

## *The Tax Deductible Estate Plan*

**Defective trusts are a current rage in estate planning circles and a defective trust offers some interesting options for solving the problem faced by all estate planning trust – How to get the money into the trust?**

**However, rather than invent exotic methods to transfer cash or property that are sure to peak the interest of the IRS auditors, would it not be smarter just to deduct the life insurance premiums and have them paid into the trust from a third party?**

**There is a better way! – let us introduce the players.**

**GEAR (Guaranteed Entry Age Reserve) is a stable reserve life insurance employee benefit implemented under either Section 79 or Section 419. It is 100% deductible to the business and in many situations can be designed to allocate the major portion of the premiums to the benefit of the owner/stockholder group. During an employee's working years GEAR funding is split between term life insurance and a reserve for future conversions. At retirement, employees have the option to convert the group term to a whole life policy as of their age at date of hire. For example, the business owner reaching retirement age, who started the business at age 30 and implemented the GEAR plan at age 50, would receive a whole life policy with an issue age of 30. The reserve that has built up over the life of the GEAR plan is used to actuarially adjust the policy, including its dividend structure. (In most cases only a few premiums are required to have a self sustaining permanent policy, often with positive cash flow.)**

**A Forever Trust, often called a Legacy Trust, is a trust that is designed to protect wealth for several generations and to hopefully avoid estate taxation of trust assets in successor generations. The Forever Trust contains special language to remove it from the current estate as well as the estates of its future beneficiaries. Often a Forever Trust is designed as a defective trust, but they can also be drawn as a separate entity with clear legal distinctions between the trust and the beneficiaries.**

**In situations where the employee structure of the business or professional organization make GEAR a feasible purchase, the GEAR and the Forever Trust can be integrated to create a tax deductible estate plan.**

- 1) A Forever Trust is designed to match the financial needs of the business owner or professional**
- 2) A GEAR plan is implemented in the business and the business deducts 100% of the plan costs, including the reserve for future conversions.**
- 3) Immediately at implementation, the GEAR death benefit on the owner is assigned to the Forever Trust. This is an irrevocable assignment and includes the rights to convert the policy. Properly assigned, the death benefit never again touches the estate of the insured.**
- 4) At retirement, the Forever Trust exercises the conversion option and takes possession of the permanent policy. The cost of the conversion is usually two or three premiums. Thereafter, the policy is projected to be self sustaining.**
- 5) The only funding required of the Forever Trust is the conversion premium which is usually less than 10% of the funding that would be required for a more traditional solution. Funding of the Forever Trust can occur over the working life of the insured and if an indexed UL with minimal death benefit is used, the funds will accumulate tax free and be available to the trust as tax free loans.**

**The GEAR / Forever Trust combination takes two stand-alone dynamic products and merges them into a powerful and integrated estate planning tool. It is clean. It is relatively simple. It is cost effective.**