ENCOURAGING POSITIVE BEHAVIORS USING AN INCENTIVE TRUST

with Life Insurance

Encouraging Positive Behaviors Using an Incentive Trust with Life Insurance

Why an Incentive Trust?

Like most families, you'd like to ensure that your heirs have the financial security they need to live the life they want. However, you may be concerned that transferring significant wealth might not promote the positive behaviors or reinforce the values you'd like to see in your children. That is why you may want to consider implementing an incentive trust funded with life insurance. An incentive trust can provide for your beneficiaries' health, education, support, and maintenance, and may convey your values, foster education, and encourage productivity. A life insurance policy inside an incentive trust provides death benefit protection against premature death and may be used for estate tax liquidity needs.[1]

Promoting Positive Behavior

The goal of incentive trust planning is to ensure that inherited wealth creates a positive legacy. Incentive trust provisions may include provisions that reward educational goals achieved such as earning a degree and/or maintaining a certain grade point average, recognize work-related success by delivering funds that match earnings, and provide additional income to a beneficiary who chose an important yet low-paying career. The incentives you choose are limited only by the creativity of you and your advisors.[2] The terms included in the incentive trust typically give the trustee broad discretionary distribution powers because, as time passes, your family's values as well as the beneficiaries' circumstances may change.

How an Incentive Trust Works

With the assistance of an attorney, you (the senior generation) create an irrevocable trust with appropriate incentive provisions. The trust and provisions establish a values-based structure by which assets may be passed down to the younger generations. You transfer cash and/or income-producing assets to the incentive trust so that the trustee[3] can pay the life insurance policy premiums. If you are able to make annual exclusion gifts or use the lifetime gift tax exemption, your transfers will not be subject to gift tax.[4] The trustee then purchases a life insurance policy insuring the senior generation (you, or you and your spouse). The incentive trust becomes the owner and beneficiary of the life insurance policy. Upon the death of the insured—or of both insureds in a second-to-die policy—the life insurance death benefit proceeds may be paid to the incentive trust, free from estate and income* taxes. The trustee will make distributions from the trust to the beneficiaries according to the terms of the incentive trust. Note that the use of incentive provisions is not limited to irrevocable life insurance trusts. Many types of trusts can incorporate incentive provisions, including: living trusts, spousal lifetime access trusts, B-Trusts (also known as bypass or credit shelter trusts), generation-skipping trusts and dynasty trusts.

---

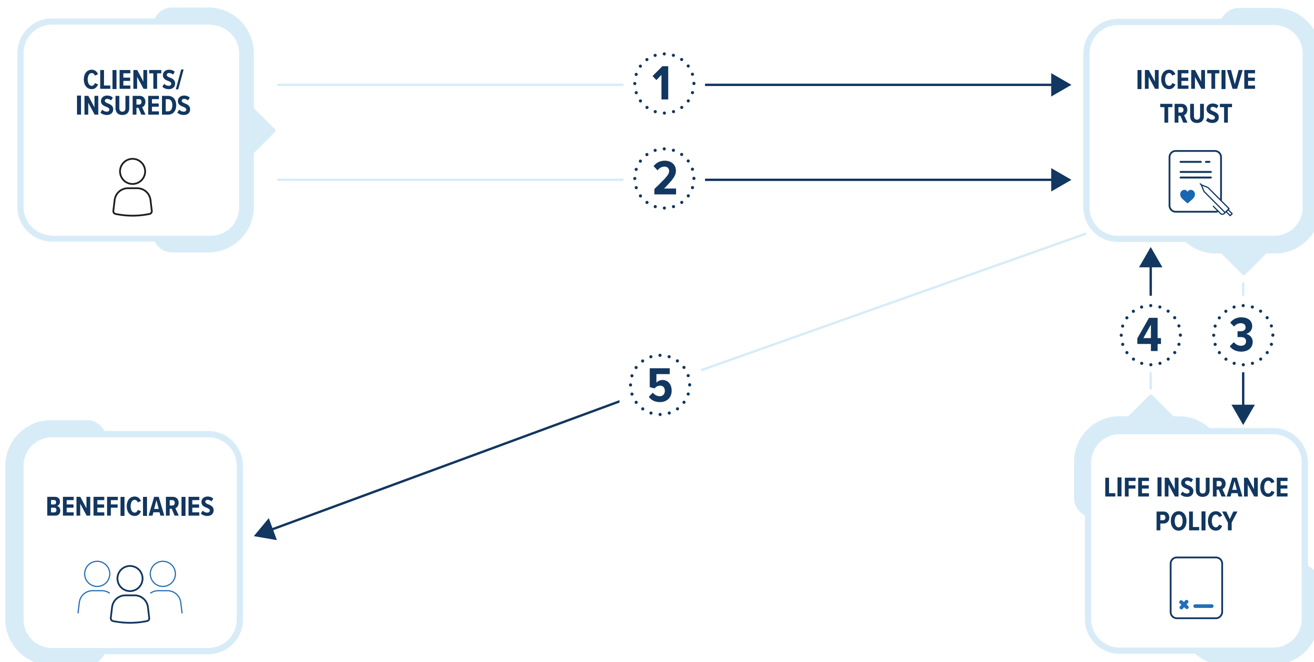
*For federal income tax purposes, life insurance death benefits generally pay income tax-free to beneficiaries pursuant to IRC Sec. 101(a)(1). In certain situations, however, life insurance death benefits may be partially or wholly taxable. Situations include, but are not limited to: the transfer of 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).

[1] As of January 1, 2026, the federal estate, gift, and generation-skipping transfer (GST) tax exemption amounts are all $15,000,000 per person (indexed for inflation effective for tax years after 2026.

[2] Clients should not incorporate provisions into an incentive trust that violate public policy, encourage discord among beneficiaries, and/or make trust administration impossible.

[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] As of January 1, 2026, the annual gift tax exclusion is $19,000 per donee (indexed for inflation).



1	**Incentive Trust**	Working with your attorney, you establish an incentive trust, which is an irrevocable trust containing appropriate provisions to convey your values, foster education, and encourage productivity for distribution of assets to beneficiaries.
2	**Cash and/or Assets Fund the Incentive Trust**	You transfer cash and/or income-producing assets to the incentive trust. The cash and/or income-producing assets may qualify as annual exclusion gifts or may use your lifetime gift tax exemption, depending on how the transfers are structured.
3	**Life Insurance Policy Owned by Incentive Trust**	The trustee of the incentive trust purchases a life insurance policy insuring you (or you and your spouse). The incentive trust is the owner and beneficiary of this policy.
4	**Life Insurance Death Benefit Proceeds Paid to Incentive Trust**	At the second death (or your death, if it is a single life policy insuring your life), the incentive trust should receive the life insurance death benefit proceeds free from estate and income* taxes.
5	**Distributions to Beneficiaries**	The trustee will make distributions to the beneficiaries according to the terms of the incentive trust. The provisions of the incentive trust typically give the trustee broad discretionary distribution powers because, as time passes, your values and the beneficiaries' circumstances may change.

Factfinder

This factfinder 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

Client: ______________________ Date of Birth: ______________________

Address: ______________________

Spouse: ______________________ Date of Birth: ______________________

Client Risk Status: ☐ Select ☐ NS ☐ S Spouse Risk Status: ☐ Select ☐ NS ☐ S

Life Insurance Death Benefit Need: ______________________ State of Residence: ______________________

Illustrate Level or Increasing Death Benefit: ______________________

Premium Payment Mode: ______________________ Solve? __________ or Amount? ______________________

Anticipated Years to Pay: ______________________ Illustration Crediting Rate: ______________________ %

Life Insurance Product to Illustrate: ______________________

____

____

Attorney's Name: ______________________ Phone: ______________________

Address: ______________________

Accountant Name: ______________________ Phone: ______________________

Address: ______________________

Goals, objectives or behaviors to encourage in your heirs which should be discussed with the attorney: ______________________

____

____

____

The Power of Pacific

Your life insurance policy is only as solid as the company behind it. When you purchase a life insurance policy from Pacific Life, you are buying a promise that we will be there for you today—and tomorrow.

For nearly 160 years, we've remained committed to providing quality products, service, and stability to meet your needs throughout your lifetime.

2025 WORLD'S MOST ETHICAL COMPANIES® ETHISPHERE™

Pacific Life has been named one of the 2025 World's Most Ethical Companies® by the Ethisphere Institute[5], a global leader in defining and advancing the standards of ethical business practices.

While ratings can be objective indicators of an insurance company's financial strength and can provide a relative measure to help select among insurance companies, they are not guarantees of the future financial strength and/or claims-paying ability of a company. The independent third party from which this annuity is purchased, including the broker/dealer, the insurance agency from which this annuity is purchased, and any affiliates of those entities, make no representations regarding the quality of the analysis conducted by the rating agencies. The rating agencies are not affiliated with the above-mentioned entities nor were they involved in any rating agency's analysis of the insurance companies.

[5]Based on the Ethisphere Institute's Ethics Quotient®. "World's Most Ethical Companies" and "Ethisphere" names and marks are registered trademarks of Ethisphere LLC.

Pacific Life is a product provider. It is not a fiduciary and therefore does not give advice or make recommendations regarding insurance or investment products.

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 Insurance Company is licensed to issue insurance products in all states except New York. Product/material availability and features may vary by state.

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

PACIFIC LIFE

AD-OG-690G

VLC4992-00 1/26 E129