Multigenerational Legacy Planning Producer Guide

Helping you provide solutions that provide benefits across three generations

For Producer Use Only

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Planning Concept Overview

If you are seeking an opportunity to deliver planning solutions to older, affluent clients who want to help positively impact the financial security of their children and grandchildren, learn more about the key benefits of this Multigenerational Planning solution.

This concept involves Generation 1 (Grandparents) who purchases permanent life insurance on Generation 2 (Adult Children) that can ultimately benefit all Generations with an increased focus on Generation 3 (Grandchildren).

This planning strategy allows you to work with older affluent clients who may not be able to obtain life insurance on their own lives. It also provides you with the opportunity to build a relationship with their adult children, opening the door to another generation of clients for you to work with.

If you have clients who fit this description, contact your Penn Mutual Field Office to learn more about this planning solution designed to help meet your clients' wealth transfer goals while allowing you to build strong relationships across multiple generations.

Concept Benefits and Advantages across Generations

Generation 1: Grandparents

Goal: Preserve and control assets to positively impact children and grandchildren with:

- Efficient use of assets
- Ability to maintain control of assets and desired distribution
- Provide a legacy that will have an enduring impact

Generation 2: Adult Children

Goal: Create possibilities that help meet planning goals by:

- Increasing financial security
- Providing potential source of income for:
  - Supplemental retirement income
  - Education funding
  - Other financial planning goals

Generation 3: Grandchildren

Goal: Create a legacy by:

- Providing financial protection
- Improving financial well being
- Potential source for education funding

The Multigenerational Legacy Planning solution using permanent life insurance helps your clients maintain control and efficiently use their assets to benefit the financial security of their children and grandchildren.

Permanent life insurance provides both death benefit and possibilities through cash value accumulation potential to help meet the planning goals of multiple generations.

Key benefits include:

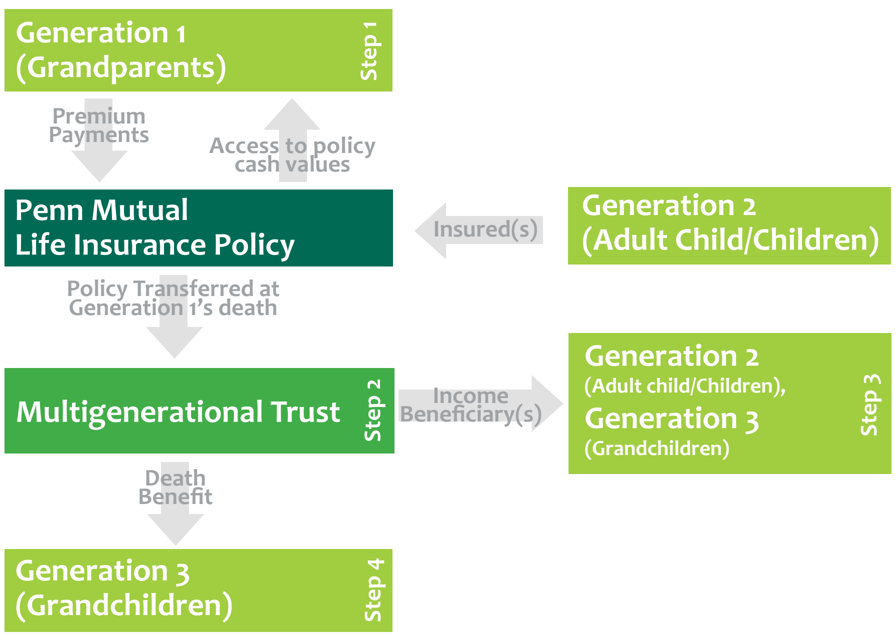
- Income tax-free death benefit
- Tax-deferred growth of cash value
- Potential tax-free access to cash value that can be used to help meet a variety of needs *
- Protection from creditors (varies by state).

*Certain limitations may apply to loans or withdrawals. Policy loans and withdrawals will reduce the death benefit and cash values and may be taxable under certain circumstances.

How it Works

If properly structured, permanent life insurance can positively impact the financial future of multiple generations. Here's an example of how it works:

Permanent Life Insurance Helps Maintain Control



Note: Policy structure may vary based on client's specific needs and goals.

Step 1:
Generation 1/Grandparents purchase a permanent life insurance policy insuring one or more of their adult children (Generation 2), and possibly their spouse(s). As the owners of this policy, the Generation 1/Grandparents can access policy cash values to help meet their needs during their lifetimes.

Step 2:
Upon the death of Generation 1/Grandparents, a Multigenerational Trust is created and becomes the owner and beneficiary of the life insurance policy.

Step 3:
The income beneficiaries of the Multigenerational Trust can include the adult children (Generation 2) and/or the grandchildren (Generation 3). The Trustee can access the policy cash value as outlined in the trust, based upon the planning goals and wishes of the Generation 1/Grandparents (e.g., support and education funding).

Step 4:
The trust receives the death benefit at the insured's death (Generation 2) providing a legacy that is designed to have an enduring impact for the grandchildren (Generation 3).

Please see pages 8-10 of this Producer Guide for other examples on how this concept can be structured based on your clients needs and objectives.

Targeting Clients with this Planning Solution

Target Client

This planning solution is ideal for affluent clients who:

- Are age 60 or older
- Do not have an estate tax concern, but want to transfer wealth in an effective and efficient manner
- Are living comfortably in retirement and have some liquid assets that are not needed to maintain their standard of living
- Seek a way to positively impact future generations by leaving a legacy

How to Position this Concept

Below are some key questions for you to ask your clients, which might help initiate the conversation or get them thinking about this concept:

- Do you think your children/grandchildren will be better off financially than you?
- Are you concerned about the future cost of education for your grandchildren?
- Will your children be able to afford a comfortable retirement?

Understanding the Client and Insured's Profile for this Concept

First and foremost, this must be a suitable sale that's in the best interest of your client(s) to meet their particular needs. Careful consideration should be given to the structure to help mitigate potential lapse risk at the death of Generation 1. The following pages outline both required and preferred attributes.

Required Attributes:

Generation 1 (G1) Profile:

- Required attributes for G1 include:
  - A sophisticated purchaser
  - Has significant liquid assets
  - Has the means to live without a portion of these assets at this time and in the near future
- Guideline for G1's Assets
  - Total amount of illustrated premium based on a sliding scale of either their income or liquid assets (case by case basis)
    - 20% of income
    - Range of 15% - 25% of liquid assets (higher amount applied to higher liquid assets)

Generation 2 (G2) Profile:

- Required attributes for G2 (the Insured) include:
  - Responsible, mature and gainfully employed
  - If the insured is a stay-at-home parent, then the basis of financial underwriting will focus on the spouse's income and employment, and the family net worth.
  - Has a reasonable amount of personally owned life insurance

Understanding the Client and Insured's Profile for this Concept

Preferred Attributes:

Below is a profile of the target client for this concept, as well as some preferred attributes of the case that can help accelerate the underwriting process.
PLEASE NOTE: If a particular case does not have these attributes, it doesn't mean that the case will not be accepted. However, additional information and time for review may be required.

PREFERRED ATTRIBUTE	EXPLANATION
Grandparents living comfortably in retirement	Generation 1 needs to have an understanding of their financial needs for the rest of their lives. A completed Financial Supplement for Multigenerational Legacy Planning is required for this concept.
Target mass affluent with assets of $2 - $5 mil	This concept is focused on wealth accumulation and transfer. Estate liquidity and estate and inheritance taxes should not be the driving factor for the insurance.
Owner and Beneficiary	To prevent adverse gift tax consequences, the owner and beneficiary of the policy should be the same. It's preferred that the initial owner and beneficiary is a revocable or irrevocable trust. However, Generation 1 (G1) may be the initial owner and beneficiary of the policy. If G1 is the beneficiary, the case will be reviewed to ensure that: ■ The policy premiums are substantial enough to avoid lapsing ■ Generation 2 (G2) has sufficient existing personal life insurance coverage to protect G2's family needs
Used with accumulation building products	Concept is designed to be used for a combination of accumulation along with the death benefit sale. If GPUL and ENLG riders are requested, the reasons must be specifically addressed in the cover letter.
Prefer if the policy is NOT a MEC	Since the insured is Generation 2, the policy will be in-force for many years. Avoiding MEC status helps to preserve the favorable treatment of loans/withdrawals in the future.
Prefer if the policy is not a single pay premium	Encourage recurring premium to avoid MEC status. Using the Premium Deposit Fund (PDF) or a Period Certain SPIA can help provide a dedicated source of funding for the policy. Having the trust own the PDF or SPIA can also help mitigate lapse risk.

Documentation Needed As Part Of The Application Package

- **Financial Supplement for Multigenerational Legacy Planning completed on G1**
- **Cover letter**
  - Brief personal resume* of both G1 and G2
  - Current amount of life insurance that G1 has in force on themselves
  - Purpose of this sale and the financial objective for this arrangement (what they're looking to accomplish)
  - Details of the structure of this arrangement and the sales design (explanation supported by illustration)

If you have questions on what is needed, please contact your field office for details. Our goal is to communicate the necessary documentations to help expedite the underwriting process.

* Personal resume should include who G1 and G2 are, what they do, if G2 is a stay at home parent expand on family situation, why G2 was selected as insured, other siblings, pertinent financial information not addressed in the application or financial supplement, etc.

Policy Ownership Considerations

Penn Mutual is committed to provide you with the information that you need to recommend the best solution for your clients. The following information is designed to help you understand ownership considerations and tax implications. If you have questions or need additional assistance, our Advanced Sales team can help provide guidance of policy ownership and tax considerations to address your clients' objectives.

In order to prevent potential adverse gift tax consequences upon the death of the insured, it is important that Generation 1 (grandparents), or a trust created by Generation 1, is the owner and beneficiary of the policy.

There are three basic ownership options, and each has advantages and disadvantages that should be considered when reviewing policy ownership arrangements. This information will help you evaluate the various options to determine which will best meet your clients' needs.

Outright Ownership by Generation 1

One or both of the members of Generation 1 is the owner of the policy.

Advantages

- No legal documents or administrative formalities or procedures are required.
- Generation 1 has complete control of the policy and cash values.

Disadvantages

- Unless the policy owner makes appropriate provisions in a Will or trust, there is little or no certainty that the intended multigenerational plan will actually take effect.
- The policy cash value will be included in Generation 1's estate for purposes of federal and state death taxes. Depending on the value of the estate, this may have limited impact.
- If the insured (Generation 2) predeceases the policy owner, the death proceeds will be paid to Generation 1 and included in their estate upon their subsequent death.

Policy Ownership Considerations

Revocable Living Trust

A revocable living trust created by Generation 1 is the owner and beneficiary of the policy.

Advantages

- Because the trust is revocable, and because a member of Generation 1 typically is the trustee(s), in effect Generation 1 has complete control of the policy and cash value.
- If the trust specifies that it will become irrevocable upon the first death in Generation 1, there is greater certainty that the intended multi-generation plan will actually occur.
- Policy cash values and death proceeds can be protected from the spouses or potential creditors of Generation 2 and Generation 3.
- Generation 1 can "custom tailor" the disposition of the policy cash value and death proceeds for Generation 2 and Generation 3.

Disadvantages

- A written trust agreement must be drafted, and thereafter some administrative procedures and formalities must be followed with respect to the policy.
- When the owner (Generation 1) dies, the policy cash value will be included in Generation 1's estate for purposes of federal and state death taxes. Depending upon the federal and state law in effect at the time of death, there may or may not be additional tax implications.
- If the insured predeceases the policy owner, the death proceeds will be paid to Generation 1 and included in their estate upon their subsequent death.

Policy Ownership Considerations

Irrevocable Trust

An irrevocable trust created by Generation 1 is the owner and beneficiary of the policy.

Advantages

- If properly structured, neither the policy cash value nor death proceeds will be included in Generation 1's estate for purposes of federal and state death taxes.
- Because the trust is irrevocable, it creates relative certainty that the intended multigenerational plan will actually take effect.
- Policy cash values and death proceeds can be protected from the spouses and potential creditors of Generation 2 and Generation 3.
- Generation 1 can "custom tailor" the disposition of the policy cash value and death proceeds for Generation 2 and Generation 3.

Disadvantages

- A written trust agreement must be drafted, and thereafter required administrative procedures and formalities must be followed with respect to the policy.
- Generation 1 will have little control over the policy and limited or no access to policy cash values.
- The transfer of cash or assets to the trust to pay policy premiums will be a gift for purposes of federal gift taxes.

Frequently Asked Federal Taxation Questions

Related to Multigenerational Planning

Policy Ownership

If Generation I is the owner of the policy insuring Generation 2, is the permanent life insurance policy included in the taxable estate of Generation I upon Generation I's death?

Yes. If Generation I is the owner of the policy, the value (generally cash value or interpolated terminal reserve) of the life insurance policy is included in Generation I's estate. As a general rule, assuming the insured (Generation 2) is still living, the cash value of the policy is included in Generation I's estate.

What are the tax consequences if Generation I were to transfer the policy insuring Generation 2 to a *revocable* multigenerational trust?

There are no tax consequences when an asset is transferred by the owner to a revocable trust of which the owner is the Grantor/Settlor of the trust.

What are the tax consequences if Generation I were to transfer the policy insuring Generation 2 to a multigenerational *irrevocable* life insurance trust?

The fair market value of the permanent life insurance policy will be a gift from Generation I to the trust. As a general rule, the gift would be equal to the cash value of the policy. Generation I's annual gift tax exclusions and/or the lifetime gifting exclusions could be used to avoid paying any gift taxes due to the transfer. Thereafter, the transfer of cash or assets to the trust to pay policy premiums would be a gift for purposes of federal gift taxes. The policy death benefit would be excluded from Generation I's estate when the transfer of the policy to the irrevocable trust is completed. The three-year rule under Internal Revenue Code 2035 is not applicable because Generation I is not the insured.

Does the transfer of the policy ownership from Generation I to the contingent owner upon the death of Generation I violate the transfer for value rule?

As a general rule, the death benefit received from a life insurance contract is not included in taxable income. However, if a life insurance policy is "transferred for valuable consideration" during the insured's lifetime, then the death proceeds in excess of any amount paid for the policy and premiums paid may be taxable as income to the beneficiary of the policy. The "transfer for value" rule does not apply if the basis for determining gain or loss in the hands of a transferee is determined by reference to the transferor's basis of the contract (i.e., the basis exception).

The transfer of the ownership from Generation I's estate to a multigenerational trust does not violate the transfer for value rule because the transfer falls under the basis exception discussed above.

Beneficiary Options

What are the tax consequences upon Generation 2's death when the death benefit is paid to the beneficiary?

As a general rule, life insurance death benefit is not subject to income taxes. However, the death benefit will be included in the taxable estate of the owner, if the owner possessed "incidents of ownership" in the policy at death (e.g., right to change the beneficiary, surrender the policy, take a policy loan).

Could Generation 3 be the beneficiary of a policy owned by Generation 1 insuring Generation 2?

If the owner, insured, and beneficiary of a policy are three different individuals or entities, there will be gift consequences upon the death of the insured (if G1 is still living). Thus, if the owner of the policy is Generation 1, the insured is Generation 2, and the beneficiary is Generation 3 (or a multigenerational trust) upon Generation 2's death, Generation 1 (as owner) will have made a gift to Generation 3.

In order to avoid this potential issue, Generation 1 or a multigenerational revocable trust with Generation 1 as the Grantor/Settlor should be the beneficiary of the policy owned by Generation 1. Please see the next section on "Policy Ownership" for more examples on how this arrangement can be structured.

Accessing Cash Value

What are the tax consequences if the owner accesses the policy's cash value?

Assuming the policy is not a Modified Endowment Contract (MEC), policy *loans* are not taxable, regardless of the amount received, provided the policy is not surrendered, lapsed, or otherwise terminated during the lifetime of the insured. Policy *withdrawals* are taxable to the extent that the total amounts received exceed the basis. Withdrawals taken within the first 15 years may also be taxable even if the amount does not exceed basis.

Resources and Assistance

Penn Mutual has the right resources to help you with your Multigenerational Legacy Planning cases. We've created a turnkey process to streamline the manner in which you submit your case, and the following resources are available to assist you.

Penn Mutual Field Offices

Your Penn Mutual Field office will work with you on:

- Case design and illustrations
- Closing the sale
- Providing client support materials
- Help recommend ownership and beneficiary arrangements
- Reviewing the cover letter
- Packaging the case for underwriting

Advanced Sales Department

In addition to your Field Office, Penn Mutual's Advanced Sales Department is an excellent resource.

If Generation I is creating a trust or amending their will to accommodate this concept and you have a draft of the proposal, our Advanced Sales area will be happy to review the proposal as an additional benefit to our producers.

Please feel free to contact one of our experienced Advanced Sales members:

- David Scott 215-956-8833
- Meg Muldoon 215-956-8010
- Eva Victor 215-956-8915
- Lynn Nolan 215-956-8023

Life Sales Desk

For any other assistance, please contact the Life Sales Desk at 1-800-818-8184, option 4.

Our Noble Purpose

Since 1847, Penn Mutual has been driven by our noble purpose – to create a world of possibilities, one individual, one family and one small business at a time. As an original pioneer of mutual life insurance in America, we believe that life insurance is the most protective, responsible and rewarding action a person can take to build a solid foundation today and create a brighter future for generations to come.

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