

## Giftg With Life Insurance

### The Strategy

Life insurance is an asset that can efficiently transfer wealth within a family and can be structured to pay a known death benefit amount at the insured's death. It also can be structured so that the death benefit does not directly depend on financial market performance. Affluent families and individuals often use life insurance as part of their wealth transfer planning because it may provide a unique combination of potential advantages:

- Death benefits provide cash when needed most
- Policy proceeds are typically beyond the reach of creditors
- When dividends<sup>1</sup> are used to purchase paid-up additional insurance, the guaranteed cash values may even equal or exceed premiums after a number of years
- The death benefit is payable income tax-free and quite possibly estate tax-free<sup>2</sup>
- The tax-deferred cash accumulation can be accessed income tax-free
- The death benefit is based on the event of death – not a market event that can cause a downturn in value

<sup>1</sup>Dividends are not guaranteed. They are declared annually by Guardian's Board of Directors.

<sup>2</sup>Guardian, its subsidiaries, affiliates, agents or employees do not give tax or legal advice.

### How a Giftg Program Can Help Your Clients

Mark Hopkins recently met with his advisors to update his estate plan. Mark indicated that his number one priority was passing his estate to his wife, three children and five grandchildren in the most tax-efficient manner possible. As a retired business owner with a significant net worth, Mark's advisors recommended that he consider reducing the size of his estate to minimize potential estate settlement costs, while maximizing what would be left to his family. Mark immediately grasped the power of a giftg program, and wanted to implement a strategy that would benefit his family for multiple generations.

### Additional Assumptions

- **Client:** Mark Hopkins
- **Age:** 60
- **Underwriting Class:** Preferred
- **Death Benefit:** \$5,000,000
- **Annual Premium:** \$197,850

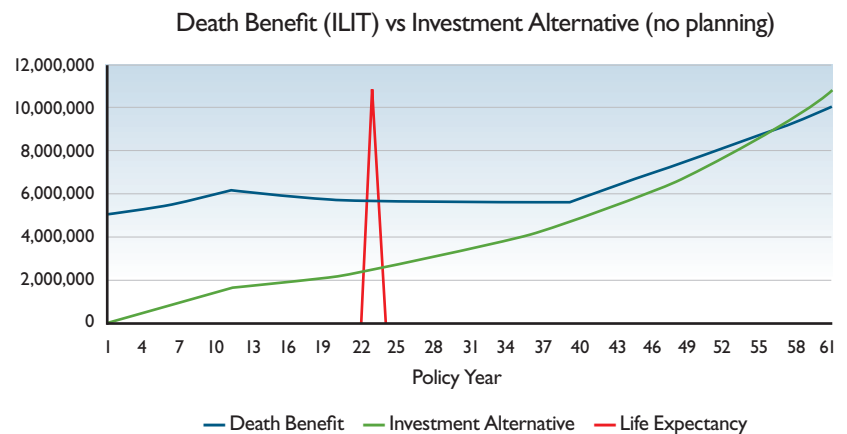
Male 60, non-smoker, \$197,850 premium, policy to naturally offset. The client is in a 28% tax bracket with an assumed estate tax bracket of 45%. The after tax rate on the alternate asset is 4%. The graphics reflect placing the insurance in an irrevocable life insurance trust (ILIT) and no planning as far as the alternate asset. To complete

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the plan, Mr. Hopkins created an ILIT that purchases a \$5,000,000 policy issued by The Guardian Life Insurance Company of America. The first year death benefit of \$5 million grows to almost \$10 million assuming Mr. Hopkins life expectancy is age 82.

## Life Insurance Death Benefits: An Efficient Wealth Transfer Tool

The graph compares the efficiency of using a life insurance policy on Mr. Hopkins's life to transfer wealth compared with the alternative strategy of accumulating the \$197,850 annual premium inside Mr. Hopkins' taxable estate. As the graph indicates, the benefits from gifting to purchase life insurance extend well beyond Mr. Hopkins' life expectancy. Eventually, there will be a point in time when the alternative asset's value will exceed the policy's death benefit. This so-called "cross-over" point is helpful in evaluating the relative efficiencies of the life insurance strategy and the alternative, "do nothing" strategy. This can help Mr. Hopkins and his advisors determine if a lifetime gifting strategy makes better financial sense.



## 4 Ways a Gifting Plan Achieves Mr. Hopkins' Goals

### Gifts Can Be Leveraged to Future Generations

Direct gifts by Mr. Hopkins to his children and grandchildren may be subject to the gift and Generation-Skipping Transfer Tax (GSTT). By purchasing life insurance in an ILIT, Mr. Hopkins can leverage his gift and GSTT exemptions, and any transfers will be based on his premium gifts, not the face amount of the life insurance policy purchased.

### Tax-Efficient Wealth Preservation

The insurance proceeds owned by Mr. Hopkins' ILIT may pass estate tax-free. Additionally, Mr. Hopkins' cash gifts used to pay premiums may be sheltered from gift tax, and may reduce the size of his estate for estate tax purposes. Finally, life insurance policy cash values grow income tax-deferred.

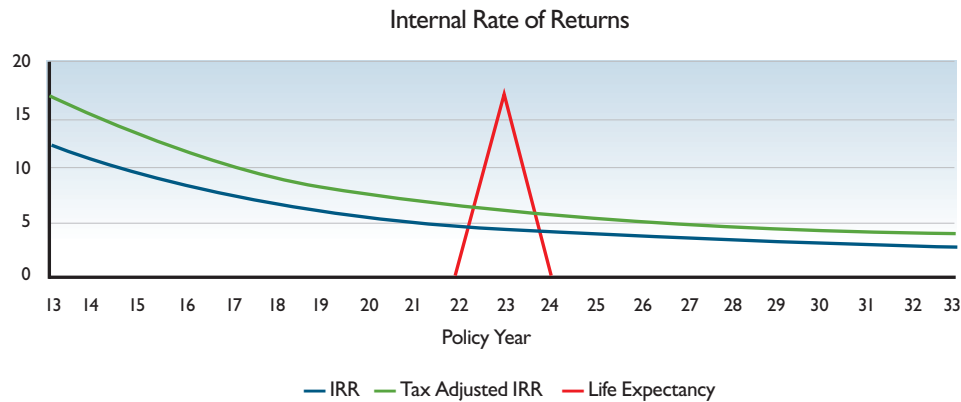
### Instant Liquidity

With the majority of Mr. Hopkins' net worth held in illiquid assets such as a primary residence, vacation home and rental real estate, life insurance proceeds will inject Mr. Hopkins' ILIT with liquid cash at his demise.

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## Internal Rate of Return Analysis on Mr. Hopkins' Gifting Program

Life insurance offers a unique combination of tax and non-tax advantages that make for an efficient gifting strategy. Life insurance is an attractive asset class when measured by its internal rate of return (IRR), which for life insurance, is the interest rate at which the premiums paid into a policy will have to grow to equal the death benefit. The chart below demonstrates the hypothetical IRRs on Mr. Hopkins' death benefit, as well as the policy's income tax adjusted IRRs assuming he is in a 45% estate tax bracket.



Mr. Hopkins' life expectancy is age 82. This graph illustrates the forecasted internal rate of returns on the policy's death benefit, as well as Income Tax Adjusted IRRs assuming he is in a 45% estate tax bracket.

**For more information on how a gifting program can help your clients purchase additional life insurance, contact your local Guardian Agency.**



CELEBRATING  
**150**  
YEARS