of creditors;
- Using only the marital deduction and relying on portability to pass assets estate tax free removes the protection for the next generation afforded by the Credit Shelter Trust. If a surviving spouse remarries, for example, that new spouse could inherit all of the assets, with nothing going to the children of the prior marriage;

- Another disadvantage is that any growth in value inside a credit shelter trust would be exempt from estate taxation at the surviving spouse's later death, but is not exempt if the surviving spouse owns the assets outright – as would be the case with the marital deduction.

PORTABILITY REQUIREMENT

What is not widely known is that, in order to preserve the DSUEA when the first spouse dies, a federal estate tax return must be filed regardless of how small that first spouse's estate may be. This will be easy to overlook and, as a result, many taxpayers may be under the illusion that the portability of the exemption will happen automatically and the decedent's unused exemption will be available at the second death when, in reality, it will not.

Opportunity Six: Federal and State Estate Taxes

In the past, when the Federal exemption was only $1M, many families with relatively small estates (i.e., less than $2M) incorporated complex tax planning strategies into wills and trusts based on the expectation that their estates would exceed the exemption level. Given the $5.25 million exemption and portability between spouses, they should now discuss with their advisors whether that complexity is still necessary or whether simple wills and trusts will suffice.

Likewise, life insurance policies purchased to cover projected Federal Estate Tax obligations should be reviewed in light of changes implemented by ATRA. Is a survivorship policy in place where a single life policy makes sense now? As part of the review process, it's also a good idea to review ownership of the policies, how they will be taxed, and of course the beneficiary designations. Improper ownership can result in unwelcome tax consequences and outdated beneficiary designations could needlessly subject insurance proceeds to probate.

Regardless of where your estate stands with regard to Federal Estate Taxes post-ATRA, it is important that you consider the potential impact of estate taxes that may be imposed by states in which you own property.

Currently, fifteen (15) states have estate taxes. In general, these taxes employ different rules than the federal tax structure and state estate tax exemptions are as low as $675,000. If you own property in any of these states, there may be taxes due at the first and/or second death even though no federal tax applies so it is important that you consider potential state taxes when assessing your estate liquidity needs.

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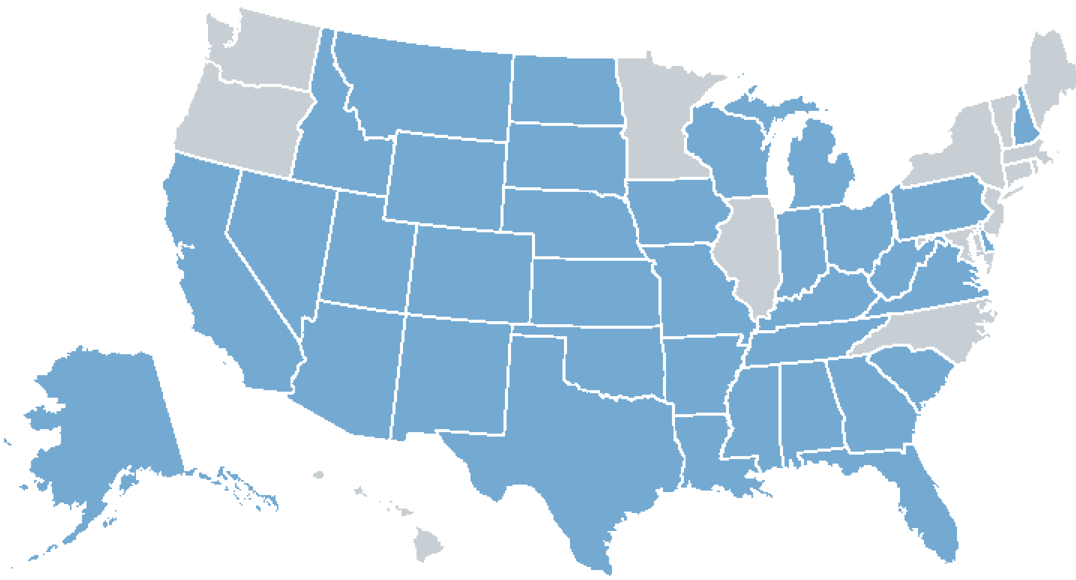
STATES WITH ESTATE TAXES



State[1]	Exemption	Top Rate	State	Exemption	Top Rate
Connecticut	$2,000,000	12%	New Jersey	$675,000	16%
Hawaii[2]	$5,250,000	16%	New York	$1,000,000	16%
Illinois	$4,000,000	16%	Oregon	$1,000,000	16%
Maine	$2,000,000	12%	Rhode Island	$910,725	16%
Maryland	$1,000,000	16%	Vermont	$2,750,000	16%
Massachusetts	$1,000,000	16%	Washington	$2,000,000	19%
Minnesota	$1,000,000	16%	Washington, D.C.	$1,000,000	16%
North Carolina	$5,250,000	16%			

1 Delaware's estate tax permanently repealed in July, 2013.
2 Non-resident Hawaiian property owners receive a $1,000,000 exemption.

STATE ESTATE TAX PLANNING

If you own property in any of these states, consider the following hypothetical example of a couple with a total estate less than the combined exemptions of $10.25M.

The table, below, shows a Maryland couple's $7M estate after one spouse dies in 2013 and the surviving spouse dies ten years later. The state exemption is $1M and the top tax rate is 16%. Due to the inflation-adjusted Federal exemption (assuming a 3% inflation rate), there is no Federal tax due at either death.

Should the couple eliminate their Credit Shelter Trust and rely on the marital deduction and portability? Should they keep the trust funded and fund it at the Federal exemption level? Or should they keep the CST and fund it at the state exemption level?

Same Estate – Three Scenarios

	SCENARIO 1 No Credit Shelter Trust (CST)	SCENARIO 2 CST Funded with State Exemption	SCENARIO 3 CST Funded with Federal Exemption
ESTATE TAX AT 1ST DEATH			
Gross Estate	$7,000,000	$7,000,000	$7,000,000
Amount to Spouse	7,000,000	6,000,000	1,750,000
Amount to CST	0	1,000,000	5,250,000
State Exemption	0	1,000,000	1,000,000
Amount Taxed by State	0	0	4,250,000
State Estate Tax Due	$0	$0	$400,000
ESTATE TAX AT 2ND DEATH – 10 YEARS LATER			
Spouse's Estate - 5% growth	$11,400,000	$9,800,000	$2,900,000
State Exemption	1,000,000	1,000,000	1,000,000
Amount Taxed by State	10,400,000	8,800,000	1,900,000
State Estate Tax Due	$1,300,000	$1,000,000	$200,000
TOTAL ESTATE TAX			
Total	$1,300,000	$1,000,000	$600,000
In Today's Dollars (@ 3%)	$1,000,000	$700,000	$500,000

Which Scenario is The Right One

	SCENARIO 1 No Credit Shelter Trust (CST)	SCENARIO 2 CST Funded with State Exemption	SCENARIO 3 CST Funded with Federal Exemption
PLANNING CONSIDERATIONS			
Liquidity Needed at 1st Death	No	No	Yes
Liquidity Needed at 2nd Death	Yes (Greatest)	Yes	Yes (Least)
Surviving Spouse Control of Assets	All	Most	Little
Protection of Children's Inheritance (e.g., if surviving spouse remarries)	None	Little	Most

Of the three scenarios presented here, which one is the right solution for this couple? The answer will depend on their feelings surrounding the Planning Considerations.

In Conclusion

In this new economy – post-real estate boom and crash, post-recession, post-PPACA, post-ATRA – individuals of all incomes and net worth should reexamine their financial and estate plans. In particular an examination of their insurance policies and arrangements are in order. Changes in estate tax laws, capital gains taxation, interest rates and inflation can change how much life insurance should be carried, what type should be owned, who owns it, how it is paid, the beneficiary designations and more. In addition, this new economy may create needs for life insurance that you may not have imagined:

- To protect a family;
- To pass on wealth efficiently;
- To accumulate tax-advantaged funds;
- To avoid income and capital gains taxes;
- To leave a legacy.