



ESTATE PLANNING BASICS

The key to building your legacy

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Estate plans are for everyone

Many individuals avoid estate planning because they believe it is only meant for the wealthy. It is not. Estate plans also benefit those with modest assets. If you have monetary assets and other property, whether you are married or otherwise, basic estate planning is essential. Without a plan, you may be leaving your loved ones with the ordeal of trying to settle your estate — a burden that involves stress, costs and delays in distributing assets for months or even years.

Understanding the basics of estate planning is the key to strengthening and building your legacy and supporting your loved ones. It can be as easy as drafting a will, or as complex as establishing several different types of trusts to serve varying purposes. In this brochure, we'll explore why you should consider an estate plan, and the basic elements of an estate plan.

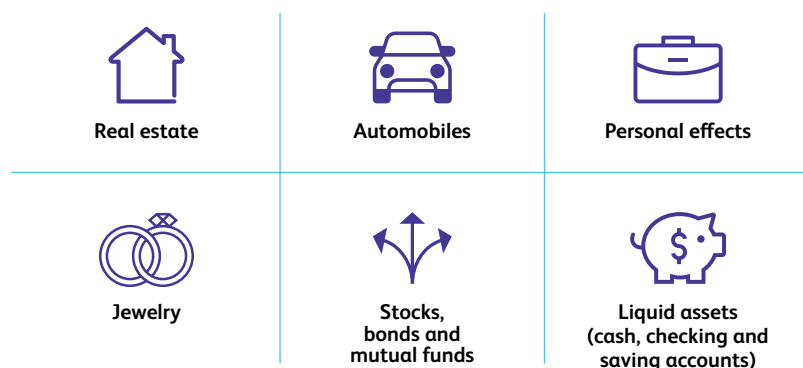
What is estate planning?

A key component of a comprehensive financial plan is estate planning. Estate planning is primarily aimed at managing an individual's assets in the event of incapacity or death. An estate plan can make sure the distribution of assets is seamless. It also can provide instructions for an individual's final wishes and, most importantly, provide protection for family and loved ones.

Why is estate planning needed?

Without estate planning, you risk missing the opportunity to reduce or avoid taxes and protect the assets you intend to leave for your loved ones. Assets that you have worked hard to accumulate and acquire.

Assets can be any items of value that belong to you such as:



Estate planning also includes taking steps that may be important for your family's security while you are still living. For example, a basic estate plan should include completing documents that may be activated when you are incapacitated, or suffering a severe medical condition. Documents would include a durable general power of attorney, a health care power of attorney, and perhaps an advance medical directive ("living will").

Most people are uncomfortable with the question, "What would happen if I died today?" Creating an estate plan now can give you and your family comfort when faced with that reality. Estate planning can help reduce or eliminate taxes at death. Another important reason for estate planning is to ensure your assets are protected and passed to those you care about. Without one you risk your assets going into probate.

Probate is the process in which a court of law supervises, administers and decides who will receive your assets. Depending on your state's laws, probate can be a lengthy and costly process for your loved ones to endure. Estate planning and the use of "living trusts" can help avoid subjecting assets to probate.

A proper estate plan can help:

- Preserve your assets
- Reduce wealth transfer taxes and expenses
- Distribute your assets properly and economically to the beneficiaries that you specify
- Ensure that your children have the legal guardian of your choice
- Ensure that your assets will be managed properly if you were to become disabled
- Minimize confusion and avoid conflict among family members when it comes to your final wishes
- Protect your family's privacy

Estate planning tools

There are many estate planning tools available to help reduce taxes, transfer costs and resolve specific estate planning needs. We'll take a look at some of the most commonly used ones. Please be aware that these may be appropriate for some plans, but there is no set of tools that's right for everyone. Consult with your estate planning representative to see which is appropriate for you.

Will

A Last Will and Testament (will) is a personal declaration of your intentions about the distribution of your property at death. A will does not become legally enforceable until your death, so it may be changed at any time before your death or mental incompetence. A properly drafted will contains instructions for your personal representative or the executor — the person who will administer your estate. If you die without a will your state laws will dictate how your assets and property will be distributed.



A will allows you to:

- Name the executor and successor executors of your estate
- Designate a guardian for your minor children or other dependents who are unable to care for themselves
- Control the distribution of your assets



A will does not:

- Override any annuity, life insurance policy, IRA or any contract or account with an already designated beneficiary
- Abolish the terms of a trust you've established

The risks of NOT having a will:

- Your assets not being distributed as you wish
- A person you do not know could act as your personal representative
- A guardian you did not choose could end up raising your children
- Your assets would be distributed according to your state's law
- You may miss out on tax-saving opportunities, leaving your heirs less than you intend
- Your children may receive their inheritances earlier than you'd like

Neither Protective nor its representatives offer legal or tax advice. Purchasers should consult with their legal or tax advisor regarding their individual situations before making any tax-related decisions.

Trusts

A trust is a legal arrangement involving the transfer of property from the owner (the “grantor”) to a trustee, who holds legal title and manages the property for the benefit of one or more individuals. Trusts can be an important element of your estate plan. Establishing a trust can help you avoid probate, provide financial support to loved ones and maintain privacy if your state requires the filing of an inventory of assets in probating your will.

There are a variety of trusts. Some become effective during your life, while others only upon your death. Revocable Living Trusts (RLTs) are effective during your lifetime, and may be revised, or even revoked entirely, by you until your death. If still in place when you die, the RLT becomes irrevocable. During your lifetime, you can also create a more permanent, Irrevocable Trust to meet specific needs and objectives — tax savings, asset protection, professional asset management. With an Irrevocable Trust, assets you transfer into the trust are no longer owned by you. Instead, the Irrevocable Trust is the owner. For example, life insurance policies are often owned by an Irrevocable Life Insurance Trust (ILIT).

Another type of trust is created by the provisions of your Will, and cannot become effective until after your death and upon approval of the trust by the local probate court. These are called Testamentary Trusts, because they come into existence through your Last Will and Testament. Once created, they are irrevocable and operate in accordance with the provisions found in the will, with probate court supervision.

The benefits of trusts vary according to the type of trust chosen, but most trusts give you the following benefits:

- Professional management and investment of your trust property
- Specific conditions on how and when your assets will be distributed to your heirs, based on your instructions
- Provisions that can help minimize gift and estate taxes
- Allow your assets to be distributed to your beneficiaries without dealing with the delay, expense and publicity of probate
- Provide protection for your property against any claims from creditors

Durable power of attorney

A durable power of attorney is a document that authorizes one or more persons to act on your behalf in financial, legal and administrative matters, if you are incapacitated (physically or mentally unable to make these decisions for yourself). The Durable Power of Attorney document typically does not govern medical or health care decisions.

Your assigned representative(s) can manage the following:

- Taxes
- Real estate
- Testamentary trusts
- Loans
- Bills

Durable power of attorney for health care

Durable power of attorney for health care works similarly to a durable power of attorney. It gives authority to your appointed representative to oversee your health care wishes and assist in making medical decisions for you.

Some of the actions and permissions they may conduct for you:

- Select medical personnel
- Select the medical facilities
- Access to your medical records
- Accept or refuse medical treatment

Benefits of having a durable power of attorney for health care:

- Resolves any indecision your family may have regarding your treatment
- Clarifies the treatments you do or do not want
- Outlines the terms and length of your treatment

Living will

A living will (also known as an advanced health care directive or directive to physicians) is a document that expresses your desires and preferences about medical treatment in the event you are in a terminal medical condition. This could be due to illness, accident or a persistent vegetative condition (stroke), with no reasonable prospect of recovery based on the diagnosis of a qualified medical professional(s). While living wills are allowed in all states, certain formalities may apply in order for them to be effective. If valid, a living will binds health care providers to its instructions. You may use a living will in conjunction with a durable power of attorney for health care.



Letter of instruction

A letter of instruction (also known as a letter of intent) is a document written and prepared by you. It has no legal authority. The main purpose of the letter is to provide information about your estate to your executor in a form that is easily understandable. The letter can also include personal messages and wishes to your beneficiaries. This document can serve as a complement to your will with additional information.

A letter of instruction could contain this information:

- A complete list of all assets and value
- Location of important documents and assets
- Instructions on the distribution of lesser valued possessions/sentimental objects
- List of important contacts (banks, accountants, insurance agents)
- Personal messages for heirs and beneficiaries
- Instructions for caring of pets
- Funeral arrangement instructions
- User IDs and passwords for accounts

Life insurance

Life insurance can be a powerful tool in your estate plan. It can provide income replacement and protection for your family. The death benefit of a life insurance policy usually passes to the beneficiaries free of income tax, providing the cash your family may need to pay taxes, debts and other obligations.

Life Insurance can allow you to:

- Give loved ones an income source
- Provide cash to pay estate taxes, mortgages and other expenses
- Shelter death benefits from income and estate taxes
- Leave a benefit to the charity of your choice

Permanent life insurance is most commonly used in estate planning. There are different types of permanent life insurance available depending on your specific estate planning needs. Joint life guaranteed second-to-die insurance or single life guaranteed insurance coverage is most often used to plan for future estate tax liquidity needs. Various forms of cash value accumulation products are used for spousal lifetime access trusts and special needs trusts that will enable the trustee to access policy cash values, if needed for the trust beneficiary(s). Your financial professional can help assist you in determining which type of permanent life insurance is best for you.



Estate taxes

For many years one of the main goals for having an estate plan was to help pay the federal estate taxes that would significantly affect the amount of inheritance your beneficiaries and heirs would receive. The passage of the Tax Cuts and Jobs Act, enacted in 2017, was the largest revision to the federal tax code in several decades, affecting income, corporate, gift and estate taxes. The law doubled the federal estate, gift and generation-skipping transfer tax exemption amounts to \$10 million per individual and \$20 million per married couple.

However, due to legislative rules on budgeting, many of the provisions are due to expire on December 31, 2025. If these provisions aren't extended or made permanent, the new exemption amount will drop between \$6 million and \$7 million. Beginning in 2026, those with sizable estates will likely owe significantly more federal taxes, putting their financial and estate planning at risk.

There is no guarantee the sunset will happen or that the law won't change again. Either way, it's important to have a plan and be aware of the types of property you may not consider part of your estate, but the government does. A common example is life insurance. What is the death benefit on your life insurance policy? Add this amount to your total assets. Other assets that are often overlooked are pension and retirement plan funds and the value of sizable gifts you may have made over time. After you add all of these items up and then subtract the allowable deductions from your estate (e.g., expenses of your final illness and administration of your estate and debts), if your net taxable estate exceeds the applicable exemption, your estate is subject to estate tax at rates that may approach 40%.

Also, keep in mind that your estate may be subject to state death taxes (estate and/or inheritance taxes imposed at the state level). There is a wide variety of state death tax systems with differing exemption amounts and tax rates. Some states impose both an estate tax and an inheritance tax. Even if your estate is not subject to any Federal estate taxes, your estate (and heirs) may be subject to one or more of the state death taxes. Due to the complexity of these state tax laws, proper estate planning should involve a competent tax professional familiar with the estate tax laws in the state where you reside, and where any assets you own may be located.



Getting started

Depending on your individual situation, starting an estate plan can be an easy or complex task.

One of the first and easiest steps to take is contacting your financial professional. Talking to your financial professional about your estate planning needs and concerns can get the process started. They can help you start forming a team of professionals. Once the team is selected, they will analyze your assets and liabilities and provide you with a solution to meet the goals and objectives of your estate plan.

Depending on your estate plan needs the team can include any of the following:

- Your attorney
 - Tax professional
 - Insurance professional
 - Trust officer
 - Financial advisor
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Estate plan review

Once you have established your estate plan you will need to make sure to keep it up to date.

Reviewing and keeping your estate plan up to date is an essential task. You should review your estate plan annually, at a minimum. Changes and events from your life may affect your plan and require updates and revisions. In addition, changes in tax and estate laws can potentially affect your estate plan.

Below are some reasons to make an update to your estate plan:

- Death of spouse
- Married or divorced
- Births or adoptions
- Changes in asset values

Continue building your dreams and strengthening your legacy. Protect your assets and your loved ones with an estate plan.



Contact your financial professional to get started.

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