Advanced Sales

CASE STUDY

21st Century Families

Planning an Estate with Children from a Previous Marriage

21st Century Families

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No Bank or Credit Union Guarantee	Not FDIC/NCUA Insured	May Lose Value

PLAG.9590 (12.09)

What is a Blended Family?

Many American households no longer fit the mold of the "traditional" family in which there are two parents, both in their first marriage. "Blended families" now are as common as traditional families. In a first marriage situation when there are children, assets are usually left to the surviving spouse who eventually leaves them to the couple's children. However, blended families (those in a second or third marriage) have special estate planning needs, especially when there are children from a prior marriage. Estate planning for these situations involves carefully considering strategies to help strengthen the legacy that the parents will leave for their loved ones

A surviving spouse is free to do whatever he or she wishes with inherited assets. Therefore, planning is essential to assure that family conflicts do not happen between the surviving children of a prior marriage of the deceased spouse and the surviving spouse and children of the current marriage. If a specific plan is not implemented, the surviving spouse who inherits the deceased spouse's assets could draw up a new Will that disinherits his or her stepchildren.

Looking at the Statistics

According to current statistics, approximately 40% - 50% of all marriages in the U.S. will end in divorce. Statistics from the U.S. Census* reveal the following:

- 75% of divorced persons remarry
- 43% of all marriages are remarriages for at least one of the parents
- 65% of remarriages involve children from a prior marriage
- 1,300 new blended families are formed every day in the U.S.

Taking into consideration the above statistics, we realize now that many of our clients will represent this group of Americans, who are divorced, now remarried and have children from a prior marriage. As one of their financial advisors, it is your responsibility to work with clients and their attorneys to assure that proper estate planning takes place. The type of planning involved often includes the use of life insurance to accomplish the client's goals, while staying sensitive to the family issues listed above.

*U.S. Census Bureau Current Population Reports, February 2002

The Facts

This case involves a couple, Jim (age 59) and Gabriele (age 51). Jim and Gabriele have been happily married for four years, both in good health and each is affluent. Jim's first marriage of 28 years ended in divorce six years ago. He has two adult sons from his first marriage—Jim Jr., age 30 and Patrick, age 27. His net worth is approximately $12 million comprised of a family business, of which he is the 100% owner, a portfolio of securities and home. His two sons are now involved in the business. Gabriele was a widow from her prior marriage and has a daughter, Elizabeth, age 16 from that marriage. Gabriele's net worth is approximately $3 million, comprised primarily of a portfolio of securities. She owned a very successful hair and nail salon business that she sold shortly before her marriage to Jim. Each signed a Prenuptial Agreement, waiving their right of election against the other's estate.

Jim – Gabriele

Jim Jr. – Patrick

Elizabeth

The Family Assets

- Grand Hearth & Patio, a C Corporation comprised of three stores solely owned by Jim, valued at $7.5 million. The 18-year old business specializes in the sale of high quality designer patio furniture, outdoor gas grills, and fireplace equipment and mantels.
- Jim and Gabriele purchased a new home three years ago worth $850,000.
- Jim has a 401(k) worth $900,000, and various other securities that total $3,175,000.
- Gabriele's assets, as mentioned above, are comprised of her share of the home and her portfolio of securities worth $2,575,000.

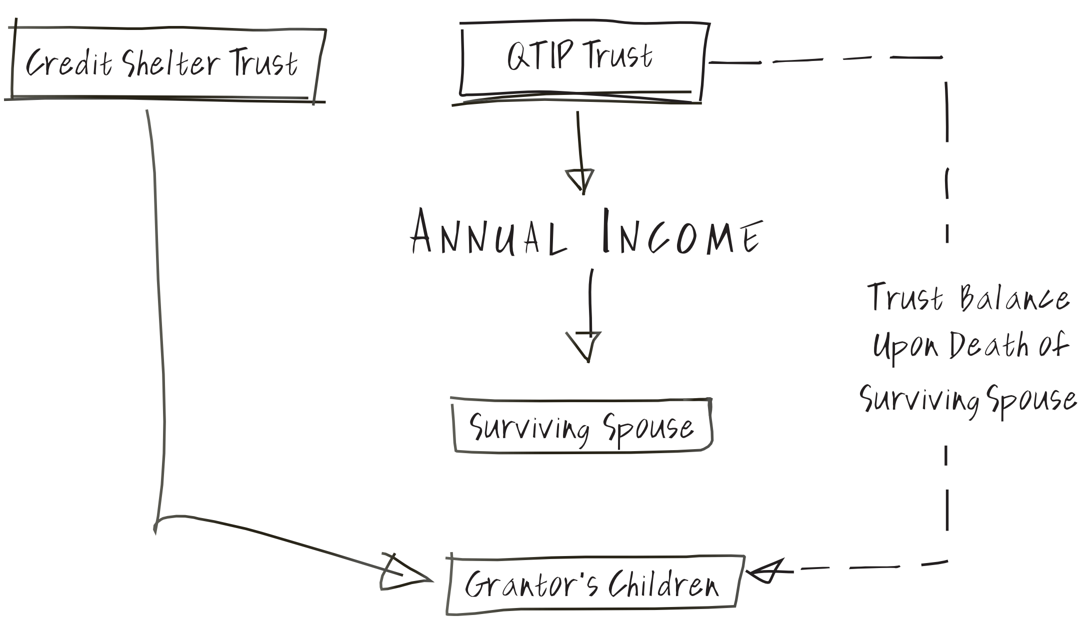
Jim's Initial Estate Plan – Proposed in 2008

In 2008, Jim considered using a credit shelter trust to leave the maximum amount ($2 million in 2008, $3.5 million in 2009, $0 in 2010 (due to the scheduled one year repeal of estate tax), and $1 million in 2011 (under current law) to his own adult children. The balance of his gross estate (which could vary depending on the year of death) would be allocated to a Qualified Terminable Interest Property Trust (QTIP) designed to provide his surviving wife Gabriele a lifetime income, while preserving the principal for his own biological children after her death.

A QTIP Trust is frequently used when a spouse has been previously married and owns the greater share of the couple's wealth. Here's how it works:

- The QTIP Trust holds assets in trust after the wealthier spouse dies, for lifetime income to the surviving spouse, while preserving the trust assets for the grantor's children and grandchildren.
- Assets transferred to a QTIP Trust are eligible for the unlimited marital deduction (and pass without estate taxes on the first death) if several conditions are met.
- All income of the QTIP Trust must be distributed to the surviving spouse at least annually.
- The QTIP Trust must name only one income beneficiary: the surviving spouse and no others; and the surviving spouse cannot change the beneficiary designation.
- The remaining trust assets are includible in the taxable estate of the surviving spouse.
- When the surviving spouse dies, the QTIP trust assets pass to the beneficiaries named by the grantor spouse. The beneficiaries are often the children of the grantor's previous marriage; however, they can include other children.

Based upon the original proposed plan, if Jim had died in 2009, $8.5 million of his net wealth would have been placed into the QTIP, excluding this amount from Jim's taxable estate. But the QTIP Trust fund, and any appreciation it may have enjoyed, would be includable in Gabriele's taxable estate at her death. Under this scenario, the first death enjoys zero estate tax after combining the estate tax credit amount with the QTIP transfer.



Gabriele's Initial Estate Plan – Proposed in 2008

Gabriele originally wanted a plan that leaves all of her assets to her daughter, whether or not she predeceases Jim. The credit shelter amount would permit that transfer to be tax free. A survivorship policy was proposed and was to be held in an ILIT to provide cash funds upon the second death, presumably Gabriele's. Since the QTIP would be funded with Jim's investments, the taxable value of the QTIP funds could potentially appreciate—resulting in an estate tax that would be borne by Gabriele's child (not the children of Jim). The second-to-die policy would provide funds equitably to all three children (Jim's two sons and Gabriele's daughter), as reimbursement for their estate tax costs.

The Problem

Jim was uncomfortable with a plan that would place most of his wealth in a QTIP trust requiring his two sons to wait until their stepmother's death. With his marriage to Gabriele of four years, compared to his children of 30 years, doubts crept in. Shortly before execution of the documents to implement the plan, Jim put everything on hold to reconsider the situation. Jim wants his business to be run by his two sons at his death. Gabriele has no interest in getting involved in Jim's business now or later.

Jim

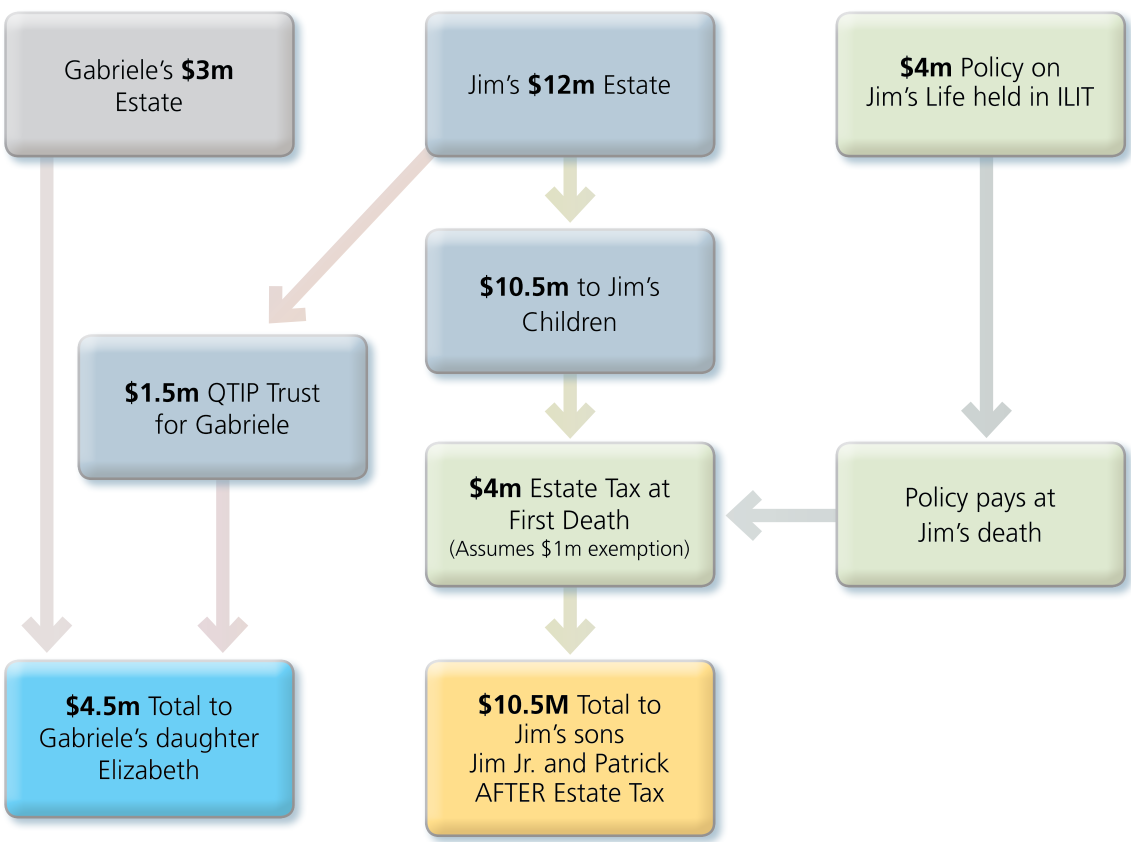
Jim Jr. – Patrick

The Solution

After wrestling with the choices, Jim decided to do the following:

- Reduce the assets going into the QTIP Trust to $1.5 million with his sons as contingent beneficiaries. The balance of Jim's estate will pass directly to his sons without the use of a credit shelter trust.
- The federal estate tax cost to Jim's biological children for doing so—approximately $4 million (assuming death in 2011 or thereafter under current law)—would be offset with an individual life insurance policy to be held in a newly-created ILIT. His children will now own the family business and the majority of Jim's estate without having to wait until Gabriele's death.
- Jim also adopted a provision where, if both Jim and Gabriele are alive on their 10th wedding anniversary, the $1.5 million asset inside the QTIP Trust will change from his two sons to Gabriele's daughter Elizabeth. With this change, Gabriele and Elizabeth will be taken care of financially if he should die prematurely.
- At Jim's death, Gabriele will receive lifetime annual income of $90,000 from the QTIP, assuming a 6.00% return on the trust assets. At the death of the first spouse, regardless of the order of death, their principal residence will pass outright to the surviving spouse.

Jim and Gabriele's Plan



The Results

Jim Jr. and Patrick immediately receive the majority of Jim's estate with the exception of the $1.5 million placed into the QTIP Trust for Gabriele's benefit. The $1.5 million placed into the QTIP Trust, should he pre-decease Gabriele before their 10th anniversary, will provide her with approximately $90,000 of annual income, assuming a 6.00% return, with the balance of the Trust assets at Gabriele's death going to his two sons. Assuming that both will continue to live well past their 10th anniversary, Jim's QTIP beneficiary trust designation will have the $1.5 QTIP Trust assets going to Gabriele's daughter, Elizabeth (at Gabriele's death).

Advisor Results

✔ One Centennial G II UL policy on the life of Jim for $4 million of coverage to be placed into Jim's newly-created ILIT. Annual premium $56,046.37, which will be paid using a joint annual gift exclusion from Jim and Gabriele. The $4 million death benefit is guaranteed until Jim's age 105. Jim's current ILIT beneficiaries include Jim Jr., Patrick and one grandson. The $56,046.37 annual premium was fully commissionable.

Talks are also underway for the sale of a policy on Gabriele's life to cover any final estate taxes Elizabeth may incur at Gabriele's death.

For more information
call the Advanced Sales Team
at (800) 628-6390, option #3,
Dick Kait (ext. 1537)
or Vic Gentner (ext. 4840)

The contents of this marketing piece are for illustrative purposes only.

Protective Centennial G II UL, policy form UL-15 and state variations thereof, is a flexible premium universal life insurance policy issued by Protective Life Insurance Company, 2801 Highway 280 South, Birmingham, AL 35223. Product features and availability may vary by state. Consult policy for benefits, riders, limitations, and exclusions. Policies are subject to underwriting, and up to a two-year contestable and suicide period. Benefits adjusted for misstatements of age or sex. In Montana, unisex rates apply.

Protective Centennial G II UL 8/09

Universal Life Flexible Premium Adjustable Life Plan
Initial Annual Premium: $56,046.37
Initial Death Benefit: $4,000,000.00
Riders: None

Tabular Detail
Prepared For: Jim - 2nd Marriage
Male Age 59: Preferred

Protective Life Insurance Company
Doing the right thing is smart business.®

				Guaranteed Assumptions				Non-Guaranteed Assumptions			
				2.50% Guaranteed Interest Rate Maximum Policy Charges				4.00% Initial Current Interest Rate Current Policy Charges			
Age	Year	Premium Outlay*	Cumulative Premium	Policy Value	Surrender Value	Death Benefit	Notes [1]	Policy Value	Surrender Value	Death Benefit	Notes [1]
60	1	56,046.37	56,046	0	0	4,000,000		14,909	0	4,000,000	
61	2	56,046.37	112,093	0	0	4,000,000		26,424	0	4,000,000	
62	3	56,046.37	168,139	0	0	4,000,000		34,134	0	4,000,000	
63	4	56,046.37	224,185	0	0	4,000,000		38,372	0	4,000,000	
64	5	56,046.37	280,232	0	0	4,000,000		39,327	0	4,000,000	
65	6	56,046.37	336,278	0	0	4,000,000		36,418	0	4,000,000	
66	7	56,046.37	392,325	0	0	4,000,000		29,603	0	4,000,000	
67	8	56,046.37	448,371	0	0	4,000,000		19,314	0	4,000,000	
68	9	56,046.37	504,417	0	0	4,000,000		5,170	0	4,000,000	
69	10	56,046.37	560,464	0	0	4,000,000		0	0	4,000,000	
70	11	56,046.37	616,510	0	0	4,000,000		0	0	4,000,000	
71	12	56,046.37	672,556	0	0	4,000,000		0	0	4,000,000	
72	13	56,046.37	728,603	0	0	4,000,000		0	0	4,000,000	
73	14	56,046.37	784,649	0	0	4,000,000		0	0	4,000,000	
74	15	56,046.37	840,696	0	0	4,000,000		0	0	4,000,000	
75	16	56,046.37	896,742	0	0	4,000,000		0	0	4,000,000	
76	17	56,046.37	952,788	0	0	4,000,000		0	0	4,000,000	
77	18	56,046.37	1,008,835	0	0	4,000,000		0	0	4,000,000	
78	19	56,046.37	1,064,881	0	0	4,000,000		0	0	4,000,000	
79	20	56,046.37	1,120,927	0	0	4,000,000		0	0	4,000,000	
80	21	56,046.37	1,176,974	0	0	4,000,000		0	0	4,000,000	
81	22	56,046.37	1,233,020	0	0	4,000,000		0	0	4,000,000	
82	23	56,046.37	1,289,067	0	0	4,000,000		0	0	4,000,000	
83	24	56,046.37	1,345,113	0	0	4,000,000		0	0	4,000,000	
84	25	56,046.37	1,401,159	0	0	4,000,000		0	0	4,000,000	
85	26	56,046.37	1,457,206	0	0	4,000,000		0	0	4,000,000	
86	27	56,046.37	1,513,252	0	0	4,000,000		0	0	4,000,000	
87	28	56,046.37	1,569,298	0	0	4,000,000		0	0	4,000,000	
88	29	56,046.37	1,625,345	0	0	4,000,000		0	0	4,000,000	
89	30	56,046.37	1,681,391	0	0	4,000,000		0	0	4,000,000	
90	31	56,046.37	1,737,437	0	0	4,000,000		0	0	4,000,000	
91	32	56,046.37	1,793,484	0	0	4,000,000		0	0	4,000,000	
92	33	56,046.37	1,849,530	0	0	4,000,000		0	0	4,000,000	
93	34	56,046.37	1,905,577	0	0	4,000,000		0	0	4,000,000	
94	35	56,046.37	1,961,623	0	0	4,000,000		0	0	4,000,000	

Current, Specified, and Midpoint assumptions are not guaranteed. They assume that scales for interest and cost of insurance rates will continue unchanged by the Company for all years shown. This is not likely to occur because interest and cost of insurance rates are subject to change by the Company based on various factors such as claims and investment experience, persistency, expenses, taxes, and the overall economic environment. Actual results may be more or less favorable than those shown.

Protective Centennial G II UL 8/09

Universal Life Flexible Premium Adjustable Life Plan
Initial Annual Premium: $56,046.37
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Age	Year	Premium Outlay*	Cumulative Premium	Policy Value	Surrender Value	Death Benefit	Notes [1]	Policy Value	Surrender Value	Death Benefit	Notes [1]
95	36	56,046.37	2,017,669	0	0	4,000,000		0	0	4,000,000	
96	37	56,046.37	2,073,716	0	0	4,000,000		0	0	4,000,000	
97	38	56,046.37	2,129,762	0	0	4,000,000		0	0	4,000,000	
98	39	56,046.37	2,185,808	0	0	4,000,000		0	0	4,000,000	
99	40	56,046.37	2,241,855	0	0	4,000,000		0	0	4,000,000	
100	41	56,046.37	2,297,901	0	0	4,000,000		0	0	4,000,000	
101	42	56,046.37	2,353,948	0	0	4,000,000		0	0	4,000,000	
102	43	56,046.37	2,409,994	0	0	4,000,000		0	0	4,000,000	
103	44	56,046.37	2,466,040	0	0	4,000,000		0	0	4,000,000	
104	45	56,046.37	2,522,087	0	0	4,000,000		0	0	4,000,000	
105	46	56,046.37	2,578,133	0	0	4,000,000		0	0	4,000,000	
106	47	0.00	2,578,133	0	0	0	*P	0	0	0	*P

Policy Terminates in policy year 47.

[1] Reference the Additional Information section, following the Tabular Detail section, for definitions of Notes.

GLP170,390;GSP1,824,544;7P296,603;CP56,046;EP0

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