1. Can Ascensus Trust handle trusts for individuals?

Yes, through an Irrevocable Trust using <u>life insurance</u> as the sole funding vehicle.

2. Can proceeds be paid to beneficiaries in installments?

Yes, The Beneficiary Trust documents provide three payment installment options for the Grantor's to choose from.

3. What are Ascensus Trust's fees for an Irrevocable Trust?

First year-\$800 (\$500 one time set-up + \$300 annual) plus Crummey fees. Complete fee schedule can be found in Exhibit G of the trust agreement.

4. If a policy accumulates enough value to pay the premiums, does the annual fee continue?

Yes, Ascensus Trust must maintain adequate staff to handle settlements. If Ascensus Trust had 1,000 trusts, all paid-up paying no annual fees, there would be no revenue to maintain the trust department.

5. If Grantor is uninsurable, will Ascensus Trust return fees?

Yes. The annual fee and Crummey fees (if no Crummey letters were done) will be returned; however, Ascensus Trust will retain the set-up fee.

6. If Grantor is uninsurable, what happens to initial contribution?

Ascensus Trust has the right to "approve" gifts. It would not "approve" the gift and it would be returned.

7. Will Ascensus Trust accept the specimen document completed by filling in the blanks?

<u>Only</u> if accompanied by a letter from the Grantor's attorney or copied onto the attorney's letterhead. In addition, the disclaimer at the top of page one and the optional paragraphs that are not used in Article 3 (and Article 5 in the "Beneficiary Trust") must be deleted or crossed out and initialed by the Grantor before forwarding to Ascensus Trust.

Ascensus Trust needs the name, phone number, and address of the attorney $\underline{\text{in every case}}$. Reviewed 6/1/14

8. Will Ascensus Trust accept a trust agreement that is not identical to the specimen document?

If a trust agreement arrives with a number of changes and "deal breakers" (see Exhibit F) there will be an additional fee. The agent will be notified immediately and advised of the additional fee and review time that will be required. If he/she wants us to proceed, we will deal directly with the client's attorney in an attempt to negotiate the needed changes.

Before incurring additional charges, Ascensus Trust will attempt to discuss the case with the attorney and encourage him or her to use our specimen.

9. Will Ascensus Trust take a policy that was issued as a result of a 1035 exchange?

Yes. However, the paperwork must be completed prior to the transfer of the policy to the trust. Ascensus Trust will not be responsible for any adverse tax consequences caused by the exchange.

10. Can individual life policies on one or both Grantors be placed in the same trust as a last-to-die policy?

No. Two (or three) separate trusts would be required.

11. If term insurance is used in the trust, what happens if the Grantor is still living beyond the period that the insurance is renewable?

No insurance would be in effect and as there would be no cash value, the trust would no longer have any assets.

12. Who signs insurance application as owner?

A representative of Ascensus Trust as Trustee. It must be an original signature.

13. Will Ascensus Trust sign owner/beneficiary change forms prior to the receipt of the actual policies?

Only if a policy summary is attached to the change form.

14. Whose tax ID goes on application?

Ascensus Trust's, 45-6077935

15. What is considered to be the value of a policy transferred into the trust for Crummey notice purposes?

We refer to the value as the "Form 712 Gift Value". It is provided by the Life Insurance Company and requested by Ascensus Trust at the time the owner/beneficiary change form is sent for processing.

16. Will Ascensus Trust take a trust that may not be funded immediately? (eg. 3 - 6 months)

Yes.

17. Does Ascensus Trust hold the actual insurance polices?

Yes.

18. Why must North Dakota law govern under all of Ascensus Trust Company's trust documents?

Ascensus Trust's trust business is regulated exclusively by the laws of the State of North Dakota. As a result, we are required to provide in all of our trust documents that North Dakota law will govern the interpretation and administration of each agreement. Any other statement would suggest that Ascensus Trust is doing business beyond the scope of its legal authority.

In addition, the document was developed for the purpose of Federal estate tax protection - not for issues exclusive to any one particular state.

19. An attorney for a client asked if the trust is a New York trust (client lives in N.Y.) or a North Dakota trust?

The trust is construed, administered and governed by the laws of the State of North Dakota.

20. Does an agent need to hold a North Dakota license to sell an Irrevocable Trust?

No (unless he/she is soliciting a North Dakota resident or receiving commissions in ND). An agent needs to be licensed where the insurance application is signed and dated by the insured(s). The

licensing requirements are the same as they would be for any sale of life insurance.

21.	Can change forms signed by	Ascensus Trust a	<u>after</u> a policy has	s been issued b	e signed and
	dated in North Dakota?				

Yes.

22. Are North Dakota death/inheritance taxes payable on the death benefit proceeds because the trust is administered and governed in North Dakota?

No.

23. Can Ascensus Trust act as trustee for Puerto Rican residents?

At this time, the tax advantage of having an irrevocable trust in Puerto Rico has not been determined.

24. Can the initial premium be forwarded to the Insurer prior to the lapse of the 30 day Crummey period?

Yes, providing we have received **both** of the following: (1) notification, in writing, from each beneficiary stating that they are declining to take a withdrawal from the contributed trust assets and (2) notification of application approval has been received.

25. Can an insurance policy that was issued with the insured's child as owner be transferred into the trust?

Yes. Crummey notices will still have to be forwarded to each income beneficiary of the trust, which may include the child gifting the policy.

26. Article 2(c) and 2(d) refers to a "Named Individual" that is to be designated in Exhibit B. Who can be designated?

Virtually any adult the Grantor has confidence in. However, naming the spouse could be interpreted as an incident of ownership and cause the death benefit proceeds to revert back to the estate. Furthermore, naming the agent could certainly be considered a conflict of interest.

27. Can a provision be included in the trust that would allow the collapse of the trust?

Yes. See Exhibit C for example of specimen language for consideration by attorney.

28. If a Grantor decides he wants out of a trust, once established, what recourse does he have?

If no provision (as indicated in the previous question) was included, the Grantor can defeat the trust by discontinuing to pay the premiums. If this happens, the policy will lapse and a letter similar to Exhibit D will be sent to the Grantor.

29. Can a split-dollar arrangement be used?

Yes. The language in Exhibit B must be incorporated into the trust document. The split-dollar agreement and collateral assignment form provided in the marketing kit has been approved by Ascensus Trust and must be used.

30. Article 4 of the trust agreement states that Ascensus Trust is not obligated to notify the Grantor when premiums are due and/or if there are not enough funds to carry the policy. If this is true, how will the Grantor know when to send "contributions" to the trust?

A letter similar to Exhibit E will be sent to the Grantor approximately six weeks prior to the premium due date. The letter must be sent early to allow time for Crummey notices to be sent and the 30-day period to lapse before the policy grace period expires.

31. What is the difference between the "Testamentary", "Non-Testamentary" and "Hanging Power" approach? What are the advantages/disadvantages of each?

See Exhibit A.

32. Can another trust be named as a beneficiary?

Yes, another trust can be named as the "principal" (remainder) beneficiary. However, it must be an established, irrevocable trust to prevent any incidence of control by the Grantor(s). As a revocable trust can be changed at any time, the Grantor(s) maintain control over the ultimate beneficiaries. "Income" beneficiaries must be named to receive the Crummey notices if the Grantor plans on applying the trust contribution towards his or her annual gift exclusion.

33. Who files tax forms?

No tax forms are required until the trust has taxable income. At death, Ascensus Trust files all

forms required of trusts and deducts the costs from trust proceeds.

34. Is Ascensus Trust responsible for gift tax reporting on transfers to the trust?

No. Ascensus Trust will forward a copy of the IRS Form 712 to the Grantor. However, it is the Grantor's responsibility to do any required reporting.

35. In general, are death benefit proceeds taxable income when first paid to a trust?

No. They are generally tax exempt income to the trustee and to the beneficiary when distributed. However, if proceeds are retained by the trust, earnings on such proceeds are taxed in the same manner as other trust income. In addition, under some circumstances, proceeds of a policy transferred for value to a trust may not be wholly tax exempt.

36. How is interest taxed when paid back to the beneficiaries (in the case of loan to the estate)?

The estate makes a note payable to the trust beneficiaries. The interest is an expense of the estate and is income to the trust beneficiaries.

37. What is Ascensus Trust's obligation when prospectuses and supplements are received on securities products (IL/UL)?

Policy communications are sent to the Named Individual.

EXHIBIT A

Gifts In Trust:

As noted earlier, an irrevocable life insurance trust is an excellent estate planning tool to keep the proceeds of a policy on the insured's life out of his/her estate for federal estate tax purposes. However, such an arrangement does have gift tax consequences. Ordinarily the transfer of a policy to the trust, the payment of premiums on the policy, and gifts of cash to the trust to cover premium payments are considered gifts to the trust beneficiaries. The general rule is that such gifts in trust are gifts of a future interest which do not qualify for the annual gift tax exclusion of \$14,000 (\$28,000 for split gifts by husband and wife) since the beneficiaries do not have the present use and enjoyment of such amounts. One way to eliminate this problem is to give the trust beneficiaries the right to withdraw a ratable portion of the contributions which are made to the trust. This is a so-called "Crummey" power which is generally exercisable by the beneficiary within a limited period of time (such as 30 or 60 days) and lapses if not acted upon. A Crummey power is designed to give each income beneficiary a present interest in the contributions made to the trust so that annual exclusions are available both for the original policy transfer and subsequent annual additions made to the trust to cover premium payments.

It is generally expected that beneficiaries will allow their powers to lapse so that the trust will remain in a position to pay premiums each year as they become due. However, a Crummey power is considered to be a general power of appointment and allowing it to lapse may result in a taxable gift of a future interest by the beneficiary to the remainder beneficiaries of the trust. But the lapse of such a power is not treated as a gift by the holder of the Crummey power to the extent that the property subject to the power does not exceed the greater of \$5,000 or 5 percent of the value of the property.

Unfortunately, this exception, which is commonly known as the "5 and 5 rule," does not parallel the annual gift tax exclusion. For example: a \$20,000 ratable Crummey withdrawal power for a trust beneficiary would qualify for an annual gift tax exclusion by the grantor (where the spouse consents to the gift), but it results in a taxable lapse (gift) of \$15,000 (i.e., \$20,000 minus \$5,000) by the beneficiary who fails to exercise the right. Thus, funding an irrevocable life insurance trust with maximum gift tax annual exclusions through the use of "Crummey" withdrawal rights could result in adverse gift tax consequences when such rights are not exercised. Generally, \$5,000 will be greater than 5 percent of the corpus of the trust since, typically, such trusts are unfunded except for the life insurance policy(ies). However, depending on the size of the policy, the cash value may become a significant factor in the future and permit a Crummey withdrawal right of more than \$5,000 without adverse gift tax consequences.

EXHIBIT A, cont.

Various alternatives have been developed which attempt to achieve the full \$12,000 (or \$24,000 for split gifts) annual exclusion for gifts in trusts without creating a taxable gift by the Crummey beneficiary. These alternatives structure the Crummey provision in such a manner so that the non-exercise of the withdrawal right may not be complete for gift tax purposes. Usually, only a portion of the withdrawal right permitted by the "5 and 5 rule" will lapse, with the balance becoming subject to either a testamentary power of appointment or a so-called "hanging power." Thus, in the example given above of a \$24,000 withdrawal power, only \$5,000 would lapse upon non-exercise and the balance of \$15,000 would either be subject to a testamentary power of appointment by the beneficiary, or simply "hang" (i.e., not lapse). The trust could provide that the cumulative "hanging" balance lapse in \$5,000 annual increments if contributions to the trust cease at some point in the future. This may be especially significant in situations where a "vanishing" premium concept is being utilized to purchase the life insurance. In the final analysis, it is not entirely clear how the IRS will view these types of alternatives.

EXHIBIT B

OPTIONAL SPLIT-DOLLAR LANGUAGE:

Add at the end of Article 2(b):

The Trustee may enter into an agreement to effectuate a so-called "split-dollar" arrangement respecting any Insurance Policies if directed to do so by the individual named in Exhibit B* ("Named Individual") in writing in a form acceptable to the Trustee, and the terms of such agreement may limit the powers and discretions granted to the Trustee under this Agreement. The Trustee shall be fully protected in acting on or relying on such direction and shall not be liable for the legality or consequences of any such split-dollar arrangement, and shall incur no liability for acting or failing to act as required by such agreement.

Add at the end of the alternative Crummey paragraph in Article 3:

If any Insurance Policies held by the Trust are subject to a split-dollar arrangement pursuant to Article 2(b), the Trustee shall be under no obligation to calculate the amount of the gift made imputed income and may rely solely on information provided by the Named Individual in writing for purposes of this Article 3.

^{*} Any adult individual not the Grantor.

EXHIBIT C

POWER TO MAKE GIFTS OF THE PRINCIPAL*, shall have the power, at any time and from time to time, to make gifts of the principal of this Trust in whole or in part and in any manner and in such proportions as he sees fit to whomever he desires, excluding himself, his estate, his creditors, and the creditors of his estate. Should*, die during the lifetime of grantor, this power shall then be held by Grantor's oldest living child until the grantor's death, provided that said child shall not exercise this power in favor of himself or herself, his or her estate, his or her creditors or the creditors of his or her estate and provided further that this power hall not be accordingly because himself or her estate and provided further that this power				
shall not be exercised by any child of the Grantor who has not yet attained his or her majority. Notwithstanding the above, the holder of this power shall not exercise it during any period i which a beneficiary has a right to demand distribution of trust property in accordance with the provisions of this agreement.				

^{*} Any adult individual other than the Grantor.

EXHIBIT D

Date	
Re: (Grantor) Irrevocable Trust Dated
Dear	Grantor:
policy Howe	were insufficient funds in your trust account to pay the \$ premium due (date) on one As a result, we have received notification that said policy has lapsed. ever, the policy can still be reinstated providing a contribution is received by our office no later date). The contribution will be used to reinstate the policy.
truste serve	dition, trustee fees of \$ that were due remain unpaid. If the contribution and e fees due are not received by Ascensus Trust by (15 days from date of letter), this letter will as notice of Ascensus Trust's resignation effective 90 days from the date of this letter, in dance with Article 10 of the trust agreement.
Shoul	d you have any questions, please contact me.
Since	rely,
ASCE	ENSUS TRUST
Trust	Department
cc:	Beneficiaries Agent

EXHIBIT E

Date	
	_ _ _ _
Re:	Irrevocable Trust Dated
Dear Grantor(s):	
anticipated when you estab	nsus Trust Company, we would like to remind you of the estate plans blished the above referenced Irrevocable Trust. The plans included making at the amount of \$ at this time.
letter. When we have rece	ution, made payable to Ascensus Trust, to our office upon receipt of this gived your contribution, we will send the "Crummey" notices to the income Timeliness is important to insure that any policies held in the trust do not
This is the only notice yo	u will receive.
Should you have any quest	tions, please don't hesitate to contact me or your insurance agent,
Sincerely,	
ASCENSUS TRUST	
Trust Department	
cc: Agent	

EXHIBIT F

"Deal" Breakers

- 1. Jurisdiction for trust must be North Dakota.
- 2. Article 9, regarding indemnification must be unchanged.
- 3. Ascensus Trust does not want discretionary powers (eg. in determining whether or not payments should be made to trust beneficiaries/spouse for health, education and welfare after death of Grantor).
- 4. Ascensus Trust will not be liable for failure to earn interest on trust assets as per Article 2.
- 5. Beneficiaries and their percentage share in the income and principal of the trust must be clearly stated on Exhibit A.
- 6. Ascensus Trust will accept no contributions other than money and insurance policies.
- 7. Co-grantor agreements can <u>only</u> hold last-to-die policies. Ascensus Trust will not hold term policies on the Grantors with the intent of processing a term conversion.
- 8. Single Grantor agreements can only hold individual policies on the life of the Grantor.
- 9. Ascensus Trust does not want to be a party to or be required to act in conjunction with any other agreement (eg. a separate will, trust, etc.).
- 10. There must be a provision for Ascensus Trust to recover unpaid fees from trust assets. Articles 6 & 8.