



## Strategy for Uncertain Estate Tax Environment

**Situation:** A producer contacted DBS’ in-house advanced case design resource to discuss an insurance structure for retirement age clients with \$15 million net worth. The producer noted that the net worth was less than the current joint exemption (\$23.16 million), but more than the prior exemption which is set to return in 2026. Also, the client’s net worth might decrease as they begin to use their assets to provide a comfortable retirement. Consequently, they were concerned about giving up control.

**Problem:** The clients were interested in purchasing a \$5 million dollar second-to-die policy for the benefit of their heirs and the competition was suggesting the use of an ILIT. The producer wanted ideas that would help him capture the case.

**Solution:** The DBS advanced case design resource described two insurance approaches. The first technique mentioned was a Survivorship Standby Trust as a method of owning a second-to-die policy. With this approach, the insured most likely to die first is the applicant, owner, and premium payer. The contingent owner and primary beneficiary is the “Standby Trust.” The DBS associate described the Standby Trust as another name for an unfunded ILIT (insurance trust) or credit shelter trust established under the terms of the client-insured-policyholder’s estate document. Since one insured retains ownership of the policy, the clients retain control during the lifetime of the joint insureds, yet the proceeds are outside of the estate at the death of the surviving spouse.

For the second technique, the DBS associate described how the clients could take advantage of the current low Applicable Federal Rates (AFR) to lend money to a trust using the Private Finance Strategy. With the Private Financing Strategy, the clients would enter into a loan with the trustee. Like the above technique with this structure, the policy cash value is equal to the cumulative premium. This is retained by the client; however, the proceeds above this value are outside of the estate.

Both strategies could be modified in the future if the clients become more comfortable giving up control of the policy.

**Result:** DBS was able to offer the total solution, which included competitive product and technical consulting resources.

