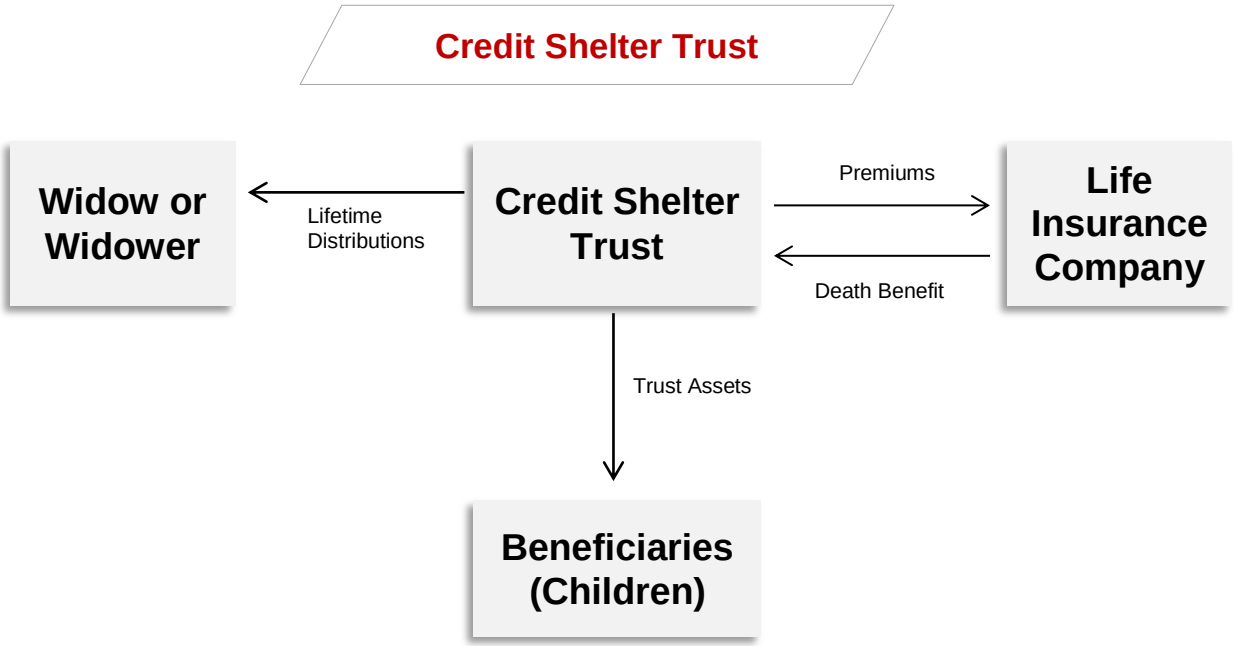
LEVERAGING FUNDED "CREDIT SHELTER" OR "B" TRUSTS

"Credit shelter trusts" (CST), also known as "B" trusts, are widely used to reduce estate taxes and maximize wealth transfer to children and grandchildren. A married couple may include provisions in their wills or trusts for creation of a CST upon the first spouse's death. Assets equal to the federal estate tax exemption amount are transferred to the trust and the trustee manages these assets as directed by the trust's provisions. The trustee of the CST can use existing trust assets to purchase life insurance on the life of the surviving spouse to maximize the value of the trust for children and grandchildren.



Client Profile

- Widow or widower entitled to income from a funded credit shelter trust
- Widow or widower does not need any or all of the income from the credit shelter trust

Why Leverage a Credit Shelter Trust

- Creates a larger inheritance for future generations
- Enhances benefits of a credit shelter trust by transferring a larger inheritance estate tax free

Advantages

- Increases inheritance for trust beneficiaries
- Existing trust assets used to pay premiums thus no gifting necessary
- Death benefit not included in surviving spouse's taxable estate
- Potential to fully guarantee an inheritance for trust beneficiaries

Disadvantages

- Surviving spouse cannot serve as sole trustee of the trust if it will own life insurance on his or her life
- Trust must prohibit surviving spouse from exercising any power over policy on his or her life
- Surviving spouse cannot make additional gifts to the credit shelter trust

Role of Life Insurance

- May provide guaranteed cash for beneficiaries
- Trust assets may not be subject to market volatility
- Immediately increases the value of the trust for children and grandchildren

Tax Considerations

- Does not require use of annual gift tax exemption
- Does not require use of lifetime gift tax exemption
- Trust assets, including life insurance death benefit, remain outside of insured's taxable estate