Estate Planning for Unmarried Couples

Using Life Insurance

Pacific Life Insurance Company

Maximizing Wealth Transfer for Unmarried Couples

16-VER-21C

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ESTATE PLANNING FOR UNIQUE CIRCUMSTANCES

Traditional estate planning does not anticipate the special considerations and planning needed for unmarried couples. In many states, unmarried couples may not have the same legal rights as married couples. This status affects inheritance rights, powers to act in the event of a health care emergency, and powers to act on behalf of a partner for financial matters. Beyond legal rights, a typical estate plan designed to benefit a surviving spouse and to minimize estate taxes using the unlimited marital deduction does not work for unmarried couples. The lack of an unlimited marital deduction may result in greater estate taxes due at the death of the first partner.

IRREVOCABLE LIFE INSURANCE TRUSTS (ILITS) MAY HELP MAXIMIZE WEALTH TRANSFER

Planning is especially important for unmarried couples. Life insurance insuring each partner can provide resources for the surviving partner, as well as pay any estate taxes[1] due on the first death. Life insurance also provides the unmarried couple with the ability to make specific bequests to other individuals to whom they may want to pass assets at death.

Please note a prerequisite for this strategy is establishing an insurable interest. The primary purpose of a life insurance policy is to provide death benefit protection for the beneficiaries who have an insurable interest in the insured. Insurable interest laws vary by state. Not all states have statutes that specify that unmarried couples have an insurable interest in each other. You may need to demonstrate an insurable interest if you reside in a state that does not statutorily provide it to unmarried couples. An insurable interest may be established by providing evidence of the relationship relevant to the insurable interest laws. This evidence may include, but is not limited to, jointly owned assets and business interests, wills, and trusts. Assuming an insurable interest is established, financial justification for the amount of life insurance coverage applied for will depend on the extent of financial loss to one party at the death of the other.

During the insured's lifetime, with the help of an attorney, he/she creates a will and/or living trust that will pass the insured's estate to his/her chosen beneficiaries, which may include the insured's partner, at the insured's death. For many individuals, they do not have any concerns regarding potential estate taxes due to the size of their current taxable estate. If this is the case, the insured could purchase a policy on his/her own life and name the insured's partner and/or children as the beneficiary/beneficiaries on the policy. Alternatively, if the insured does not want the death benefit proceeds paid directly to the beneficiary/beneficiaries, the living trust or a testamentary trust could be named as the beneficiary on the policy. If there is a potential estate tax concern, the insured would instead establish an Irrevocable Life Insurance Trust (ILIT). The insured makes annual gifts to the ILIT to pay for the policy premiums on a life insurance policy insuring his/her life. If the gifts to the ILIT qualify for the annual exclusion ($17,000 in 2023) and/or the lifetime gift tax exemption ($12,920,000 in 2023) amount, the gifts should not be subject to gift tax.[2] The ILIT trustee[3] uses these funds to purchase and own a life insurance policy on the insured's life; the ILIT is also named the beneficiary of the life insurance policy proceeds.

At the insured's death, the portion of the insured's estate equal to the amount he/she can pass free of estate tax passes to the chosen beneficiaries, pursuant to the insured's will and/or living trust. The remainder of his/her estate will be subject to estate taxes.

Assuming proper funding and structuring of the ILIT, at the insured's death, the ILIT receives the life insurance death benefit proceeds free of estate and income[4] taxes. The trustee of the ILIT may then use the death benefit proceeds to buy assets of the estate of the insured or lend money to the estate to help pay estate taxes. Ultimately, the assets of the ILIT will pass to the beneficiaries of the ILIT (the insured's partner and/or other individuals) in accordance with the terms of the ILIT. By using the death benefit proceeds from the ILIT to pay the estate tax, the insured is able to preserve the wealth transferred to his/her beneficiaries.

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

1 According to the Tax Cuts and Jobs Act of 2017, the federal estate, gift and generation skipping transfer (GST) tax exemption amounts are all $10,000,000 per person (indexed for inflation effective for tax years after 2011); the maximum estate, gift and GST tax rates are 40%. In 2026, the federal estate, gift and generation-skipping transfer (GST) tax exemption amounts are scheduled to revert to $5,000,000 per person (indexed for inflation for tax years after 2011).

2 As of January 1, 2023, the annual gift tax exclusion is $17,000 per donee (indexed for inflation).

3 The trustee appointed should not be the insured or the insured's life insurance producer. A life insurance producer who is paid a commission on the sale of a life insurance policy represents both his or her personal interest and the interests of the trust, creating a conflict of interest.

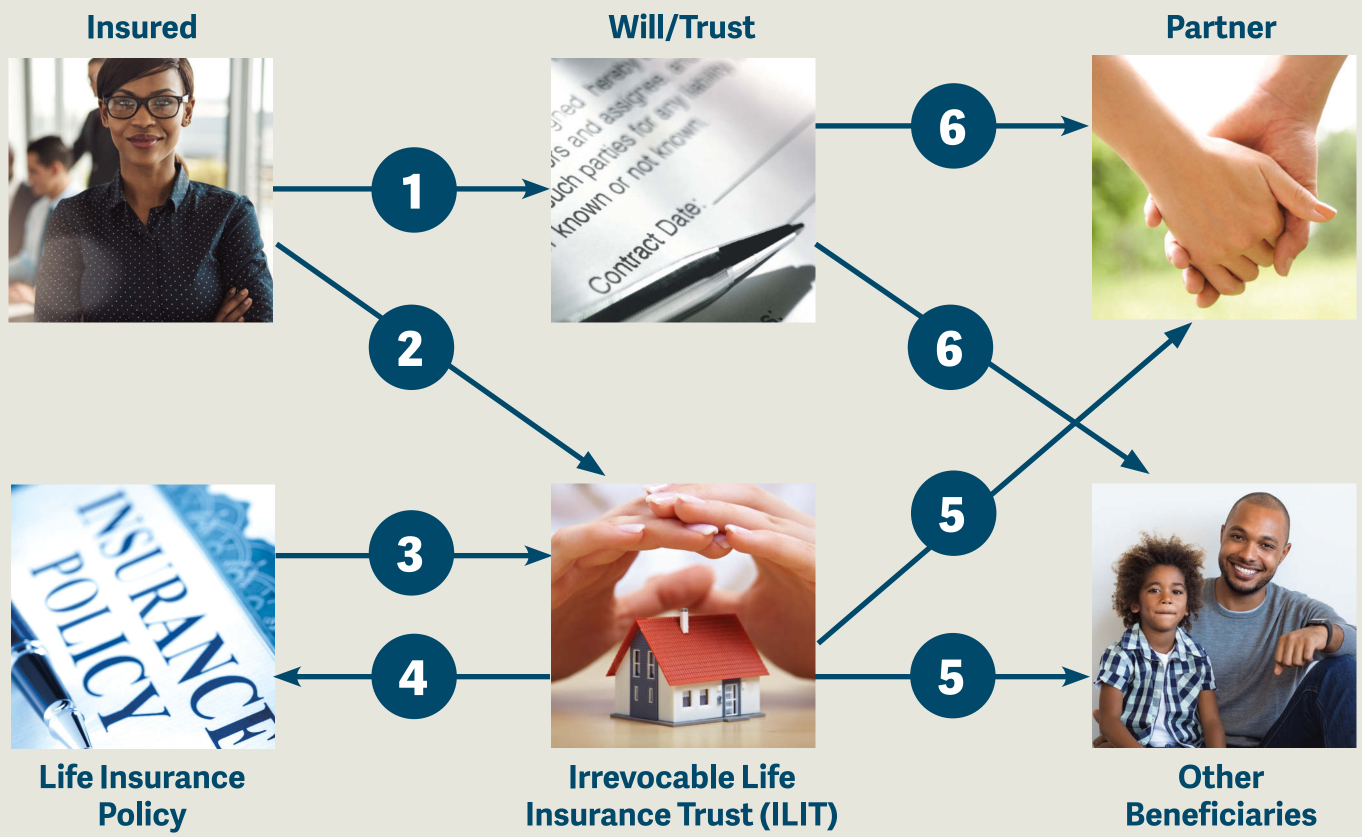
4 For federal income tax purposes, life insurance death benefits generally pay income tax-free to beneficiaries pursuant to IRC Sec. 101(a)(1). In certain situations, however, life insurance death benefits may be partially or wholly taxable. Situations include, but are not limited to: the transfer of a life insurance policy for valuable consideration unless the transfer qualifies for an exception under IRC Sec. 101(a)(2) (i.e. the "transfer-for-value rule"); arrangements that lack an insurable interest based on state law; and an employer-owned policy unless the policy qualifies for an exception under IRC Sec. 101(j).

ADVANTAGES

- If an ILIT is used, life insurance death benefit proceeds received by the ILIT are removed from the taxable estate.
- Support for the partner is provided after the insured's death via the ILIT and/or the insured's will and/or living trust.
- Estate tax liquidity problems are minimized.
- Insured is allowed to provide for other heirs in a tax-efficient manner.

DISADVANTAGES

- Tax laws may change in the future and the terms of the trust may no longer meet the needs of the grantor and/or beneficiaries.
- Assets transferred to the ILIT are permanently set aside for the benefit of the ILIT beneficiaries.



1	**WILL/TRUST**	Working with an attorney, the insured creates a will and/or living trust that leaves his/her estate to his/her chosen beneficiaries, which may include the insured's partner and any other beneficiaries.
2	**OPTIONAL ILIT**	If the insured has potential estate tax concerns or does not want to own the policy personally and leave the policy death benefit proceeds directly to the beneficiary/beneficiaries or via a testamentary trust, the insured would create an irrevocable life insurance trust (ILIT) benefiting his/her partner and any other beneficiaries and make annual gifts of cash to the trust to pay the life insurance policy premiums.
3	**LIFE INSURANCE**	The trustee of the ILIT purchases a life insurance policy on the insured. The ILIT is the owner and beneficiary of this life insurance policy.
4	**DEATH BENEFIT PROCEEDS PAID TO ILIT**	At the death of the insured, the ILIT receives the life insurance death benefit proceeds free from estate and income taxes.*
5	**ILIT DISTRIBUTIONS TO PARTNER AND OTHER BENEFICIARIES**	At the insured's death, the trustee may make distributions to the beneficiaries of the ILIT according to the terms of the ILIT.
6	**OTHER DISTRIBUTIONS TO PARTNER AND OTHER BENEFICIARIES**	At the insured's death, his/her estate is divided between the chosen beneficiaries, including the insured's partner and any heirs of the insured, via outright bequests or in trust, pursuant to the terms of the insured's will and/or living trust.

* For federal income tax purposes, life insurance death benefits generally pay income tax-free to beneficiaries pursuant to IRC Sec. 101(a)(1). In certain situations, however, life insurance death benefits may be partially or wholly taxable. Situations include, but are not limited to: the transfer of a life insurance policy for valuable consideration unless the transfer qualifies for an exception under IRC Sec. 101(a) (2)(i.e. the transfer-for-value rule); arrangements that lack an insurable interest based on state law; and an employer-owned policy unless the policy qualifies for an exception under IRC Sec. 101(j).

This fact finder is provided to help you and your life insurance producer better understand your goals and objectives. Please return the information to your life insurance producer and not to Pacific Life Insurance Company as we cannot and do not provide financial, legal or tax advice.

VITAL INFORMATION

Insured

Client: ______________________________ Date of Birth: ______________

Client Risk Status: ☐ Preferred ☐ NS ☐ S

Address: ______________________________ State: ______________

Beneficiaries

Partner: ______________________________

Other: ______________________________ ☐ Minor (check if applicable)
If yes, name of guardian:
____

Life Insurance Death Benefit Need: ______________________________

Illustrate Level Death Benefit: ______________________________

Premium Payment Mode: ______________ Solve? __________ OR Amount? __________

Anticipated Years to Pay: ______________ Hypothetical Earnings Rate: __________ %

Life Insurance Product to Illustrate: ______________________________

How would you like your estate distributed in the event of your death? ______________________________

What do you want your partner to receive? ______________________________

What do you want your other beneficiaries to receive? ______________________________

Do you own a business? ______________________________

What will happen to the business at your death? ______________________________

What else do I need to know about your goals for your estate? ______________________________

Life Insurance Producer Name: ______________________________ Date: ______________

PACIFIC LIFE

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Product/material availability and features may vary by state.

Insurance products and their guarantees, including optional benefits and any crediting rates, are backed by the financial strength and claims-paying ability of the issuing insurance company. Look to the strength of the life insurance company with regard to such guarantees as these guarantees are not backed by the broker-dealer, insurance agency, or their affiliates from which products are purchased. Neither these entities nor their representatives make any representation or assurance regarding the claims-paying ability of the life insurance company.

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

Pacific Life's individual life insurance products are marketed exclusively through independent third-party life insurance producers, which may include bank-affiliated entities. Some selling entities may limit availability of some optional riders based on their client's age and other factors. Your life insurance producer can help you determine which optional riders are available and appropriate for you.

Investment and Insurance Products: Not a Deposit	Not Insured by any Federal Government Agency	
Not FDIC Insured	No Bank Guarantee	May Lose Value

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