PACIFIC LIFE

LIFE INSURANCE FOR THE BLENDED FAMILY

Planning an Estate with Children from a Previous Marriage Using Life Insurance

Pacific Life
Insurance Company

AD-OC-789F

No bank guarantee • Not a deposit • May lose value
Not FDIC/NCUA insured • Not insured by any federal government agency

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Common Concerns of Blended Families

Traditional estate plans do not anticipate the special considerations and planning needed for blended families. An estate plan is typically designed to benefit the surviving spouse and to minimize estate taxes.[1] Generally, the children from the prior marriage may have to wait until the surviving spouse's death to receive their inheritance. Worse yet, the deceased spouse's children may be close in age to the surviving spouse, and may, effectively, be disinherited.

Providing for a Current Spouse as Well as Children from a Prior Marriage

Planning is especially important in a blended family situation. Life insurance insuring the spouse with children from a previous marriage can provide death benefit protection in the event of a premature death. It may also provide other resources for the children as well as an equitable division of assets upon the death of the biological parent. Life insurance also provides the couple with the ability to protect the surviving spouse and/or family without disinheriting children from the prior marriage.

During the insured's lifetime, with the help of an attorney, he or she creates a will or living trust that will pass his or her estate at death. The insured also establishes an irrevocable life insurance trust (ILIT).[2] The insured makes annual gifts[3] to the ILIT to pay for the policy premiums on a life insurance policy insuring his or her life. If the gifts to the ILIT qualify for the annual exclusion and/or lifetime gift tax exemption amount, the gifts would not be subject to gift tax. The ILIT trustee[4] uses these funds to purchase and own a life insurance policy on the insured's life; the ILIT becomes the beneficiary of the life insurance policy proceeds.

At the insured's death, the portion of the insured's estate equal to the amount he/she can pass free of estate tax passes to a B-Trust (also referred to as a credit shelter trust). The remainder of his or her estate passes to a marital trust. No estate tax is imposed at the insured's death because the portion of his or her estate not shielded by the applicable federal estate tax exemption amount passes to the marital trust for the benefit of the surviving spouse and qualifies for the unlimited marital deduction. The surviving spouse typically has the right to use all of the income from both of these trusts and the principal for health, education, support, and maintenance.

Additionally, assuming proper funding and structuring of the ILIT, at the insured's death, the ILIT receives the life insurance death benefit proceeds free of estate[1] and income[5] taxes. The trustee of the ILIT may then distribute the death benefit proceeds to the beneficiaries of the ILIT (the insured's children) in accordance with the terms of the ILIT. This gives the children their inheritance before the death of the surviving spouse.

When the surviving spouse dies, the balance of the insured's assets held in the B-Trust will pass to the insured's children free of estate tax.[1] The balance of the insured's assets in the marital trust is includable in the surviving spouse's estate and may be subject to estate tax. Depending on the overall estate plan, these assets may also pass to the insured's children.

The surviving spouse benefits from both the B-Trust and the marital trust during his or her lifetime because the surviving spouse is able to maintain the lifestyle that was shared with his or her spouse. Furthermore, the estate tax that might have been due at the insured's death (if the insured were to leave more to his or her children than his or her remaining estate tax exemption amount) is now deferred until the death of the surviving spouse. Additionally, the surviving spouse may feel less pressure that he/she is spending the children's inheritance. The children also benefit from this arrangement because they are able to receive an inheritance from their parent at that parent's death rather than having to wait until the surviving spouse's death. Finally, the use of a properly structured ILIT enables the life insurance death benefit proceeds to pass to the ILIT (and then to the children) free of estate tax.[1]

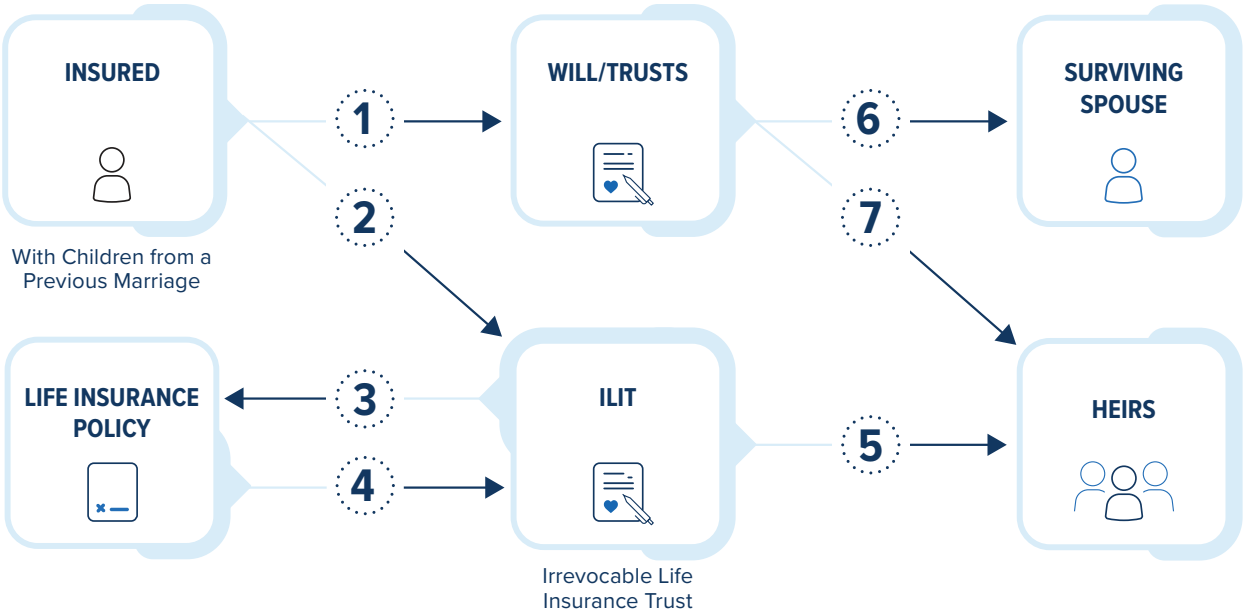
[1]According to the One Big Beautiful Bill Act of 2025, the federal estate, gift, and generation-skipping transfer (GST) tax exemption amounts are all $15,000,000 per person (Indexed for inflation effective for tax years after 2025); the maximum estate, gift and GST tax rates are 40%.

[2]If the insured's estate is not large enough to be subject to federal or state estate taxes, then the use of an ILIT to avoid inclusion of the life insurance policy in the insured's estate may not be necessary. If that is the case, it may be possible for the insured to simply own the life insurance policy and name the children or a trust for their benefit as the beneficiary of the policy.

[3]As of January 1, 2025, the annual gift tax exclusion is $19,000 per donee (indexed for inflation).

[4]The trustee appointed should not be the insured or the insured's life insurance producer. A life insurance producer who is paid a commission on the sale of a life insurance policy represents both his or her personal interest and the interests of the trust, creating a conflict of interest.

[5]For federal income tax purposes, life insurance death benefits generally pay income tax-free to beneficiaries pursuant to IRC Sec. 101(a) (1). In certain situations, however, life insurance death benefits may be partially or wholly taxable. Situations include, but are not limited to: the transfer of a life insurance policy for valuable consideration unless the transfer qualifies for an exception under IRC Sec. 101(a)(2) (i.e. the "transfer-for-value rule"); arrangements that lack an insurable interest based on state law; and an employer-owned policy unless the policy qualifies for an exception under IRC Sec. 101(j) state law.



1	**Will/Trusts**	Working with an attorney, the insured creates a will or living trust, as well as a B-Trust and marital trust, that leaves his estate to his spouse, his children from his previous marriage, and any children from his current marriage.
2	**ILIT**	Insured creates an irrevocable life insurance trust (ILIT) benefiting his children from a previous marriage and makes annual gifts[2] of cash to the trust to pay the life insurance policy premiums.
3	**Life Insurance Policy Owned by ILIT**	The trustee[3] of the ILIT purchases a life insurance policy insuring the client with children from a previous marriage. The ILIT is the owner and beneficiary of this life insurance policy.
4	**Life Insurance Death Benefit Proceeds Paid to ILIT**	At the death of the insured, the ILIT receives the life insurance death benefit proceeds free from estate[1] and income[4] taxes.
5	**Distributions to Children from Previous Marriage**	The trustee will make distributions to the insured's children from a previous marriage according to the terms of the ILIT.
6	**Spouse**	Upon the insured's death, his estate is divided between a B-Trust and a marital trust, both of which provide for the surviving spouse's support during her lifetime while deferring any estate tax until the surviving spouse's subsequent death.
7	**Heirs**	Upon the surviving spouse's death, the assets remaining in the B-Trust will pass free of estate tax[1] to the insured's children from a previous marriage, as well as any children from the current marriage. The marital trust assets are subject to estate tax at the surviving spouse's death and may also pass to the insured's children, depending on the overall estate plan.

The Power of Pacific

Your life insurance policy is only as solid as the company behind it. When you purchase a life insurance policy from Pacific Life, you are buying a promise that we will be there for you today—and tomorrow.

For nearly 160 years, we've remained committed to providing quality products, service, and stability to meet your needs throughout your lifetime.

For the Surviving Spouse

- Maintains lifestyle.
- Defers estate tax[1] until surviving spouse's death.
- Prevents surviving spouse from feeling pressure that he/she is spending children's inheritance.

For the Children

- Provides an inheritance at biological parent's death instead of waiting until the death of surviving spouse.
- Provides an inheritance without triggering an estate tax.
- Avoids potential disinheritance if children are close in age to the surviving spouse.
- Provides a more equitable division of assets.

2025 WORLD'S MOST ETHICAL COMPANIES® ETHISPHERE

Pacific Life has been named one of the 2025 World's Most Ethical Companies®[9] by the Ethisphere Institute, a global leader in defining and advancing the standards of ethical business practices.

[5]Based on the Ethisphere Institute's Ethics Quotient®. "World's Most Ethical Companies" and "Ethisphere" names and marks are registered trademarks of Ethisphere LLC.

While ratings can be objective indicators of an insurance company's financial strength and can provide a relative measure to help select among insurance companies, they are not guarantees of the future financial strength and/or claims-paying ability of a company. The independent third party from which this annuity is purchased, including the broker/dealer, the insurance agency from which this annuity is purchased, and any affiliates of those entities, make no representations regarding the quality of the analysis conducted by the rating agencies. The rating agencies are not affiliated with the above-mentioned entities nor were they involved in any rating agency's analysis of the insurance companies.

Vital Information

This factfinder is provided to help you and your life insurance producer better understand your goals and objectives. Please return the information to your life insurance producer and not to [insert name of company] as we cannot and do not provide financial, legal or tax advice.

Insured

Client:_____ Date of Birth: _____

Client Risk Status: ☐ Select ☐ NS ☐ S

Address:_____ State: _____

Spouse: _____ Date of Birth:_____

Spouse Risk Status: ☐ Select ☐ NS ☐ S

Children

Name:_____ Age: _____

Natural Parents: _____

Name:_____ Age: _____

Natural Parents: _____

Life Insurance Death Benefit Need:_____

Illustrate Level Death Benefit: _____

Premium Payment Mode: _____ Solve? _____ OR Amount?_____

Anticipated Years to Pay: _____ Hypothetical Earnings Rate:_____%

Life Insurance Product to Illustrate: _____

How would you like your estate distributed in the event of your death?_____

_____

What do you want your children to receive? _____

_____

What do you want your spouse to receive?_____

_____

Do you own a business?_____

What will happen to the business at your death?_____

What else do I need to know about your goals for your estate?_____

Speak to your financial professional to discuss your estate and life insurance planning needs, or visit our website to learn more.

PacificLife.com.

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Pacific Life is a product provider. It is not a fiduciary and therefore does not give advice or make recommendations regarding insurance or investment products.

Pacific Life Insurance Company is licensed to issue insurance products in all states except New York. Product/material availability and features may vary by state.

Insurance products and their guarantees, including optional benefits and any crediting rates, are backed by the financial strength and claims-paying ability of the issuing insurance company. Look to the strength of the life insurance company with regard to such guarantees as these guarantees are not backed by the broker-dealer, insurance agency, or their affiliates from which products are purchased. Neither these entities nor their representatives make any representation or assurance regarding the claims-paying ability of the life insurance company.

Life insurance is subject to underwriting and approval of the application and will incur monthly policy charges.

The home office for Pacific Life Insurance Company is located in Omaha, Nebraska.

PACIFIC LIFE