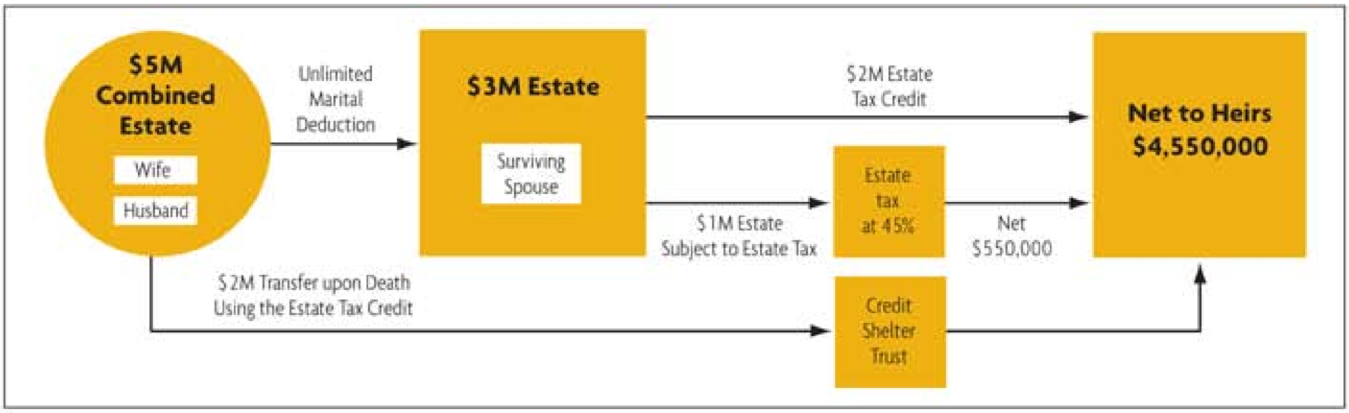
Leveraging the Credit Shelter Trust with Sun Protector VUL

Perhaps the most basic tool available for clients to transfer the largest portion of wealth to their heirs on an estate tax free basis, is by properly applying the gift and estate tax exemption equivalents. However, many married couples fail to maximize the value of their combined credits and the result is payment of higher estate taxes than is necessary. Here is an example with no estate planning:

> Ed and Laura have a combined estate of \$5M. When Ed dies unexpectedly, the Unlimited Marital Deduction ensures that the portion of the estate transferred to Laura is not subject to Estate Tax. However, when Laura dies, she utilizes her \$2M credit, leaving the remaining \$3M subject to estate tax. At a 45% estate tax rate, her estate would be subject to an estate tax of \$1,350,000!

Through the use of a Credit Shelter Trust (CST), Ed's applicable exclusion amount is removed from Laura's estate and transferred at Ed's death for the benefit of their children or other heirs. In addition, Laura can retain access to the income generated on the assets held by the Trust as well as possible access to principal based upon the Trust terms. Here is our example, assuming the use of a Credit Shelter Trust:



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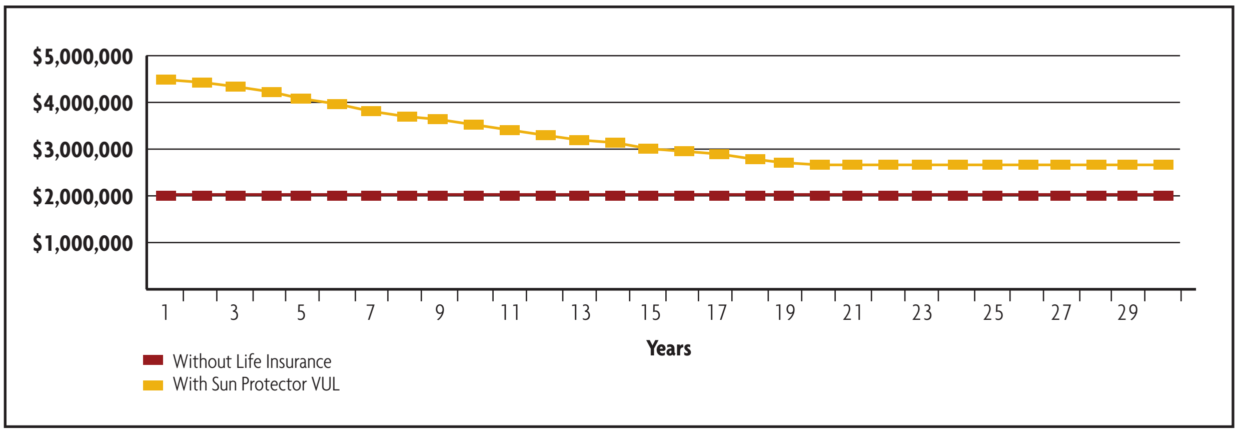
At the time of Ed's death, a CST is funded with $2M in cash assets with the remaining value of the estate passing to Laura using the Unlimited Marital Deduction. Upon Laura's death, her $2M estate tax credit is used. The remaining amount subject to estate tax has been reduced to $1M resulting in an estate tax bill of $450,000. The simple use of a CST has reduced the estate tax by $900,000!

To further enhance the value of the Credit Shelter Trust, life insurance may be purchased in the Trust. The Sun Protector VUL product is ideally suited for this market. Through an Extended No-Lapse Rider, the Protector VUL will guarantee the death benefit remains in force throughout the life of the insured regardless of the performance of the underlying funds. In addition to a guaranteed death benefit, the Protector VUL product provides strong cash value accumulation that can be used to provide significant income to the surviving spouse or heirs.

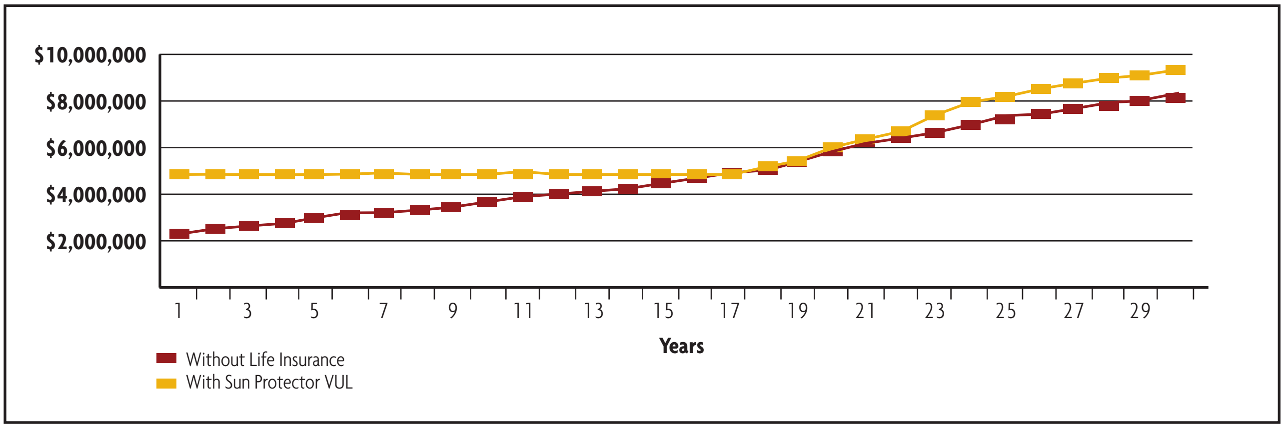
In the below examples, we have assumed that upon Ed's death, the Trustee purchased a Sun Protector VUL policy insuring Laura (Laura is assumed to be age 65 and a Preferred Nonsmoker). The $2M in the CST is used to pay 20 annual premiums of $100,000 for the insurance policy.

The following graph shows a 0% rate of return on trust assets assuming the Trustee invests in a hypothetical taxable account (tax rate of 40%) compared to the Guaranteed Death Benefit provided by the Sun Protector VUL with a guaranteed death benefit of $2,670,000. The Sun Protector VUL values include the values of the hypothetical taxable account since it is funding the insurance policy.



While the Extended No-Lapse Rider provides security to the heirs and protects against market risk, what makes the Sun Protector VUL product so appealing is the potential for strong cash accumulation. The CST can be structured to allow for distributions to the surviving spouse. Assuming an 8% gross rate of return (7.25% net), the Sun Protector VUL cash value has grown to $3,243,663 in year 20 and $4,528,618 in year 25.

The following graph shows an 8% rate of return on trust assets assuming the Trustee invests the trust assets in a hypothetical taxable account (tax rate of 40%) compared with the Death Benefit provided by the Sun Protector product.



For more information, please contact your **Sun Life Financial Representative**.

This information contains references to concepts that have significant legal, accounting and tax implications. It is not intended as legal, accounting or tax advice. Clients should consult with their own financial and tax advisor regarding the application of these concepts to any particular situation.

*This case study is designed to present an understanding of the mechanics of Sun Protector VUL in a Private Financing Plan. Variable Universal Life Insurance policies are subject to market risks, including possible loss of principal. When accessing policy values, policy holders may receive more or less than they invested. Partial withdrawals and loans will reduce the policy Death Benefit and the Account Value by the amount of the withdrawal. Withdrawals that exceed the amount of premiums paid into the policy will be taxable.

Complete VUL illustrations contain three sets of values in the following sequence and should accompany any presentation of this concept:

1. Based on one assumed rate and current cost of insurance rates;
2. Based on three assumed rates (including 0%) and current cost of Insurance rates.
3. Based on three assumed rates (including 0%) and Guaranteed Cost of Insurance rates.

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