QUICK REFERENCE GUIDE

FOR

LIFE INSURANCE

IN

ESTATE PLANNING

PROVIDED BY:

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FORWARD

At Edwards Advisory Group, we focus on helping our clients recognize and consider everything they need to consider, when addressing their estate planning needs. Many, if not most, of those considerations are best addressed with life insurance, by providing tax free estate liquidity at the exact moment it's needed.

Our hope is that this guide will help you recognize and bring to your client's attention such needs and understand how life insurance is the best tool for meeting those needs.

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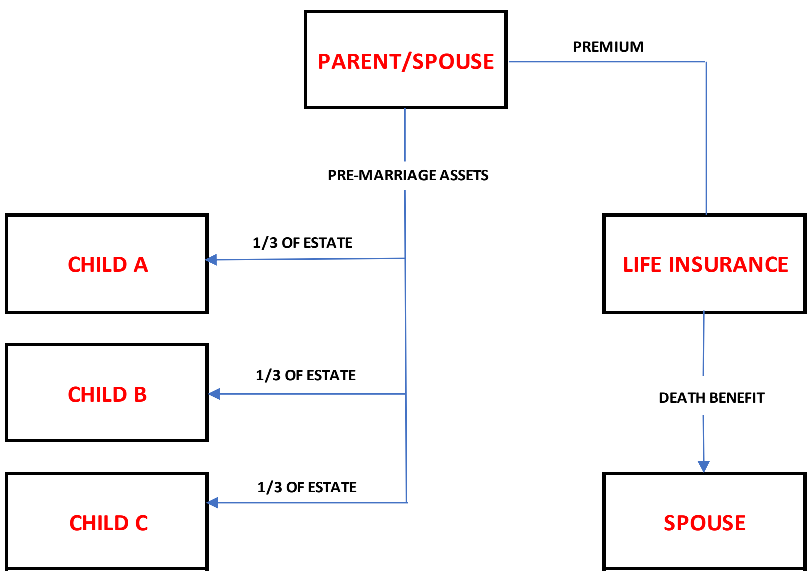
BLENDED FAMILY CONCERNS
ADDRESSED WITH LIFE INSURANCE

THE NEED

A blended family is frequently the most relevant estate planning concern, and is also the one, that if left unaddressed, can create the most family strife. Spouses with children often have conflicting goals. First, they have the need to not disinherit their children. For example, there may be legacy family assets (family farm, beach house, etc.)? Also, should other pre-marriage assets, even liquid assets be left to someone other than the children? Secondly, there may be a need to provide for their spouse. For example, does the new spouse have adequate liquid assets of their own, to sustain their lifestyle.

THE SOLUTION

Life insurance is taken out on the parent, usually with the spouse as beneficiary and all or most pre-marriage assets being left to the children. This segregation assures that there is no conflict, legal or otherwise.



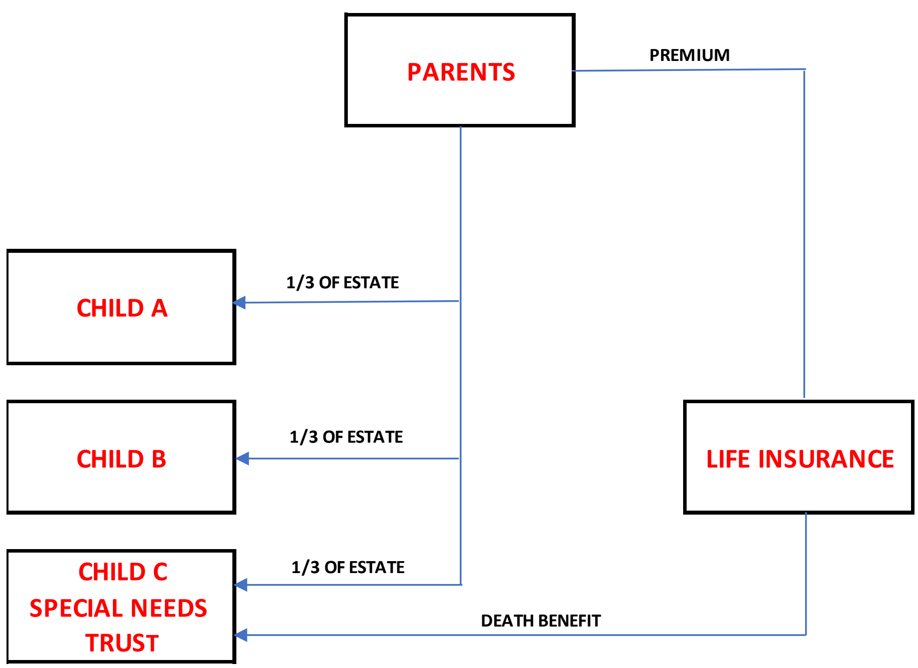
SPECIAL NEEDS TRUST FUNDED WITH LIFE INSURANCE

THE NEED

The fraternity of parents with special needs children or grandchildren, is bigger than most people think. The need to provide and care for a special needs child doesn't go away, when the parents die. The problem comes when the child outlives the parents. Who provides for the child then? If there are no siblings, then all the assets of the parent's estate can be liquidated, to do the job. However, when there are siblings, trying to redistribute estate assets to provide for a special needs child can sew disharmony into a family, because siblings would likely be disinherited to some extent. Children care little about what their parents do with their money, while they're living, but they care mightily what they do with it, when the will is read

THE SOLUTION

The solution is to set up a special needs trust and fund it with life insurance. Depending on circumstances, the amount needed to provide long term support, can be quite large. Insurance leverages small trust gifts (premiums) into a very large benefit for the special needs child. Importantly, all siblings are treated equally with their inheritances, thus keeping harmony in the family.



GIFTING OF LIFE INSURANCE

TO A PUBLIC 501c3 CHAIRTY

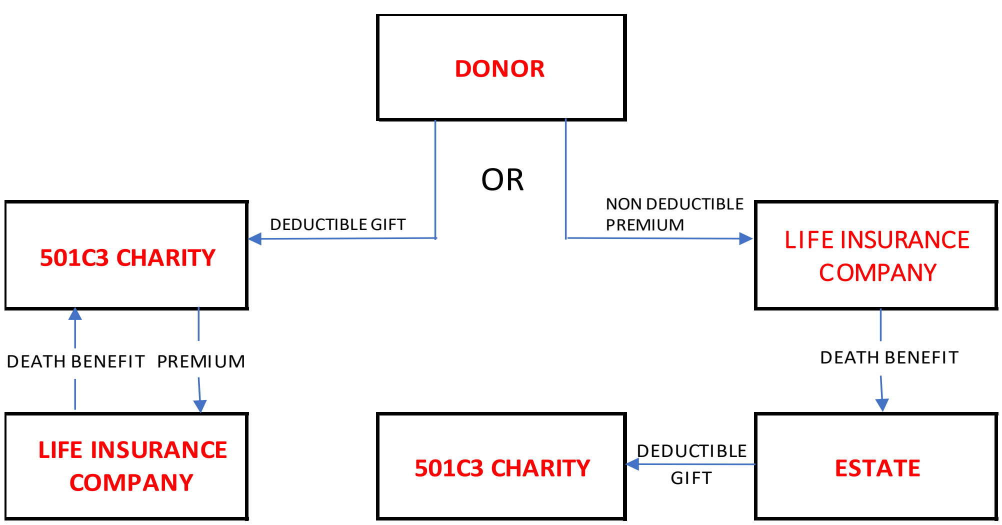
THE WANT

This concept is for people who would like to make a significant gift to 501c3 charity(ies) but don't have adequate current assets to do so or they have the assets, but don't want to disinherit their heirs.

THE SOLUTION

A life insurance policy is bought on a spouse, usually on the least costly to insure. The charity is named owner and beneficiary, which makes the premiums tax deductible. The insurance leverages a small premium to create a significant future benefit to the charity, without a dollar for dollar disinheritance of the heirs. This type of giving is often done for churches, using part of a tithe as premium.

In the alternative, the policy can be owned by the donor, but with the charity as beneficiary. This loses the tax deductibility of the premium but does retain the ability to make changes in the policy, such as changing the charity beneficiary or face amount. The policy death benefit can also be split between multiple charities. If the new tax law keeps the premiums from being deductible, due to the increase in the standard deduction, then this method would be preferable. However, if the donor is receiving un-needed RMDs from his IRA, the premium can be directly transferred from the IRA to the charity, so the RMD would not be reported as a taxable distribution. The charity would own the policy, so the donor would lose the right to make changes to the policy. However, the premium amount and frequency would still be at the donor's discretion.



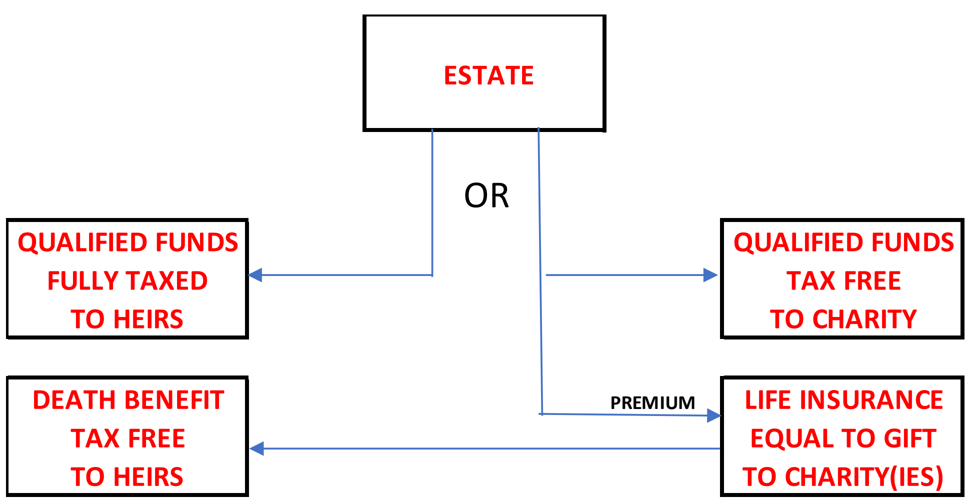
PHILANTHROPY THRU GIFTING OF QUALIFIED MONEY AND LIFE INSURANCE

THE WANT

A donor wishes to bequeath a significant gift to a charity, church or university. He also wants to do so in the most tax efficient way possible and without disinheriting his heirs.

THE SOLUTION

The simplest, most flexible and most tax efficient way to make legacy charitable gifts, is by gifting qualified money. Unlike non-qualified assets, qualified funds are 100% income taxable and don't qualify for a step up in basis, which makes them the most tax efficient source of funds for gifting. The life insurance part of the solution keeps the heirs from being disinherited on a dollar for dollar basis with the gift. A life insurance policy, equal to the gift amount, is taken out on the least costly parent to insure. This tax free death benefit replaces what would have been a 100% taxable inheritance of the qualified account. This actually ends up being a larger net inheritance to the heirs. In addition, the tax savings that heirs wouldn't have to pay on inherited qualified funds offsets as much as the first 20 years of premium payments. In the final analysis, the charity get a tax free gift, the heirs get a tax free death benefit, and the government gets nothing.



GIFTING TO A CHARITABLE
501c3 TRUST USING LIFE INSURANCE

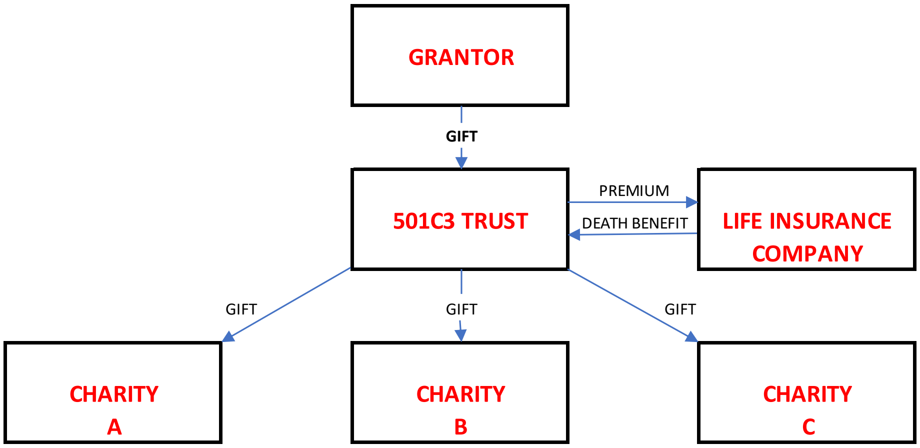
THE WANT

Affluent people often want to be philanthropic with some of their assets. However, they may be reluctant because gifts to charities disinherits their children, dollar for dollar. Also, they may be reticent to make large gifts, while they are still living, being concerned with future needs for the money. However, deferring charitable giving, until their death(s), loses the tax deductions they could have gotten by making gifts during their lifetime.

THE SOLUTION

Set up a 501c3 irrevocable trust and fund it with life insurance. There are several advantages to setting up the trust. First, a small annual gift (premium) to the trust is leveraged to provide a much greater gift to the charities of choice. Secondly, the tax deduction for the annual premium is immediate. Thirdly, since the trust makes the gifts to the named charities, upon the grantor's death, both the amount of the gifts and the charity(s) receiving the gift(s), can be changed, at any time. Finally, the estate is only reduced by the amount of the premium, not the amount of the ultimate gift

There a side note. With the increase in the standard deduction, the premium may or may not be tax deductible beyond the allowed standard deduction. This can be rectified, somewhat, by paying premiums bi or tri annually to maximize the deduction in the year premiums are paid. Unfortunately, RMDs cannot be directly paid from an IRA to the trust to avoid being considered income, as they can be to a public 501c3 charity.



LEGACY BUILDING

WITH LIFE INSURANCE

FOR CHILDREN OR GRANDCHILDREN

THE WANT

Many parents want to leave a financial legacy for their children and/or grandchildren, and they would like to do so in the most assured and cost-effective way possible.

THE SOLUTION

Take out a life insurance policy on the least costly parent to insure, with the beneficiary being either the children and/or grandchildren. It's preferable that a trust be used for children, but it's essential for young grandchildren. In the alternative, children can be the direct beneficiaries of the policy. However, using a trust gives the grantor control over how quickly and for what reasons the children or grandchildren can access the funds in addition to protecting the funds from outside threats. When estate taxes are a concern, the trust should be irrevocable, and it should be both the owner and beneficiary of the policy. Quite often, unneeded RMDS are used to purchase legacy life insurance to take advantage of leveraging.

Using life insurance as the vehicle to enhance heir's legacy can provide a much higher **guaranteed** ROI on the premiums versus investing them elsewhere. The spreadsheet below shows the required ROI on the premiums, invested elsewhere, to equal the death benefit in given years. The tax bracket assumption is 27% (22% federal and 5% state). The highlighted year is the life expectancy for a female age 65 in good health. It shows that for $8700 per year premium to grow to $500,000, after tax, at her life expectancy of age 88, the required, before tax, ROI would be 9.64%. Remember the death benefit is both **guaranteed** and tax free.

Protective Advantage Choice UL 1/19

Universal Life Flexible Premium Adjustable Life Plan
Initial Annual Premium: $8,700.00
Initial Death Benefit: $500,000.00
Riders: None

Internal Rates of Return on Death Benefit
Prepared For: VALUED CLIENT
Female Age 65, Select Preferred

Protective. Life Insurance Company

			Based on Guaranteed Assumptions[1]				
Age	Year	Premium Outlay*	Death Benefit	IRR on Death Benefit	Specified Tax Rate	Pre-Tax Equivalent	Probability of Death
78	13	8,700	500,000	19.84%	27.00%	27.18%	12.78%
80	15	8,700	500,000	15.54%	27.00%	21.29%	18.14%
82	17	8,700	500,000	12.47%	27.00%	17.08%	24.41%
84	19	8,700	500,000	10.18%	27.00%	13.95%	31.42%
86	21	8,700	500,000	8.42%	27.00%	11.54%	39.09%
[2]88	23	8,700	500,000	7.04%	27.00%	9.64%	47.29%
90	25	8,700	500,000	5.92%	27.00%	8.11%	55.81%
92	27	8,700	500,000	5.01%	27.00%	6.86%	65.15%
94	29	8,700	500,000	4.25%	27.00%	5.82%	73.60%
95	30	8,700	500,000	3.92%	27.00%	5.36%	77.65%
100	35	8,700	500,000	2.60%	27.00%	3.57%	92.98%
121	56	0	Policy Lapsed	-100.00%	27.00%	-100.00%	100.00%

* Refer to the Notes section for more information.

[1] Under Guaranteed Assumptions, the illustrated policy terminates in year 36. See Additional Information page for assumptions.

[2] The illustrated life expectancy of age 88 and probability of death are based upon the Select and Ultimate 2001 Valuation Basic Table. The values are based on standard mortality and are for illustrative purposes only. Individual mortality rates may vary based on the actual Rate Class. The investment must earn at least 7.04% after-tax to earn greater than or equal to the return on Death Benefit.

BALANCING A LOW LIQUIDITY ESTATE
WITH
LIFE INSURANCE

THE NEED

Some estates are predominately made up of fixed assets, usually real estate, both as investments and personal use. Fixed assets are particularly difficult to divide between heirs. Rarely is it wise to leave a single fixed asset to multiple heirs. Rather, it's much better to leave a single fixed asset to a single heir. The problem is properties never have identical value, either monetarily or emotionally. While some investment properties can be sold, with the proceeds being used to balance an estate, legacy properties, such as family farms, lake houses or beach houses don't lend themselves to being sold. There is usually a desire to pass down legacy assets equally to heirs. While that would be equal treatment, it might not be fair. An absentee sibling would have little benefit from having ownership in a family farm a thousand miles away, just as a sibling who doesn't enjoy the beach would have little benefit from ownership in a beach house.

Estate liquidity is the key to addressing such concerns, assuming they are adequate. Sometimes, there isn't enough liquidity.

THE SOLUTION

Take out a life insurance policy on the least costly parent to insure, with the death benefit being used to provide tax free liquidity for the estate. This additional liquidity will allow the estate to treat heirs both equally and fairly.

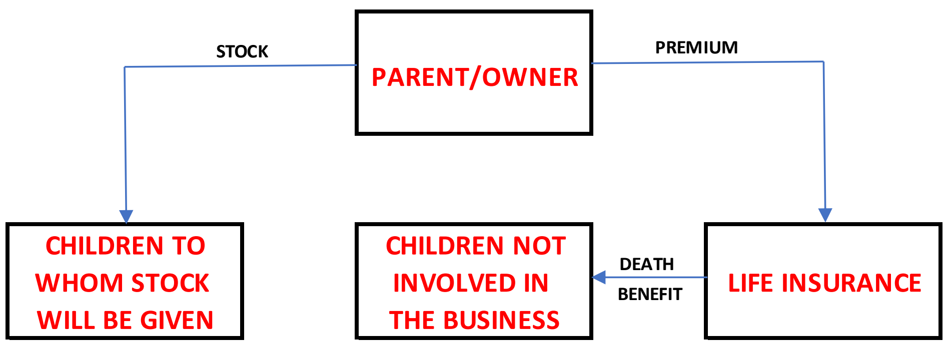
FAMILY BUSINESS SUCCESSION PLANNING
WITH LIFE INSURANCE

THE NEED

A family business is often one of an estate's major assets. When there are some children, who won't be owners, and other's that will, other estate assets must be used to balance out the estate. Using fixed assets is nearly impossible because of the difficulty in proportionally dividing them. Therefore, it requires liquid assets that are easily proportioned to balance out the inheritances. The problem arises when there are inadequate liquid assets to do so. However, when the liquid assets are inadequate, life insurance will provide the tax free cash required to provide the needed liquidity.

THE SOLUTION

Life insurance is bought on the parent/owner, with the death benefit being used to create adequate liquidity to balance the estate between siblings.



BUY/SELL AGREEMENTS

FUNDED WITH LIFE INSURANCE

THE NEED

One of the biggest mistakes a business , especially a multi-owner business, can potentially make is not having a buy/sell agreement in place. In the absence of an agreement, many businesses end up closing, after the death of a partner. When a partner dies, without a buy/sell in place, both the surviving owners and heirs of the deceased partners are put in untenable positions. The partners end up having a spouse, or worse, children, as equal partners, who know nothing about the business, care nothing about the business and don't want to be part owner of the business. What they do want is to be bought out. However, without an agreement in place, there is no obligation on the part of the surviving owners to do so. In the final analysis, a buyout is usually agreed to, because it's in both parties interest, but at a negotiated price, usually substantially below value and usually on an installment basis. This is problematic for the heirs, as they would be settling for less than fair value and they would want and may really need the money up front. Also, installment agreements are dependent on the business continuing to be successful and creating the cash flow to make the installment payments.

THE SOLUTION

Set up a buy/sell agreement funded with life insurance. With the agreement in place, the price and method of the purchase is prearranged and legally guaranteed, to the benefit of all parties. The heirs benefit by getting immediate payment for the full value of the deceased partners business interest. They also avoid the emotional toll that dealing and negotiating with the surviving owners would create. The surviving partners also benefit equally, by retaining 100% ownership of the business, and by avoiding the emotional and financial toll of dealing with absentee owners. However, buy/sell agreements can create a huge cash drain on the surviving owners and can affect the financial viability of the business, which is why buy/sell agreements should be funded with life insurance. That's true, even if one of the owners is uninsurable. Having one buyout being funded with an installment agreement, doesn't negate the value of funding the other buyouts with life insurance.

Deciding to implement a buy/sell agreement is only the first step. The next step is to decide which type of buy/sell agreement to implement. There are four basic types, funded with life insurance. They are cross purchase, stock redemption, "wait and see" and trusteed agreements. The following pages discuss how each one works and the pros and cons of each.

STOCK REDEMPTION BUY/SELL

HOW IT WORKS

The business owns, pays for and is the beneficiary of a life insurance policy on each owner, equal to each owner's ownership interest. Upon an owner's death, the death benefit is used to purchase the deceased owner's stock from the heirs.

PROS

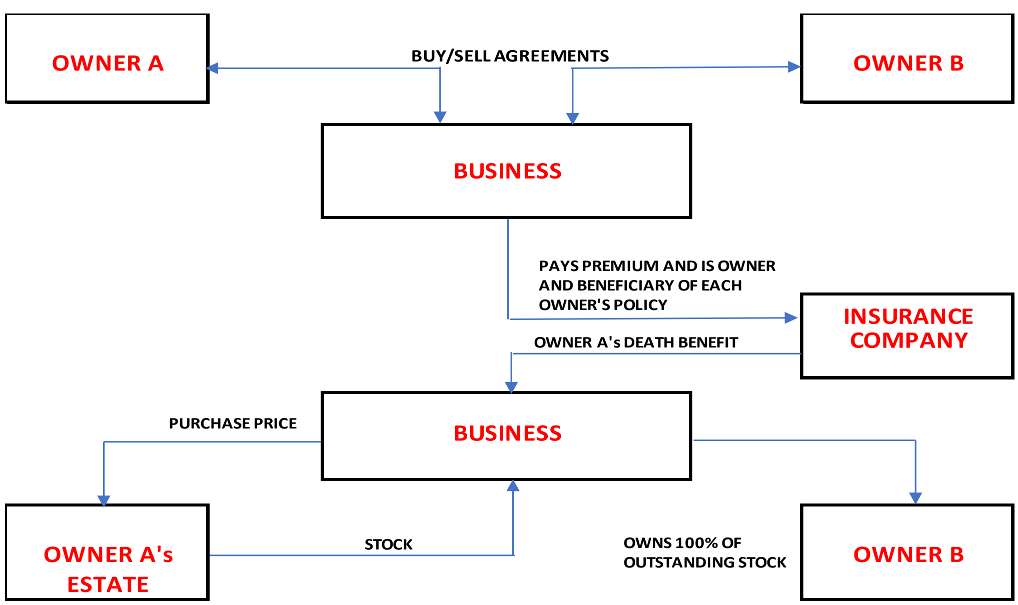
- Much less cumbersome, when there are more than two owners, as only one policy is required on each owner.
- Age and health differences don't cause owner's to pay disproportional premiums.

CONS

- Surviving owner's basis in the business does not increase, because their number of shares don't increase, however each owner's price per share does. This makes he full value of the buyout capital gains taxable, upon the future sale of the business to each other or outside interests.

SUMMARY

It's the best option for simplicity, but the worst option for tax purposes, due to there being no increase in basis. However, the proportional premiums and the requiring of only one policy per owner, often makes it the default choice, especially in businesses with three or more owners.



CROSS PURCHASE BUY/SELL

HOW IT WORKS

The surviving owner(s) purchase the deceased owner's stock directly from the heirs. Life insurance is typically bought to fund the buyout. Each partner owns and is the beneficiary of a life insurance policy on every other owner.

PROS

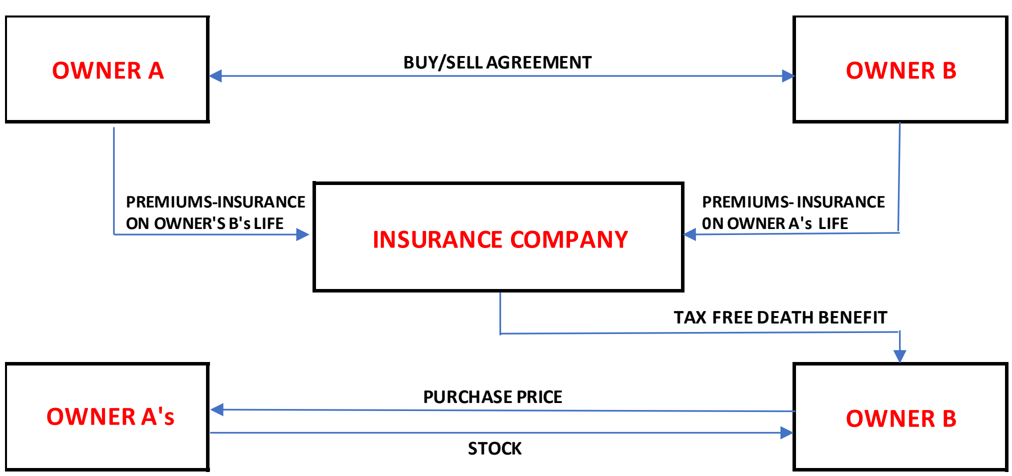
- Surviving partner's basis in the business increases, because their number of shares increase, but their price per share does not.

CONS

- Can be cumbersome, when there are more than two owners. Two owners require two policies, three owners require six and four owners require twelve.
- Because of age and health differences, the partners will likely have to pay disproportional premiums.

SUMMARY

It's the best option for tax purposes, due to the increase in basis. However, the possible disproportional premium requirements on a large number of insurance policies, can make it the least favorable option, unless used in conjunction with a "trusteed" arrangement (explained on page 14).



WAIT AND SEE BUY/SELL

HOW IT WORKS

Sometimes it's not clear which buy/sell arrangement should be used. In such cases, a wait and see buy/sell still guarantees the purchase will be made but defers the decision on whether it will be a cross purchase or stock redemption buy/sell. The agreement typically gives the company the first right of refusal in purchasing the stock. If the company doesn't exercise that right, then the owners can purchase the stock directly. If they decline, then the company is mandated to make the purchase.

PROS

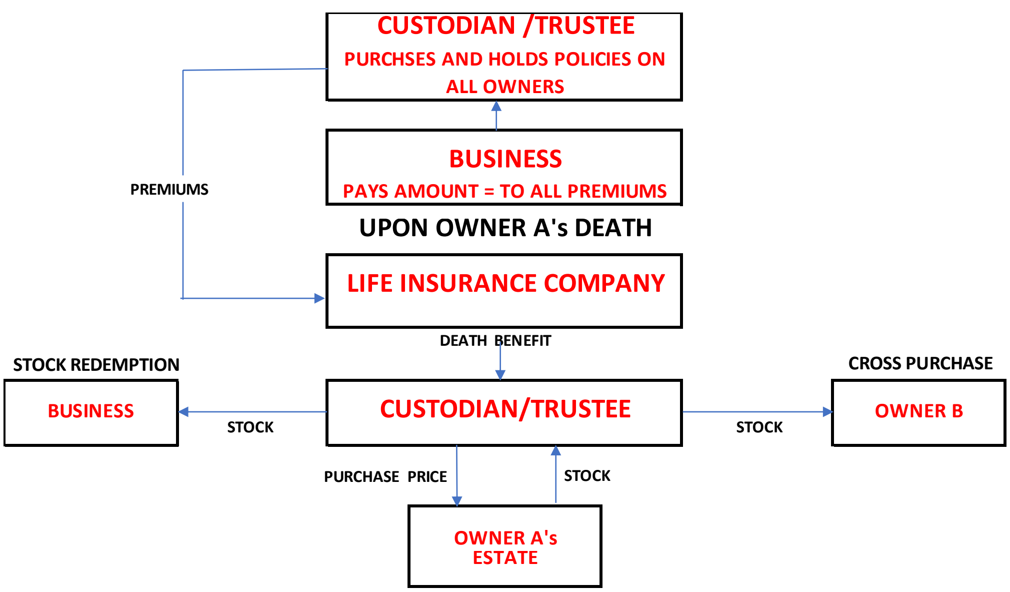
- By whom the deceased owner's stock will be purchased can be decided at the time of purchase. The company or owners can choose to buy all or part of the stock. Regardless, all the stock must be purchased.

CONS

- When the company is a C corp, and is given the first right of refusal, care must be taken to avoid the purchase being treated as a dividend.

SUMMARY

A "wait and see" buy/sell is best used in conjunction with a trusteed agreement, when life insurance is used for funding. Not having a trustee creates problems as to who should own the policies, who should be the beneficiaries, and having to have too many policies, if there are more than two owners. The trustee also avoids the tax trap (in a C corp) of the purchase price being treated as a dividend, if the business has the first right of refusal.



TRUSTEED BUY/SELL

HOW IT WORKS

A custodian or escrow agent, known as a trustee, buys, owns and is the beneficiary of one policy on each owner, equal to each owner's business interest. The trustee receives the death benefit proceeds, purchases the stock from the heirs, and distributes the stock to the owners or the company, depending on which buy/sell arrangement is used. The trusteed buy/sell can be used for stock redemption, cross purchase or wait and see buy/sell agreements.

PROS

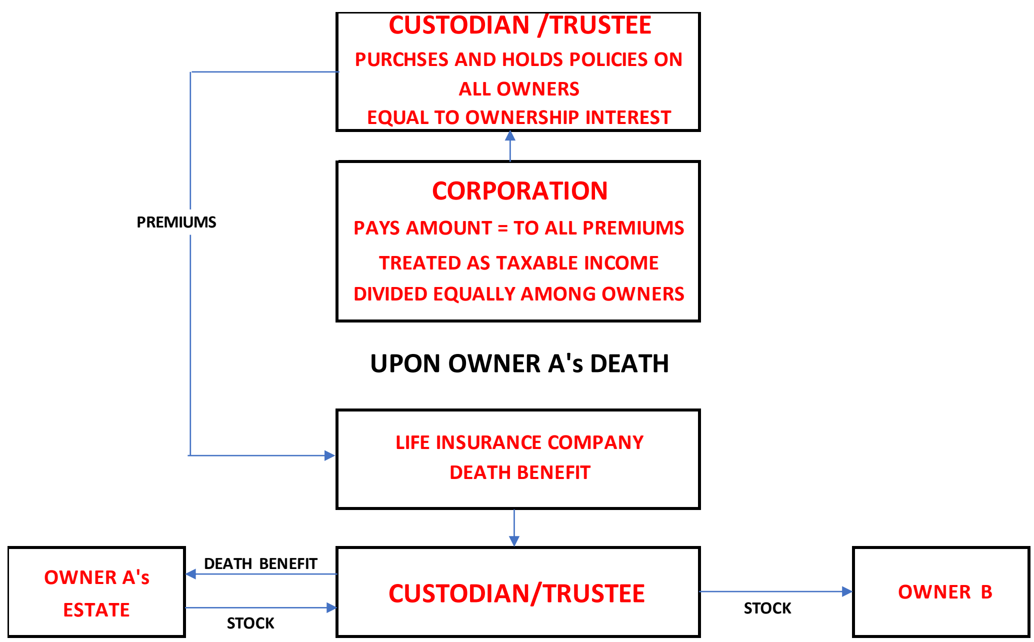
- Much less cumbersome, when there are more than two owners, as only one policy is required on each owner.
- Age and health differences don't cause disproportional premium payments by the company or individual owners.
- The agreement obligations are guaranteed to be fulfilled. Non trusteed agreements, though legally binding, can be broken, requiring litigation.

CONS

- A little more involved to set up, as the agreement requires a trustee.

SUMMARY

Though not often considered, trusteed buy/sells for the reasons mentioned, should usually be used, when a "cross purchases" agreement is used and should always be used, when a "wait and see agreement" is used.



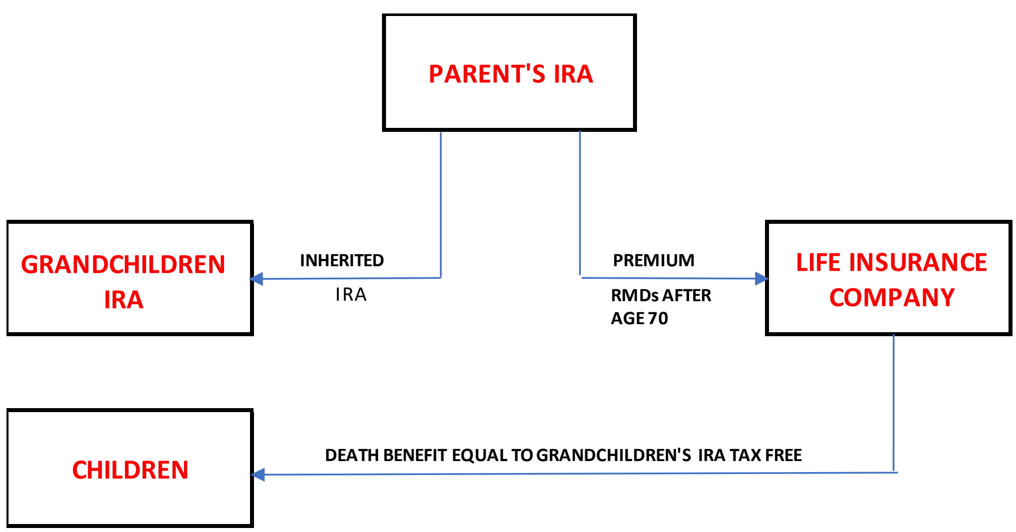
STRETCHING IRA'S FOR GRANDCHILDREN

THE WANT

The ability to stretch inherited IRAs is a huge benefit for parents and grandparents to consider, but it must be done by the book. There are many reasons why children and/or grandchildren inherit IRAs. The owner may be single, in a second marriage, or the surviving spouse may simply not need the IRA or RMDs for their survivorship and end up leaving it to their heirs. The best use of stretching is to leave the IRA to grandchildren, because their RMDs are much less. The problem is how to do this, without disinheriting the children (parents).

THE SOLUTION

A life insurance policy is taken out on the least expensive parent to insure, with the death benefit going to the children, while the IRA goes to the grandchildren. This makes the children's inheritance tax free and does not require RMDs. It allows the IRA to retain more long term value by dramatically reducing the RMDs that are required. The life insurance can, and probably should go into a trust for the children, as should the inherited IRA for the grandchildren. The life insurance could also go the surviving spouse, who would then leave it directly to the children or to a trust for the children. It is almost an absolute that inherited IRAs should go to the heirs with the lowest possible RMDs, which is usually the grandchildren, so long as the insured parent is in good health, because the children are made whole with tax free death benefit. The next page shows how advantageous it is to make the grandchildren the inheritor of the IRA.



INHERITED IRA RMDS

STARTING AT AGE 15 VERSUS AGE 45

		GRANDCHILD AGE 15			CHILD AGE 45			
YEAR	AGE	INHERITED IRA BALANCE	RMDS	ACCUM 5% ROI	AGE	INHERITED IRA BALANCE	RMDS	ACCUM 5% ROI
1	15	$1,000,000	$14,728	$1,034,536	45	$1,000,000	$25,773	$1,022,938
2	16		$15,464	$1,070,026	46		$26,990	$1,045,745
3	17		$16,213	$1,106,504	47		$28,263	$1,068,356
4	18		$17,023	$1,143,955	48		$29,677	$1,090,613
5	19		$17,874	$1,182,385	49		$31,072	$1,112,519
6	20		$18,768	$1,221,797	50		$32,530	$1,133,988
7	21		$19,675	$1,262,229	51		$34,054	$1,154,931
8	22		$20,658	$1,303,649	52		$35,756	$1,175,134
9	23		$21,691	$1,346,055	53		$37,425	$1,194,595
10	24		$22,776	$1,389,444	54		$39,167	$1,213,199
11	25		$23,874	$1,433,848	55		$40,986	$1,230,823
12	26		$25,067	$1,479,220	56		$42,886	$1,247,334
13	27		$26,321	$1,525,545	57		$44,707	$1,262,758
14	28		$27,587	$1,572,856	58		$46,769	$1,276,789
15	29		$28,966	$1,621,084	59		$48,919	$1,289,263
16	30		$30,414	$1,670,203	60		$51,161	$1,300,007
17	31		$31,874	$1,720,246	61		$53,279	$1,309,064
18	32		$33,468	$1,771,117	62		$55,705	$1,316,028
19	33		$35,141	$1,822,774	63		$57,975	$1,320,955
20	34		$36,898	$1,875,170	64		$60,594	$1,323,379
21	35		$38,663	$1,928,332	65		$63,018	$1,323,379
22	36		$40,596	$1,982,122	66		$65,514	$1,320,759
23	37		$42,626	$2,036,471	67		$68,080	$1,315,312
24	38		$44,659	$2,091,402	68		$70,716	$1,306,826
25	39		$46,892	$2,146,735	69		$73,417	$1,295,080
26	40		$49,237	$2,202,373	70		$76,181	$1,279,843
27	41		$51,578	$2,258,335	71		$78,518	$1,261,392
28	42		$54,157	$2,314,387	72		$81,380	$1,239,012
29	43		$56,865	$2,370,399	73		$83,717	$1,213,060
30	44		$59,558	$2,426,383	74		$86,033	$1,183,379
31	45		$62,536	$2,482,040	75		$88,312	$1,149,820
32	46		$65,489	$2,537,378	76		$90,537	$1,112,247
33	47		$68,578	$2,592,240	77		$91,921	$1,071,342
34	48		$72,007	$2,646,245	78		$93,977	$1,026,233
35	49		$75,392	$2,699,396	79		$95,022	$977,772
36	50		$78,930	$2,751,490	80		$95,860	$926,008
37	51	MONEY	$82,627	$2,802,306	81	MONEY	$95,465	$872,070
38	52	REMAINING	$86,759	$2,851,324	82	REMAINING	$95,832	$815,050
39	53	FOR	$90,807	$2,898,544	83	FOR	$94,773	$756,291
40	54	GRANDKIDS	$95,034	$2,943,685	84	GRANDKIDS	$93,369	$696,068
41	55		$99,449	$2,986,448	85		$91,588	$634,704
42	56		$104,057	$3,026,510	86		$89,395	$572,574
43	57		$108,477	$3,063,935	87		$85,459	$511,471
44	58	TOTAL RMDs	$113,479	$3,097,978	88	TOTAL RMDs	$81,186	$451,800
45	59	RECEIVED	$118,696	$3,128,246	89	RECEIVED	$76,576	$393,985
46	60		$124,137	**$3,154,315**	90		$71,634	**$338,469**
			$2,415,764				**$3,001,168**	

PERMANENT

INSURANCE OPTIONS

There is only one absolute, when it comes to using life insurance in estate planning. The coverage must be permanent. To address estate planning needs requires coverage that cannot be outlived. The real questions come when trying to determine which type permanent policy to use; and there are several, although some are more appropriate than others. Most have both permanent death benefit and cash values, while others have guaranteed death benefit that others do not. Still others are designed to be used as an investment alternative, while others are specifically designed to provide permanent death benefit. The following are short synopses of the general attributes of each type of policy.

WHOLE LIFE

Whole life (WL) insurance, specifically participating WL, is the first type of policy most people think about when talking about permanent life insurance. It will work well for estate planning, because the face amount of coverage is guaranteed for life. It also has cash value that is guaranteed to equal the face amount of the policy at maturity, usually at age 100. In addition, WL policies pay annual dividends that can either buy additional paid-up insurance, accumulate at interest or be used to help pay future premiums. The guaranteed cash value can only be accessed in two ways. First by surrendering the policy or secondly by borrowing the money from the policy. Long term borrowing of the guaranteed cash value is ill advised as it can lead to a policy lapsing creating adverse tax consequences. When the dividend option chosen is to buy paid-up additions, which is usually the case, the PUA cash value can also be accessed by loans. However, they can also be accessed by surrendering PUAs, without putting the base policy at risk. It's drawback for estate planning is that it's much more expensive with less flexibility than other options. The reason it's so much more expensive is that the insured is paying for permanent death benefit, cash values and dividends, with the same dollar. Usually, for estate planning purposes the only goal is permanent death benefit that can't be out lived, and cash values are usually irrelevant. This is especially true when the insurance is inside an irrevocable trust.

UNIVERSAL LIFE

Universal life (UL) was created to be a more flexible and less expensive alternative to whole life. Its flexibility is in the insureds ability to change the face amount and adjust premiums. UL also has cash values that are more easily accessed than are WL cash values. They can be borrowed, but at a much lower interest rate than WL. However, they can also be withdrawn from the policy. They cash value can also be overfunded to take advantage of the unique tax advantages life insurance offers as a savings alternative. However, when used for estate planning needs, the cash value is only relevant to the extent they are adequate to maintain the coverage.

This is the main problem with UL as an estate planning tool. Since the permanency of the death benefit is based on the cash value being enough to pay future mortality charges, low interest rates can have and have had an adverse effect on cash value growth, thus putting existing UL policies at risk of lapsing. This has been especially true for UL policies written before 2009, when interest rates dropped dramatically and have stayed down. Policies that were projected to stay in force to age 100 are now at risk of lapsing many years sooner. There has also been a problem with insurance companies increasing the mortality charges, over what was originally projected; and this has forced many policies to require significantly higher premiums to keep the policies in force **(Clients who have UL policies over ten year old should request in-force illustrations from their carriers, so they can head off any problems)**. Low Interest rates, non-guaranteed mortality charges and the short guaranteed death benefit duration makes UL less than ideal for estate planning purposes.

INDEXED UNIVERSAL LIFE

Indexed universal life (IUL) is like universal life in that it has flexibility and has cash values. However, it differs in two very significant ways. First, the death benefit can be guaranteed for life and secondly is how the cash value interest is determined. The lifetime guaranteed death benefit makes IUL very suitable for estate planning needs. The cash value interest is based on what the S&P 500 index does each year. The cash value earns 100% of the index gain up to 9% (currently) but none of the gain above 9%. If the S&P loses value, the cash values do not. The flexible premium allows the insured to take greater advantage of the indexing of the cash values, if they so choose. However, the key for estate planning is death benefit that cannot be outlived by the insured. There is one contractual concern regarding the IUL death benefit guarantee. If any cash value is ever withdrawn from the policy the death benefit guarantee ceases and the death benefit becomes dependent on the cash values to stay in force, as is the case with universal life. Consequently, to be used for estate planning purposes, this point must be emphasized.

VARIABLE UNIVERSAL LIFE

Variable universal life (VUL) is permanent coverage but is ill suited for estate planning. It's cash values are invested in mutual funds and as such, the cash value can lose money. Since the death benefit is dependent on the cash values being adequate to pay future mortality charges, and the cash value being subject to market risks, means the death benefit isn't guaranteed and can be severely impacted by downturns in the market. These policies are also very complicated and since they are inappropriate for estate planning, which is the purpose of this reference guide, I won't go into the nuts and bolts of how it works.

The following spreadsheets are taken from illustrations for a Guardian Life whole life policy (WL) and a Protective Life guaranteed universal life policy (GUL) for a male age 65, who is in excellent health. Their purpose is to give the reader a better understanding of the relative premium difference between the two types of policies. Absent the complete illustrations, they are not to be used for clients. All the GUL illustrations guarantee coverage to age 100. Coverage can be guaranteed to any age, up to age 120, with small increases in premium.

Illustration A - Shows the WL policy with the required premium for $1,000,000 of coverage on a 65 year old male.

Illustration B - Shows the GUL policy assuming the same premium as the WL policy. Take note, the coverage is more than doubled.

Illustration C - Shows the GUL policy assuming the same $1,000,000 face amount. Take note the premium is less than half the WL premium.

Illustration D - Shows the GUL policy assuming the same $1,000,000 face amount but paying premiums for only ten years. Take note the premium is $40,000, not $42,330 and the policy is paid up in 10 years.

ILLUSTRATION E

There is a widely held belief that whole life policies that have been in force for several years, should not be replaced. However, that is not always the case. When WL policies are specifically being used for estate planning purposes and the cash values aren't relevant or the WL policy is inside an irrevocable trust, it's in the best interest of the client to look at GUL as an alternative. That's what illustration E does.

It assumes the Guardian policy was taken out at age 65 and the insured is now ten years older. It is also assumes the insured is in the same health as he was at age 65. Finally, it assumes all the cash value of the WL policy is 1035 exchanged into the GUL policy and the annual premium remains the same. Keep in mind, EVERYTHING regarding the GUL policy is guaranteed, which is not the case with WL. As the illustration shows, the client can immediately increase his death benefit from $1,109,803 to $1,950,000 and still have it guaranteed to age 100.

WHOLE LIFE

A

Valued Client, Male Age 65, Preferred Plus NT

Benefit		*Premium* **
$1,000,000	Whole Life 121	$42,330.00
	Total First Year Premium	$42,330.00

Dividend Option: Paid Up Additions (D)

		Guaranteed			Non-Guaranteed - Current		
POL YR	AGE AT START OF YR	ANNUAL PREMIUM #	CASH VALUE ##	DEATH BENEFIT ##	NET PREMIUM #*	CASH VALUE ##*	DEATH BENEFIT ##*
1	65	42,330	0	1,000,000	42,330	0	1,000,000
2	66	42,330	5,680	1,000,000	42,330	9,810	1,004,130
3	67	42,330	38,900	1,000,000	42,330	48,182	1,012,251
4	68	42,330	72,420	1,000,000	42,330	87,887	1,021,752
5	69	42,330	106,330	1,000,000	42,330	129,056	1,032,575
6	70	42,330	140,480	1,000,000	42,330	171,672	1,044,782
7	71	42,330	174,810	1,000,000	42,330	215,751	1,058,433
8	72	42,330	208,810	1,000,000	42,330	261,107	1,073,809
9	73	42,330	242,570	1,000,000	42,330	307,820	1,090,975
10	74	42,330	276,190	1,000,000	42,330	355,979	1,109,803
11	75	42,330	309,600	1,000,000	42,330	405,623	1,130,299
12	76	42,330	342,810	1,000,000	42,330	456,800	1,152,456
13	77	42,330	375,600	1,000,000	42,330	509,438	1,176,362
14	78	42,330	407,750	1,000,000	42,330	563,501	1,202,198
15	79	42,330	439,000	1,000,000	42,330	618,879	1,230,131
16	80	42,330	469,330	1,000,000	42,330	675,586	1,260,186
17	81	42,330	498,510	1,000,000	42,330	733,531	1,292,475
18	82	42,330	526,720	1,000,000	42,330	792,830	1,326,908
19	83	42,330	554,010	1,000,000	42,330	853,523	1,363,399
20	84	42,330	580,280	1,000,000	42,330	915,425	1,401,835
21	85	42,330	605,320	1,000,000	42,330	978,349	1,442,238
22	86	42,330	628,970	1,000,000	42,330	1,041,507	1,484,014
23	87	42,330	651,110	1,000,000	42,330	1,104,637	1,526,965
24	88	42,330	671,680	1,000,000	42,330	1,167,545	1,570,989
25	89	42,330	690,650	1,000,000	42,330	1,230,259	1,616,203
26	90	42,330	708,040	1,000,000	42,330	1,292,397	1,662,285
27	91	42,330	724,440	1,000,000	42,330	1,353,840	1,708,374
28	92	42,330	739,910	1,000,000	42,330	1,414,420	1,754,154
29	93	42,330	754,430	1,000,000	42,330	1,473,901	1,799,455
30	94	42,330	767,940	1,000,000	42,330	1,532,431	1,844,557
31	95	42,330	780,280	1,000,000	42,330	1,589,726	1,889,475
32	96	42,330	792,130	1,000,000	42,330	1,646,695	1,934,264
33	97	42,330	803,410	1,000,000	42,330	1,703,179	1,978,900
34	98	42,330	814,010	1,000,000	42,330	1,759,023	2,023,418
35	99	42,330	823,710	1,000,000	42,330	1,813,927	2,067,886
36	100	42,330	832,090	1,000,000	42,330	1,867,423	2,112,494
37	101	42,330	840,320	1,000,000	42,330	1,919,750	2,155,855
38	102	42,330	848,380	1,000,000	42,330	1,970,795	2,197,795
39	103	42,330	856,270	1,000,000	42,330	2,020,510	2,238,264
40	104	42,330	863,970	1,000,000	42,330	2,068,762	2,277,202

GUARANTEED UNIVERSAL LIFE B

SAME PREMIUM

Protective Advantage Choice UL 1/19

Universal Life Flexible Premium Adjustable Life Plan | *Tabular Detail*

Initial Annual Premium: $42,330.00

Initial Death Benefit: $2,200,000.00

Riders: None

Prepared For: VALUED CLIENT

Male Age 65, Select Preferred

Protective. Life Insurance Company

Age	Year	Premium Outlay*	Cumulative Premium	Guaranteed Assumptions: 2.50% Guaranteed Interest Rate, Maximum Policy Charges — Policy Value	Surrender Value	Death Benefit	Notes [1]
66	1	42,330.00	42,330	0	0	2,200,000	
67	2	42,330.00	84,660	0	0	2,200,000	
68	3	42,330.00	126,990	0	0	2,200,000	
69	4	42,330.00	169,320	0	0	2,200,000	
70	5	42,330.00	211,650	0	0	2,200,000	
71	6	42,330.00	253,980	0	0	2,200,000	
72	7	42,330.00	296,310	0	0	2,200,000	
73	8	42,330.00	338,640	0	0	2,200,000	
74	9	42,330.00	380,970	0	0	2,200,000	
75	10	42,330.00	423,300	0	0	2,200,000	
76	11	42,330.00	465,630	0	0	2,200,000	
77	12	42,330.00	507,960	0	0	2,200,000	
78	13	42,330.00	550,290	0	0	2,200,000	
79	14	42,330.00	592,620	0	0	2,200,000	
80	15	42,330.00	634,950	0	0	2,200,000	
81	16	42,330.00	677,280	0	0	2,200,000	
82	17	42,330.00	719,610	0	0	2,200,000	
83	18	42,330.00	761,940	0	0	2,200,000	
84	19	42,330.00	804,270	0	0	2,200,000	
85	20	42,330.00	846,600	0	0	2,200,000	
86	21	42,330.00	888,930	0	0	2,200,000	
87	22	42,330.00	931,260	0	0	2,200,000	
88	23	42,330.00	973,590	0	0	2,200,000	
89	24	42,330.00	1,015,920	0	0	2,200,000	
90	25	42,330.00	1,058,250	0	0	2,200,000	
91	26	42,330.00	1,100,580	0	0	2,200,000	
92	27	42,330.00	1,142,910	0	0	2,200,000	
93	28	42,330.00	1,185,240	0	0	2,200,000	
94	29	42,330.00	1,227,570	0	0	2,200,000	
95	30	42,330.00	1,269,900	0	0	2,200,000	
96	31	42,330.00	1,312,230	0	0	2,200,000	
97	32	42,330.00	1,354,560	0	0	2,200,000	
98	33	42,330.00	1,396,890	0	0	2,200,000	
99	34	42,330.00	1,439,220	0	0	2,200,000	
100	35	42,330.00	1,481,550	0	0	2,200,000	

GUARANTEED UNIVERSAL LIFE C

SAME FACE AMOUNT

Protective Advantage Choice UL 1/19

Universal Life Flexible Premium Adjustable Life Plan | *Tabular Detail*

Initial Annual Premium: $19,100.00 | Prepared For: VALUED CLIENT

Initial Death Benefit: $1,000,000.00 | Male Age 65, Select Preferred

Riders: None

Protective. Life Insurance Company

				Guaranteed Assumptions		
				2.50% Guaranteed Interest Rate Maximum Policy Charges		
Age	Year	Premium Outlay*	Cumulative Premium	Policy Value	Surrender Value	Death Benefit Notes [1]
66	1	19,100.00	19,100	0	0	1,000,000
67	2	19,100.00	38,200	0	0	1,000,000
68	3	19,100.00	57,300	0	0	1,000,000
69	4	19,100.00	76,400	0	0	1,000,000
70	5	19,100.00	95,500	0	0	1,000,000
71	6	19,100.00	114,600	0	0	1,000,000
72	7	19,100.00	133,700	0	0	1,000,000
73	8	19,100.00	152,800	0	0	1,000,000
74	9	19,100.00	171,900	0	0	1,000,000
75	10	19,100.00	191,000	0	0	1,000,000
76	11	19,100.00	210,100	0	0	1,000,000
77	12	19,100.00	229,200	0	0	1,000,000
78	13	19,100.00	248,300	0	0	1,000,000
79	14	19,100.00	267,400	0	0	1,000,000
80	15	19,100.00	286,500	0	0	1,000,000
81	16	19,100.00	305,600	0	0	1,000,000
82	17	19,100.00	324,700	0	0	1,000,000
83	18	19,100.00	343,800	0	0	1,000,000
84	19	19,100.00	362,900	0	0	1,000,000
85	20	19,100.00	382,000	0	0	1,000,000
86	21	19,100.00	401,100	0	0	1,000,000
87	22	19,100.00	420,200	0	0	1,000,000
88	23	19,100.00	439,300	0	0	1,000,000
89	24	19,100.00	458,400	0	0	1,000,000
90	25	19,100.00	477,500	0	0	1,000,000
91	26	19,100.00	496,600	0	0	1,000,000
92	27	19,100.00	515,700	0	0	1,000,000
93	28	19,100.00	534,800	0	0	1,000,000
94	29	19,100.00	553,900	0	0	1,000,000
95	30	19,100.00	573,000	0	0	1,000,000
96	31	19,100.00	592,100	0	0	1,000,000
97	32	19,100.00	611,200	0	0	1,000,000
98	33	19,100.00	630,300	0	0	1,000,000
99	34	19,100.00	649,400	0	0	1,000,000
100	35	19,100.00	668,500	0	0	1,000,000

GUARANTEED UNIVERSAL LIFE D

SAME FACE AMOUNT – 10 PAY

Protective Advantage Choice UL 1/19

Universal Life Flexible Premium Adjustable Life Plan

Initial Annual Premium: $40,000.00

Initial Death Benefit: $1,000,000.00

Riders: None

Tabular Detail

Prepared For: VALUED CLIENT

Male Age 65, Select Preferred

Protective. Life Insurance Company

				Guaranteed Assumptions: 2.50% Guaranteed Interest Rate, Maximum Policy Charges			
Age	Year	Premium Outlay*	Cumulative Premium	Policy Value	Surrender Value	Death Benefit	Notes [1]
66	1	40,000.00	40,000	17,738	0	1,000,000	
67	2	40,000.00	80,000	34,696	0	1,000,000	
68	3	40,000.00	120,000	50,885	0	1,000,000	
69	4	40,000.00	160,000	66,209	14,289	1,000,000	
70	5	40,000.00	200,000	80,626	30,726	1,000,000	
71	6	40,000.00	240,000	93,814	53,894	1,000,000	
72	7	40,000.00	280,000	105,532	75,592	1,000,000	
73	8	40,000.00	320,000	115,107	95,147	1,000,000	
74	9	40,000.00	360,000	122,321	112,341	1,000,000	
75	10	40,000.00	400,000	126,936	126,936	1,000,000	
76	11	0.00	400,000	90,145	90,145	1,000,000	*
77	12	0.00	400,000	46,969	46,969	1,000,000	*
78	13	0.00	400,000	0	0	1,000,000	*
79	14	0.00	400,000	0	0	1,000,000	*
80	15	0.00	400,000	0	0	1,000,000	*
81	16	0.00	400,000	0	0	1,000,000	*
82	17	0.00	400,000	0	0	1,000,000	*
83	18	0.00	400,000	0	0	1,000,000	*
84	19	0.00	400,000	0	0	1,000,000	*
85	20	0.00	400,000	0	0	1,000,000	*
86	21	0.00	400,000	0	0	1,000,000	*
87	22	0.00	400,000	0	0	1,000,000	*
88	23	0.00	400,000	0	0	1,000,000	*
89	24	0.00	400,000	0	0	1,000,000	*
90	25	0.00	400,000	0	0	1,000,000	*
91	26	0.00	400,000	0	0	1,000,000	*
92	27	0.00	400,000	0	0	1,000,000	*
93	28	0.00	400,000	0	0	1,000,000	*
94	29	0.00	400,000	0	0	1,000,000	*
95	30	0.00	400,000	0	0	1,000,000	*
96	31	0.00	400,000	0	0	1,000,000	*
97	32	0.00	400,000	0	0	1,000,000	*
98	33	0.00	400,000	0	0	1,000,000	*
99	34	0.00	400,000	0	0	1,000,000	*
100	35	0.00	400,000	0	0	1,000,000	*

GUARANTEED UNIVERSAL LIFE

E

WHOLE LIFE REPLACEMENT

Protective Advantage Choice UL 1/19

Protective. Life Insurance Company

Universal Life Flexible Premium Adjustable Life Plan
Initial Annual Premium: $42,330.00
Initial Death Benefit: $1,950,000.00
Total Lump Sum: $355,979.00
Riders: None

Tabular Detail
Prepared For: VALUED CLIENT
Male Age 75, Select Preferred

CASH VALUE
1035 EHANGE

				Guaranteed Assumptions: 2.50% Guaranteed Interest Rate, Maximum Policy Charges			
Age	Year	Premium Outlay*	Cumulative Premium	Policy Value	Surrender Value	Death Benefit	Notes [1]
76	1	398,309.00	398,309	286,958	175,477	1,950,000	
77	2	42,330.00	440,639	244,282	138,261	1,950,000	
78	3	42,330.00	482,969	190,190	89,511	1,950,000	
79	4	42,330.00	525,299	121,785	26,293	1,950,000	
80	5	42,330.00	567,629	35,468	0	1,950,000	
81	6	42,330.00	609,959	0	0	1,950,000	
82	7	42,330.00	652,289	0	0	1,950,000	
83	8	42,330.00	694,619	0	0	1,950,000	
84	9	42,330.00	736,949	0	0	1,950,000	
85	10	42,330.00	779,279	0	0	1,950,000	
86	11	42,330.00	821,609	0	0	1,950,000	
87	12	42,330.00	863,939	0	0	1,950,000	
88	13	42,330.00	906,269	0	0	1,950,000	
89	14	42,330.00	948,599	0	0	1,950,000	
90	15	42,330.00	990,929	0	0	1,950,000	
91	16	42,330.00	1,033,259	0	0	1,950,000	
92	17	42,330.00	1,075,589	0	0	1,950,000	
93	18	42,330.00	1,117,919	0	0	1,950,000	
94	19	42,330.00	1,160,249	0	0	1,950,000	
95	20	42,330.00	1,202,579	0	0	1,950,000	
96	21	42,330.00	1,244,909	0	0	1,950,000	
97	22	42,330.00	1,287,239	0	0	1,950,000	
98	23	42,330.00	1,329,569	0	0	1,950,000	
99	24	42,330.00	1,371,899	0	0	1,950,000	
100	25	42,330.00	1,414,229	0	0	1,950,000	
101	26	42,330.00	1,456,559	0	0	0	P