

# 1035 Exchange Using Life Insurance



How to use PL Promise GUL life insurance with your clients

**Goal:** Provide a new life insurance policy with the certainty of a guaranteed death benefit, through a 1035 exchange.

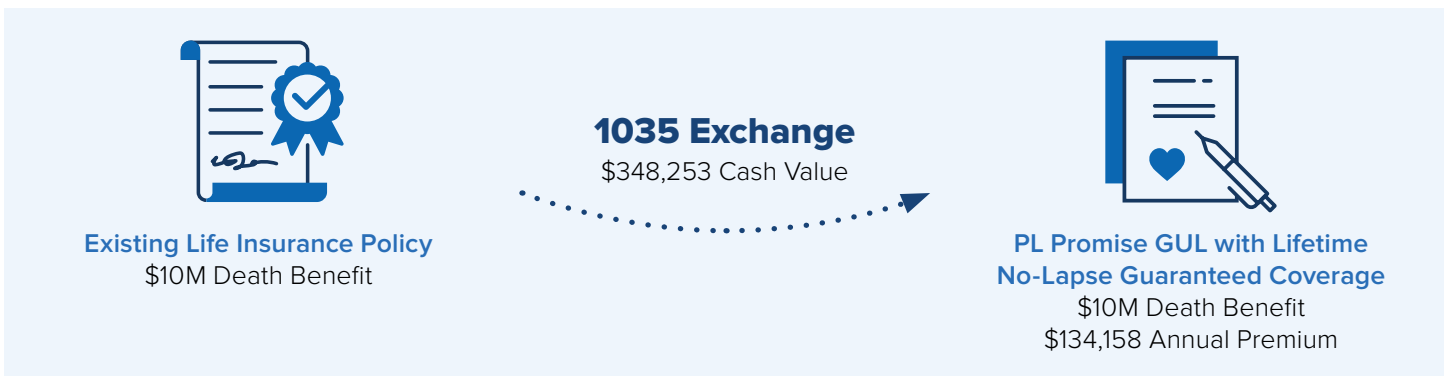
## Scenario

Meet Debbie, age 60, the sole breadwinner of her household. She currently owns a \$10 million cash value life insurance policy with \$348,253 of cash value. She purchased this policy 25 years ago for death benefit protection, potential cash accumulation, and supplemental retirement. The policy is under-performing and no longer meets her retirement needs. Now, she wants to re-focus from retirement income to providing guaranteed death benefit protection for her heirs. After talking with her financial professional, they determined that Debbie could use a 1035 exchange to transfer her cash value into a new policy with a no-lapse guarantee.



## Approach

Debbie applies and qualifies for a PL Promise GUL policy.<sup>1</sup> She had a history of skin cancer, and was still approved as Select No Nicotine Use risk class. She processed the external 1035 Exchange and transferred \$348,253 of the cash value to the new PL Promise GUL policy. Debbie chose the no-lapse guaranteed coverage<sup>2,3</sup> to age 100 with annual premiums of \$134,158.



Assumptions: Female, age 60, Select No Nicotine Use risk class. \$10M level death benefit, solving for the annual premium paid through age 100 to guarantee the death benefit through age 100 (Lifetime No-Lapse Guarantee Rider).

There are circumstances in which replacing your client's existing life insurance or annuity can benefit your client. As a general rule, however, replacement is not in your client's best interest. You should make a careful comparison of the costs and benefits, including any applicable surrender charges, of your client's existing policy and the proposed policy to analyze how a replacement may affect your client's plan of insurance. You should provide this detailed information to your client and discuss whether replacement is in your client's best interest.

<sup>1</sup>PL Promise GUL, No-Lapse Guarantee Universal Life Insurance (Form Series P18PRUL, S18PRUL, varies based on state of policy issue).

<sup>2</sup>The Lifetime No-Lapse Guarantee Rider (Form #R17LYFNL, varies based on state of policy issue) is included in the policy. Depending on how your client structures their policy, has a maximum duration of the insured's lifetime, subject to certain limits. If your client's net no-lapse guarantee value is zero, the no-lapse feature terminates. If the no-lapse feature terminates, additional premiums would be required to resume the no-lapse guarantee. If policy performance is such that your client's policy is being maintained solely by the no-lapse guarantee, your client's policy will not build cash value.

<sup>3</sup>Riders are subject to availability, restrictions, and limitations. Clients should be shown policy quotes with and without riders to help show the rider's impact on the policy's values.

## Considerations

- Debbie’s cash value life insurance policy may have provided higher cash value growth potential than PL Promise GUL, but her current primary concerns are death benefit protection and no-lapse guaranteed coverage.
- Debbie has the option at policy issue to add on chronic illness protection,<sup>4</sup> allowing partial acceleration of the death benefit while still living if she’s certified as chronically ill<sup>5</sup> by a licensed health care practitioner. She also may opt to use the policy’s return of premium feature<sup>6</sup> in case she no longer needs the coverage.

**Result:** Debbie receives the same \$10 million death benefit with a no-lapse guarantee and the option to add on chronic illness financial protection.

<sup>4</sup>Feature available via the optional PL Promise Chronic Illness Care Rider (Form Number R18LYCHR) that may be added at policy issue for a monthly rider charge. Benefit payments reduce the policy’s death benefit and other values under the policy. If the entire death benefit is accelerated, the policy will terminate. Regardless of the monthly election chosen, benefit payments may not exceed 100% of the IRS per diem. Benefits paid by accelerating the policy’s death benefit are intended to qualify as death benefits under section 101(g) of the Internal Revenue Code and may be excludable from your income and may not be subject to federal taxation. However, federal, state, and/ or local tax rules relating to the payment of accelerated death benefits are complex, will depend on your specific facts and circumstances, and benefits may or may not be taxable. In addition, these payments may affect eligibility for other benefits provided by federal, state, or local government including public assistance programs such as Medicaid. When benefits are received from multiple policies providing long-term care or chronic illness benefits for a given insured, including policies with different owners, all of those benefits must be aggregated to determine their taxability. Consequently, advice and guidance should be obtained from a personal tax advisor for more information. Pacific Life cannot determine whether the benefits are taxable.

<sup>5</sup>Chronic illness (become unable to perform 2 of the 6 activities of daily living (bathing, continence, dressing, eating, toileting, and transferring for a period of at least 90 days) or requiring substantial supervision due to severe cognitive impairment.

<sup>6</sup>Feature available via Enhanced Surrender Value Rider (Form Number R17LYESV). Included in the policy at no additional charge if initial minimum premium requirements are met.

**For questions or more ideas on how to use PL Promise GUL, reach out to your PL Promise Sales Team at (888) 900-9777 or at [LynInternalSales@PacificLife.com](mailto:LynInternalSales@PacificLife.com).**

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Product/material availability and features may vary by state.

The primary purpose of life insurance is protection against premature death of the insured.

Life insurance is subject to underwriting and approval of the application and will incur monthly policy charges.

The home office for Pacific Life Insurance Company is located in Omaha, Nebraska.

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