PNC PRIVATE BANK

TRANSFERRING WEALTH USING LIFE INSURANCE

Life insurance is purchased for many reasons. For a typical family, a policy death benefit can replace wages lost when a working spouse dies, pay off a mortgage so that a surviving spouse can continue living in the family residence or allow for children to achieve their educational goals if one or both parents die. For a family of substantial wealth, a policy death benefit could be used to pay estate or inheritance tax, provide liquidity so as to prevent a forced sale of assets or equalize the value of transfers among beneficiaries.

TYPES OF INSURANCE

In general, there are two major categories of life insurance.

TERM INSURANCE

Term insurance provides a death benefit should the insured die during a specific period of time, or term. Some policies of term insurance can be continued after the term, but at an increased premium cost. Additionally, some term insurance policies can be converted to permanent policies (described below) at the then-cost of permanent insurance without the need for additional underwriting.

"PERMANENT" INSURANCE

Permanent insurance is a colloquialism for many different types of policies, such as whole life insurance, variable life insurance, universal life insurance and index life insurance. Each policy type has specific attributes and benefits, which can vary widely from policy to policy. Often, a policy of permanent insurance will build cash value inside the policy, which may be necessary to support the policy's death benefit, especially in the policy's later years. Generally, the cash value that builds up inside a life insurance policy is the cumulative amount of the premiums paid by the owner of the policy, plus return on investment, less the costs to maintain the policy (the cost of maintaining the death benefit, administrative costs and other charges). The policy owner may access this cash value during the insured's life. However, depleting the cash value could cause policy guarantees, or the insurance coverage itself, to lapse.

TAXATION OF LIFE INSURANCE

Life insurance is a tax favored asset which enhances its use as a method to transfer wealth.

As described above, certain permanent policies of life insurance can accumulate cash value. Some permanent policies allow the owner of the policy to invest the cash value. Value that accumulates inside a life insurance policy is not subject to income tax. This may allow the investments inside the policy to grow more quickly than investments that are subject to income tax.

Unless certain exceptions apply, the death benefit from a life insurance policy is not subject to federal income tax. Some permanent policies add the policy's cash value to the death benefit. In that case, following the death of the insured, the beneficiaries of the policy will receive the stated death benefit plus the value of the policy's investments income tax-free.

If the policy is owned by someone other than the insured (such as an irrevocable life insurance trust) and the insured has no incidents of ownership in the policy, the death benefit will be paid free from federal estate tax.

In short, it is possible for the beneficiaries of a life insurance policy to receive tax-free cash following the death of the insured.

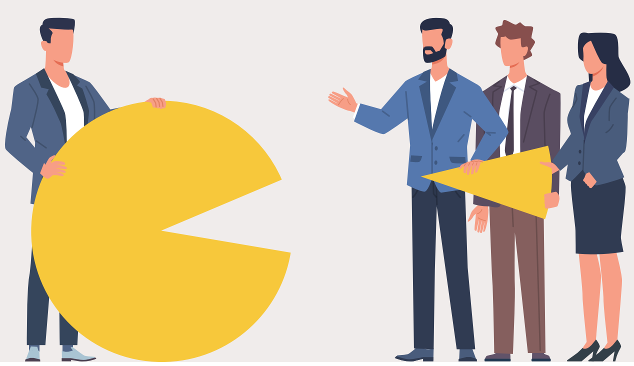
TRANSFERRING WEALTH USING LIFE INSURANCE

A life insurance death benefit can be an effective way to increase the amount of wealth transferred to your heirs when you die. Nevertheless, it is important to remember that your circumstances will differ from anyone else's. A plan that works for one person may not work for you.

ESTATE AUGMENTATION

A life insurance death benefit is, generally, a tax-free cash infusion following the insured's death. Think of the potential benefits of an immediate tax free cash payment. For example:

- Consider a family with moderate wealth. A cash payment following a death can increase the amount of property passing to heirs. For a parent with assets of $2 million, the death benefit from a $2 million life insurance policy would double the amount passing to heirs.
- Consider the parent who wants to be sure that each of their children will receive a minimum amount upon the parent's death. A life insurance death benefit can ensure that each child receives that amount, even if there are other insufficient assets in the parent's estate.
- Consider the business owner who desires to leave the family business to one child while leaving assets of equal value to another child. In many such cases, much of a family's wealth is tied up in the business, leaving few other assets. In that case the death benefit from an insurance policy payable to the other child can ensure that each child receives equal value.



TAX REPLACEMENT

The United States imposes an estate tax at death (which is an excise tax on the privilege on transferring property). Certain assets, known as income in respect of a decedent (IRD), are subject to income tax following the death of a taxpayer. IRD includes qualified retirement plans and individual retirement accounts (IRAs), other than Roth accounts and Roth IRAs, and income earned before death but paid thereafter. Generally, property in excess of a taxpayer's estate tax exclusion amount (including IRD), not passing to a spouse or charity, is subject to a federal estate tax.

A tax-free death benefit from a life insurance policy can replace wealth lost to taxes.

- Consider a person who has worked in a career for a lifetime and has accumulated $2 million in various traditional (not Roth) retirement accounts. Following death, as the beneficiaries of those accounts withdraw funds, they will be subject to income tax.
- If the beneficiaries are the person's children (except in certain limited circumstances) those funds must be withdrawn over 10 years. If the children pay income tax at 30%, the $2 million in retirement funds are really worth $1.4 million. A life insurance death benefit can replace those dollars paid in tax.
- Consider a single person with a large estate. Under current law, to the extent the estate exceeds the person's estate tax exclusion amount (and does not pass to charity), it would be subject to an estate tax of 40%. Moreover, if some of the assets subject to the estate tax were IRD, those assets would also be subject to income tax (although there is some offset due to the income tax deduction for estate tax paid on IRD). A life insurance death benefit can replace wealth lost to estate tax.

GROWING TAX-FREE WEALTH

As stated above, cash value accumulates inside a life insurance policy without reduction for income tax, and if paid as part of the death benefit that cash value escapes income tax altogether. Furthermore, if the policy is owned in a properly constructed and administered life insurance trust, the death benefit will also escape the estate tax.

Usually, owners of life insurance policies look to buy the greatest amount of death benefit for the least premium cost.

PNC PRIVATE BANK

Although there is a maximum amount that can be paid into a life insurance policy without triggering certain adverse income tax consequences (and creating a modified endowment contract), consider what could happen if the owner of a policy contributed the maximum amount possible to a policy, while purchasing the least amount of death benefit necessary to support the premiums paid: The owner of the policy would have an investment fund that would grow without income tax and upon death would pay a cash death benefit plus the value of the accumulated policy investments without reduction for income or estate tax. Is this even possible? Yes. Using private placement life insurance, it is possible to construct such a policy.

PART OF YOUR WEALTH PLAN

Life insurance is an important part of any wealth transfer plan. No matter your stage in life or level of wealth, life insurance can provide a tax preferred way to accumulate wealth and then pass it on after you are gone. Your PNC Private Bank® team can introduce you to an insurance strategist who works with your wealth strategist to determine how life insurance can be included in your estate and financial plans to increase the wealth available to your beneficiaries after your death. To learn more, contact any member of your PNC team.

For more information, please contact your PNC Private Bank advisor.

INV PB IMC 1123-058-2374302

PNC PRIVATE BANK