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focus Preview

Estate Conservation
Preserving Wealth for Your Heirs



Contents

Introduction	3
What Is Estate Conservation and Why Is It Important?	3
Estate Lessons.....	3
Probate Offers No Privacy	4
Fundamentals	5
What Is an Estate?.....	5
Benefits of Estate Conservation	5
Challenges	6
Finding a Qualified Attorney	6
Probate	6
Estate Taxes	7
Annual and Lifetime Gift Tax Exclusion	8
Unlimited Marital Deduction	8
Step-Up in Basis vs. Carryover Basis Rules	8
Basic Distribution Techniques	9
Intestacy	9
A Will	9
Other Estate Documents	9
Jointly Held Property	10
Contracts.....	10
Trust Strategies	11
Testamentary Trust	11
Living Trust	12
Revocable vs. Irrevocable Living Trusts.....	12
Special Needs and Incentive Trusts.....	12
Why Consider an A-B Trust Arrangement?.....	13
Irrevocable Life Insurance Trust.....	13
Charitable Remainder Trust	14
Charitable Lead Trust	15
Wealth Replacement Trust	16
Figuring Out Your Net Cash Flow	18
Figuring Out Your Net Worth	19
What to Bring	back cover

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Introduction

What Is Estate Conservation and Why Is It Important?

Estate conservation involves the preparations necessary to accomplish two goals:

- 1. Manage assets during your lifetime**
Wealth management is at the heart of a sound financial program
- 2. Distribute assets upon your death**
Making arrangements for the prompt and intended distribution of your assets upon death

Without careful action, the estate you've spent a lifetime building could be significantly less by the time your heirs receive it. You haven't worked hard and saved your money just to turn half of it over to the government.



Estate Lessons

The mistakes made by people with large — and even not-so-large — estates could be significant. This includes the failure to have a will and the importance of shielding an estate from excess tax liability.

When this happens, the settling of an estate could drag on for years at a potentially high financial cost, and the estate would be distributed according to the laws of your state of residence.

Principles of Estate Conservation

These estate conservation principles can help you manage your estate and prepare for the orderly transition of assets to your heirs, avoiding the kind of confusion and discord that some estates may encounter.

- Key fundamentals of estate conservation**
- Challenges when planning for your estate**
- Basic distribution techniques**
- Trust strategies**

Probates of the Rich and Famous

The estate documents for an amazing number of famous people are readily available to anyone who cares to look.

In fact, the wills of some people have even been posted on the Internet. (See Michael Jackson's Last Will and Testament on page 4.)



Probate Offers No Privacy

Last Will and Testament of Michael Joseph Jackson

I, MICHAEL JOSEPH JACKSON, a resident of the State of California, declare this to be my last Will, and do hereby revoke all former wills and codicils made by me.

I

I declare that I am not married. My marriage to DEBORAH JEAN ROWE JACKSON has been dissolved. I have three children now living, PRINCE MICHAEL JACKSON, JR., PARIS MICHAEL KATHERINE JACKSON and PRINCE MICHAEL JOSEPH JACKSON, II. I have no other children, living or deceased.

II

It is my intention by this Will to dispose of all property which I am entitled to dispose of by will. I specifically refrain from exercising all powers of appointment that I may possess at the time of my death.

III

I give my entire estate to the Trustee or Trustees then acting under that certain Amended and Restated Declaration of Trust executed on March 22, 2002 by me as Trustee and Trustor which is called the MICHAEL JACKSON FAMILY TRUST, giving effect to any amendments thereto made prior to my death. All such assets shall be held, managed and distributed as a part of said Trust according to its terms and not as a separate testamentary trust.

If for any reason this gift is not operative or is invalid, or if the aforesaid Trust fails or has been revoked, I give my residuary estate to the Trustee or Trustees named to act in the MICHAEL JACKSON FAMILY TRUST, as Amended and Restated on March 22, 2002, and I direct said Trustee or Trustees to divide, administer, hold and distribute the trust estate pursuant to the provisions of said Trust, as hereinabove referred to as such provisions now exist to the same extent and in the same manner as though that certain Amended and Restated Declaration of Trust, were herein set forth in full, but without giving effect to any subsequent amendments after the date of this Will. The Trustee, Trustees, or any successor Trustee named in such Trust Agreement shall serve without bond.

IV

I direct that all federal estate taxes and state inheritance or succession taxes payable upon or resulting from or by reason of my death (herein "Death Taxes") attributable to property which is part of the trust estate of the MICHAEL JACKSON FAMILY TRUST, including property which passes to said trust from my probate estate shall be paid by the Trustee of said trust in accordance with its terms. Death Taxes attributable to property passing outside this Will, other than property constituting the trust estate of the trust mentioned in the preceding sentence, shall be charged against the taker of said property.

V

I appoint JOHN BRANCA, JOHN McCLAIN and BARRY SIEGEL as co-Executors of this Will. In the event of any of their deaths, resignations, inability, failure or refusal to serve or continue to serve as a co-Executor, the other shall Serve and no replacement need be named. The co-Executors serving at any time after my death may name one or more replacements to serve in the event that none of the three named individuals is willing or able to serve at any time.

The term "my executors" as used in this Will shall include any duly acting personal representative or representatives of my estate. No individual acting as such need post a bond.

I hereby give to my Executors, full power and authority at any time or times to sell, lease, mortgage, pledge, exchange or otherwise dispose of the property, whether real or personal comprising my estate, upon such terms as my Executors shall deem best, to continue any business enterprises, to purchase assets from my estate, to continue in force and pay insurance premiums on any insurance policy, including life insurance, owned by my estate, and for any of the foregoing purposes to make, execute and deliver any and all deeds, contracts, mortgages, bills of sale or other instruments necessary or desirable therefor. In addition, I give to my Executors full power to invest and reinvest the estate funds and assets in any kind of property, real, personal or mixed, and every kind of investment, specifically including, but not by way of limitation, corporate obligations of every kind and stocks, preferred or common, and interests in investment trusts and shares in investment companies, and any common trust fund administered by any corporate executor hereunder, which men of prudent discretion and intelligence acquire for their own account.

VI

Except as otherwise provided in this Will or in the trust referred to in Article III hereof, I have intentionally omitted to provide for my heirs. I have intentionally omitted to provide for my former wife, DEBORAH JEAN ROWE JACKSON.

VII

If at the time of my death I own or have an interest in property located outside the State of California requiring ancillary administration, I appoint my domiciliary Executors as ancillary Executors for such property. I give to said domiciliary Executors the following additional powers, rights and privileges to be exercised in their sole and absolute discretion, with reference to such property: to cause such ancillary administration to be commenced, carried on and completed; to determine what assets, if any, are to be sold by the ancillary Executors; to pay directly or to advance funds from the California estate to the ancillary Executors for the payment of all claims, taxes, costs and administration expenses, including compensation of the ancillary Executors and attorneys' fees incurred by reason of the ownership of such property and by such ancillary administration; and upon completion of such ancillary administration, I authorize and direct the ancillary Executors to distribute, transfer and deliver the residue of such property to the domiciliary Executors herein, to be administered by them under the terms of this Will, it being my intention that my entire estate shall be administered as a unit and that my domiciliary Executors shall supervise and control, so far as permissible by local law, any ancillary administration proceedings deemed necessary in the settlement of my estate.

VIII

If any of my children are minors at the time of my death, I nominate my mother, KATHERINE JACKSON as guardian of the persons and estates of such minor children. If KATHERINE JACKSON fails to survive me, or is unable or unwilling to act as guardian, I nominate DIANA ROSS as guardian of the persons and estates of such minor children.

I subscribe my name to this Will this 7 day of July, 2002

MICHAEL JOSEPH JACKSON

Fundamentals

What Is an Estate?

Your estate is simply all the wealth you have accumulated during your lifetime — real estate, stocks, bonds, business interests, retirement plans, personal effects, and anything else you own.

Estimating the Net Value of Your Estate

Assets	
Tangible assets <i>(home, furnishings, automobiles, real estate, jewelry, other valuables)</i>	\$ _____
Investments <i>(stocks, bonds, mutual funds, businesses, annuities, retirement accounts)</i>	\$ _____
Cash <i>(savings and checking accounts, money market funds, CDs, cash reserves)</i>	\$ _____
Life insurance benefit	\$ _____
Total assets	\$ _____
Liabilities <i>(mortgages, bank loans, charge-account debt)</i>	\$ _____
Net value of estate <i>(Subtract liabilities from total assets)</i>	\$ _____

For a more comprehensive worksheet, see Figuring Out Your Net Worth on page 19.

Benefits of Estate Conservation

Taking the necessary steps to conserve your estate can help your heirs avoid conflicts, delays, and expenses. Here's a closer look at the many benefits that estate conservation can offer.

- **Select who will receive your assets**
- **Determine distribution of estate** — If, how, and when your beneficiaries will receive their inheritance
- **Choose individuals to manage your estate** — Including the executor, trustee, and others
- **Help reduce estate settlement costs** — Including probate expenses and taxes
- **Choose guardians for minor children**
- **Provide liquid capital** — To help cover burial, settlement, and income tax costs

Dying Without a Will

Pablo Picasso died in 1973 at the age of 91, leaving behind a fortune. Because he died intestate, it took six years to settle his estate at a cost of \$30 million. Eventually, his assets were divided among his six heirs.

Surprisingly, these famous people also died without a will: Abraham Lincoln, Jimi Hendrix, Howard Hughes, Sonny Bono, and Prince.

Source:
LegalZoom.com

Finding a Qualified Attorney

An attorney can be an essential member of your estate team. Finding the appropriate legal professional to handle your estate can make a tremendous difference for you and your family. But using an attorney who has no estate planning experience may not be the wisest choice. Attorneys who don't specialize in estate planning, or who don't have an understanding of federal and state tax laws and elder law, could leave behind unintended consequences.

- **You need a qualified estate attorney**
 - Familiar with all aspects of estate administration
 - Willing to work with other professionals
- **Ask for referrals**
 - Friends
 - Financial professionals
- **Contact your local bar association**

Probate

Probate refers to the court proceedings that conclude all the legal and financial matters of the deceased, and through which estate assets are distributed according to instructions in a will. The probate court acts as a neutral forum in which to settle any disputes that may arise over the estate.

Unfortunately, the probate system is very complex and has some serious drawbacks. Cost is just one of them.

Here are some facts about probate to consider:

- **Probate can be expensive**
 - Costs vary depending on the state
 - Attorney fees add to the cost
- **Probate can take a long time**
 - Often takes a few months to a year or more
- **Probate offers no privacy**
 - In most states, the proceedings of the probate courts are a matter of public record

Challenges

Estate Taxes

Estate taxes are levied by the federal government and numerous states on any property that passes from the dead to the living. Estate taxes are calculated on the net value of your estate. This includes the value of your home, stocks, bonds, life insurance, and anything else of value that you own, less allowable debts, expenses, and deductions.

Recent Changes to Federal Estate Tax Law

The American Taxpayer Relief Act of 2012 made permanent most of the temporary federal estate provisions that were implemented by the 2010 Tax Relief Act. However, the 2012 tax law increased the federal estate tax rate permanently from 35% to 40% on assets exceeding the applicable exclusion amount.

The Tax Cuts and Jobs Act of 2017 doubled the federal estate tax exclusion to \$11.18 million in 2018 (indexed annually for inflation). In 2025, the exclusion rose to \$13.99 million; the One Big Beautiful Bill Act of 2025 made permanent and increased the exclusion to \$15 million beginning in 2026 (indexed for inflation starting in 2027).

The federal estate tax exclusion is “portable” between spouses. If an executor makes the appropriate election on the deceased spouse’s estate tax return (and meets the filing deadline), the surviving spouse may be able to use the deceased spouse’s unused estate tax exclusion in addition to his or her own applicable exclusion amount. However, this opportunity cannot be carried over again if the survivor remarries.

How Do Federal Estate Taxes Work?

If, upon your death, the total value of your estate is less than the applicable federal estate tax exclusion amount, no federal estate taxes will be due on your estate. This simple illustration shows how federal estate taxes are calculated.

	Example	You
1. Gross value of estate	\$ <u>16,800,000</u>	\$ _____
2. Allowable debts, expenses, and deductions	- \$ <u>800,000</u>	\$ _____
3. Net value of estate	\$ <u>16,000,000</u>	\$ _____
4. Federal estate tax exclusion	- \$ <u>15,000,000</u>	\$ _____
5. Taxable value of estate	\$ <u>1,000,000</u>	\$ _____
6. Federal estate tax rate	x _____ 40 %	_____ %
7. Total federal estate tax due	\$ <u>400,000</u>	\$ _____

This hypothetical example is used for illustrative purposes only.

Ins and Outs

The estate tax was first established in 1797 to help fund a naval buildup. Since then, it has been abolished and reinstated five times.

Source:
Joint Committee on
Taxation

Federal Estate Tax Exclusion

The federal estate tax exclusion essentially shelters a portion of an estate from federal estate taxes. Because of the high exclusion amount, very few estates are subject to the federal estate tax.

The full amount of the applicable estate tax exclusion is available at death only if there have been no prior taxable gifts.

Challenges



Potential Need for Long-Term Care

What would happen to your estate and intended legacy if you or your spouse needed long-term care for an extended period?

Currently, capital gains could reach 20% for high-income taxpayers, plus 3.8% if they are subject to the net investment income tax on unearned income, which affects taxpayers with modified adjusted gross incomes exceeding \$200,000 (single filers) or \$250,000 (joint filers).

Annual and Lifetime Gift Tax Exclusion

The annual gift tax exclusion enables individuals to transfer up to \$19,000 a year (\$38,000 for married couples) to any number of individuals free of the federal gift tax. Generally, amounts that exceed this annual exclusion would be subject to the gift tax and would be applied toward the taxpayer's \$15 million lifetime gift tax exclusion (in 2026). Gifts could be outright gifts of cash or income-producing assets.

Unlimited Marital Deduction

One notable exception to federal estate taxes is the unlimited marital deduction. Transfers of wealth between spouses are exempt from federal estate and gift taxes. This means that, regardless of the size of an estate, there will be no federal taxes levied when one spouse dies and leaves his or her wealth to the surviving spouse. (*The surviving spouse must be a U.S. citizen to qualify for the deduction.*) Of course, when the surviving spouse dies, the remaining estate assets will be subject to estate taxes.

Step-Up in Basis vs. Carryover Basis Rules

The step-up in basis refers to the way in which some inherited assets are valued for tax purposes. The step-up raises the owner's basis in appreciated assets (such as property or shares of stock) to its full market value as of the date of death.

Here's an example. If you purchased a piece of property (not a primary residence) for \$100,000 and 20 years later sold it for \$500,000, you would owe capital gains tax on the \$400,000 of appreciation. However, if you held the property until death, your basis in the property would be stepped up to \$500,000, its full market value.

Gifts are subject to the carryover basis rules. Using the previous example, if you gave the property to your heirs during your lifetime, the basis of the property would be your original \$100,000 purchase price. If your heirs sold the property for \$500,000, they would owe capital gains tax on \$400,000 of appreciation.

Thus, you might consider whether to keep appreciated assets rather than gift them to your family outright. Upon your death, appreciated assets would be stepped up to their full market value, and your heirs could potentially avoid a large capital gains tax bill if they later sell the assets.

Note: Some inherited assets (such as cash, variable annuities, and tax-deferred retirement accounts) do not receive a step-up in basis.

Basic Distribution Techniques

Intestacy

If you die without a valid will, you die “intestate.” There are four main problems with intestacy:

1. **Distribution of estate is determined by state law**
2. **Estate may be subject to fees and estate taxes**
3. **Estate must go through probate process**
4. **Guardianship of minor children is determined by the court**

A Will

A will is a list of instructions that tells the probate court exactly how you would like your estate to be distributed. If the probate court upholds your will, the court will use it in deciding how to distribute your property to your heirs. In the will, you can specify exactly what you would like to give and to whom. And you can elect an executor or personal representative to carry out the directions and requests of your will.

Other Estate Documents

To aid in your estate planning efforts, it is important to have certain legal documents in place to provide instructions for how you want financial and medical decisions to be made on your behalf if you become unable to make them yourself. Keep these documents up-to-date and in a secure location that is known to family members and/or trusted professionals.

Power of attorney — Gives a trusted individual the power and authority to act on your behalf in legal and financial matters.*

Durable power of attorney for finances — Enables you to name a trusted individual to act on your behalf regarding investment and other financial decisions affecting your estate, even in the event that you become disabled or incapacitated.

Medical durable power of attorney — Gives an individual the authority to make medical decisions for you if you are unable to make them yourself and outlines your preferences for forms of medical treatment.

Living will — Outlines which medical procedures you will allow in the event of a debilitating accident or chronic illness. It is most often used to authorize termination of artificial life support in the event of a terminal illness.

*Note: Laws governing a power of attorney can vary significantly from state to state. A durable power of attorney for health care should be HIPAA compliant so your representative can access your private medical information.

Choosing an Executor

An executor is the person you designate to carry out the directions and requests of your will.

Because the demands of being an executor can be challenging and time-consuming, you generally want to choose someone who has the time and resources to see that your wishes are carried out.



Basic Distribution Techniques

Spousal Rights to “Qualified Plan” Assets

According to federal law, your spouse must be named as primary beneficiary of your 401(k) or other qualified retirement plan unless he or she signs a written waiver (signed by a notary public or plan representative) consenting to your choice of another beneficiary.

Inherited Retirement Accounts

Most nonspouse beneficiaries must liquidate inherited retirement accounts (IRA and work-based retirement plan assets) within 10 years. Spousal beneficiaries have additional distribution options, including taking required minimum distributions over their life expectancies.

Jointly Held Property

Joint tenancy — Property is owned by two or more co-owners, but their interest is not broken down by percentages. When any joint tenant dies, his or her interest automatically belongs to the surviving joint tenants.

Tenancy by the entirety — A married couple’s estate is treated as a single unit. Neither spouse can sell assets without the other’s consent. When one spouse dies, the surviving spouse automatically takes ownership of the entire estate.

Tenancy in common — Property is owned by two or more co-owners. Each tenant owns a specified percentage of the whole, often based on his or her contribution to the purchase of the property.

Dangers of Joint Tenancy

- A change in property title could trigger gift tax consequences
- Assets may be lost if joint tenants run into financial difficulty
- Potential tax benefits must be shared with other joint tenants

Community Property Laws

Nine states currently have community property laws: Arizona, California, Idaho, Louisiana, New Mexico, Nevada, Texas, Washington, and Wisconsin. (Alaska, Florida, Kentucky, South Dakota, and Tennessee have an opt-in community property system.) Laws on opt-in provisions and property rights vary by state and jurisdiction. Under community property statutes, all property earned or acquired by either spouse during their marriage is owned in equal shares by each spouse. There are no restrictions on how each spouse can give away his or her half of the community property.

Contracts

The proceeds from the cash value of life insurance, annuity contracts, pensions, and retirement plans will pass directly to the beneficiaries designated on the account beneficiary forms. Typically, these assets are not subject to probate and convey directly to the designated beneficiaries, regardless of different instructions in your will. If you do not clearly specify your designated beneficiaries, your assets could be distributed according to state law and/or the default method outlined in your account or policy documents.

Importance of Beneficiary Designations

A number of bad things could happen when there is no designated beneficiary on the account beneficiary form for your IRA or employer-sponsored retirement plan. This includes the potential for probate and costly litigation, and the potential for high tax bills on inherited retirement account assets.

Trust Strategies

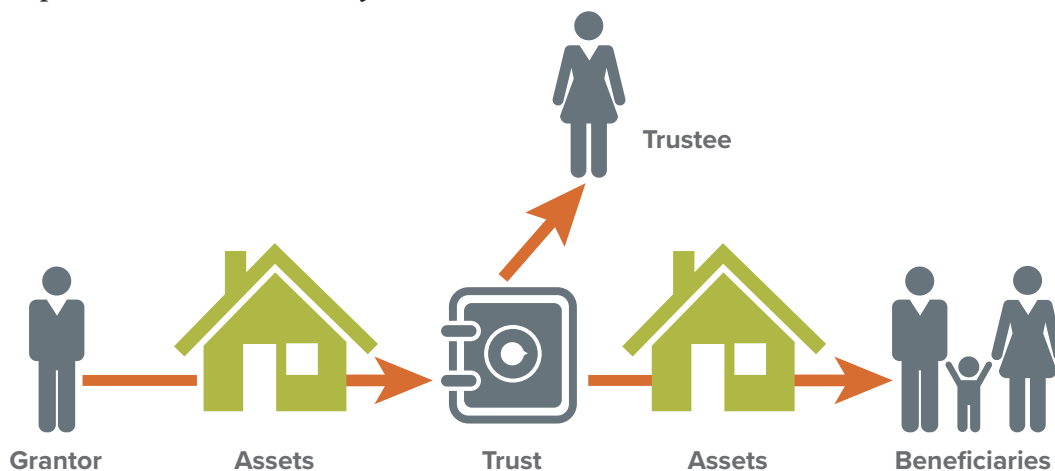
What Is a Trust?

A trust is a legal arrangement under which one person or institution controls property given by another person for the benefit of a third party. Trusts are not just for the wealthy. If properly structured, certain types of trusts can be used to help shield assets from estate tax liability. Some trusts can completely avoid probate. When setting up a trust, make sure it is structured for your circumstances.

The use of trusts involves a complex web of tax rules and regulations and usually involves up-front costs and ongoing administrative fees. You should consider the counsel of an experienced estate conservation professional before implementing a trust strategy.

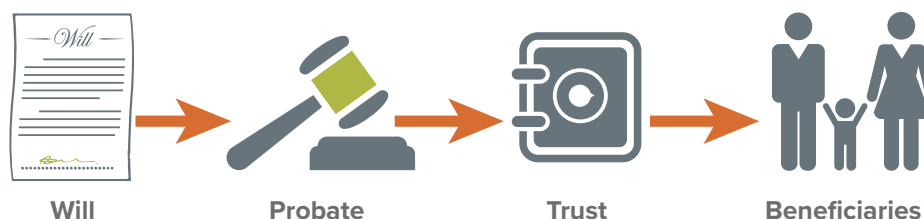
Parties Involved in a Trust

The person giving the property is the **grantor** (or “trustor”), the person controlling the property is the **trustee**, and the person for whom the trust operates is the **beneficiary**.



Testamentary Trust

A testamentary trust is usually established under a Last Will and Testament. It becomes effective upon the death of the grantor. Assets that pass through a will still go through probate and are fully subject to estate taxes. A testamentary trust enables you to control the distribution of your estate, including naming a guardian for your minor children’s assets. However, it does not avoid probate.



Estate Lessons from the Rich and Famous

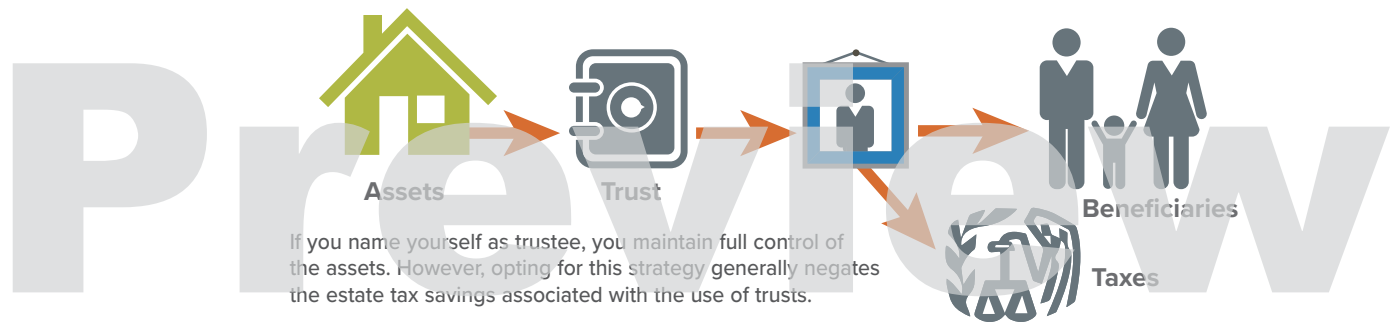
Comedian Joan Rivers left an estate valued at \$150 million when she died at age 81 from complications after routine surgery in 2014. She incorporated many recommended elements to her estate plan: an end-of-life directive, one or more trusts to reduce taxation of her estate, and even provisions for her pets.

Source: LifeHealthPro.com, October 3, 2014

Living Trust

A trust that becomes effective during the grantor's lifetime is a living trust or an "inter-vivos trust." When you set up a living trust, you transfer the title of all the assets you wish to place in the trust from you as an individual to the trust.

- **Helps control the distribution of assets to your beneficiaries**
- **Can help manage fees and taxes**
- **Avoids probate, if the trust is properly structured**



Revocable vs. Irrevocable Living Trusts

A revocable living trust can be dissolved or amended at any time while the grantor is alive. The grantor can sell the assets, change beneficiaries, and even change the terms and conditions of the trust. This type of trust is used primarily for property management and to avoid conservatorship and probate.

An irrevocable trust, on the other hand, cannot be modified or revoked. It provides the benefits of a revocable trust along with the potential for estate tax savings. Once property is placed in an irrevocable trust, future appreciation of that property will not be included in your estate, unless you retain certain interests in the trust.

Special Needs and Incentive Trusts

A special needs (supplemental) trust may be established as a standalone trust or incorporated into a revocable living trust. It enables families to make appropriate arrangements for their assets and determine who will become the physical and financial guardians of their underage or disabled children. For example, placing assets in such a trust could help keep the beneficiary's income or net worth within the eligibility limits for federal or state benefits.

Some people prefer to leave an inheritance that enhances family members' quality of life without enabling beneficiaries to become unproductive or financially irresponsible adults. Provisions in an incentive trust outline requirements or milestones that must be met before a portion of the trust money is awarded. Provisions may be drafted to promote a college education, public service, entrepreneurship, philanthropy — and even to discourage certain harmful behaviors.

"We make a living by what we get, but we make a life by what we give."

— Sir Winston Churchill

Source:
brainyquote.com

Why Consider an A-B Trust Arrangement?

An A-B trust arrangement (living trust with a marital and bypass trust combination) is designed to enable both spouses to take advantage of the applicable estate tax exclusion upon their deaths. It can shelter more assets from federal estate taxes as well as avoid probate. Because the American Taxpayer Relief Act of 2012 made “portability” of the federal estate tax exclusion between spouses permanent, some people might question the need for a bypass trust. Here are some possible reasons to have one:

- Preserves state estate tax exemptions
- Shelters appreciation of assets placed in the trust
- Protects assets from creditors
- Benefits children from a previous marriage

Consider that many states and the District of Columbia have their own estate taxes or inheritance taxes (Maryland has both), most have exemptions that are lower than the federal estate tax exclusion, and only a few have portability provisions.¹

1) Tax Foundation, October 28, 2025

Irrevocable Life Insurance Trust

One popular way to provide for the payment of estate taxes that cannot be avoided is through an irrevocable life insurance trust (ILIT).

- Keeps policy proceeds out of the taxable estate
- Allows proceeds to pass free of federal estate taxes
- Provides ready cash for heirs to pay estate taxes or other fees

Your legal counsel drafts the trust document. You fund the ILIT and the trustee uses the money to purchase a life insurance policy on you that is owned and controlled by the trust. Once the trust is created, you cannot change the terms or the beneficiaries, and you must give up control of the insurance policy.



Irrevocable trust



Life insurance policy



Proceeds free of estate taxes

The cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased. As with most financial decisions, there are expenses associated with the purchase of life insurance. Policies commonly have mortality and expense charges. In addition, if a policy is surrendered prematurely, there may be surrender charges and income tax implications. Before implementing a strategy involving life insurance, it would be prudent to make sure you are insurable.

An Investment in the Future

One way to invest in a child's future is to contribute \$19,000 annually to a college savings plan. Married couples can jointly gift \$38,000 annually without triggering gift taxes.

Tuition (but not room and board charges) paid directly to a college or university is not counted against the annual gift tax exclusion or the lifetime exclusion. However, tuition paid directly to an institution may reduce a student's eligibility for need-based aid.

Last-Survivor Life Insurance Policy

- Insures two or more individuals
- Pays the benefit upon the death of the last-surviving insured party
- Premiums are often lower than the cost of two (or more) individual policies

Charitable Giving

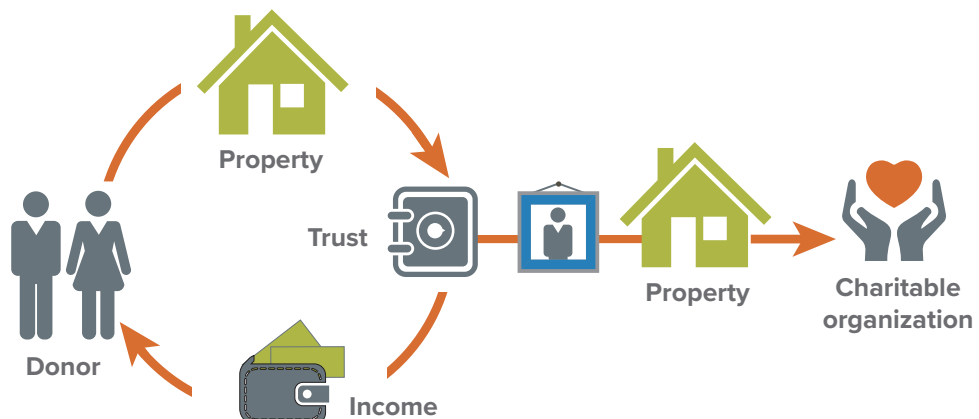
There are a number of tax advantages associated with charitable giving. Some can benefit you during your lifetime, and others can benefit your estate and heirs.

For example, you may be able to take an income tax deduction for the value of an outright gift to a charitable organization. To receive the deduction for donations made using cash, a check, or a credit card, you must have documentation (such as a receipt or canceled check) or written communication from the charitable organization showing the amount of the contribution, the date it was made, and the name of the charitable group. Noncash gifts generally require even more substantiation. But if your goal is to enhance a gift, you could set up a charitable trust.

Charitable Remainder Trust

A charitable remainder trust (CRT) offers a way to donate property and continue to receive an income from the assets during your lifetime.

The donor (grantor) makes a gift to a charitable remainder trust, naming the charitable organization as the beneficiary. For a specific number of years or the duration of the donor's lifetime (or the joint lives of the donor and his or her spouse or selected beneficiary), the donor receives regular payments from the trust; this annual income is taxable. The donor may take an income tax deduction, subject to certain limits, on a portion of the value of the donated assets for the tax year in which the trust was created. At the end of the trust period (often after the death of the donor or the donor's selected beneficiary), the remaining trust assets go to the charitable organization.



Types of CRTs

There are two types of charitable remainder trusts: a charitable remainder annuity trust (CRAT) and a unitrust (CRUT). Both make regular annual payments, but the income they provide can be fixed (with a CRAT) or variable (with a CRUT).

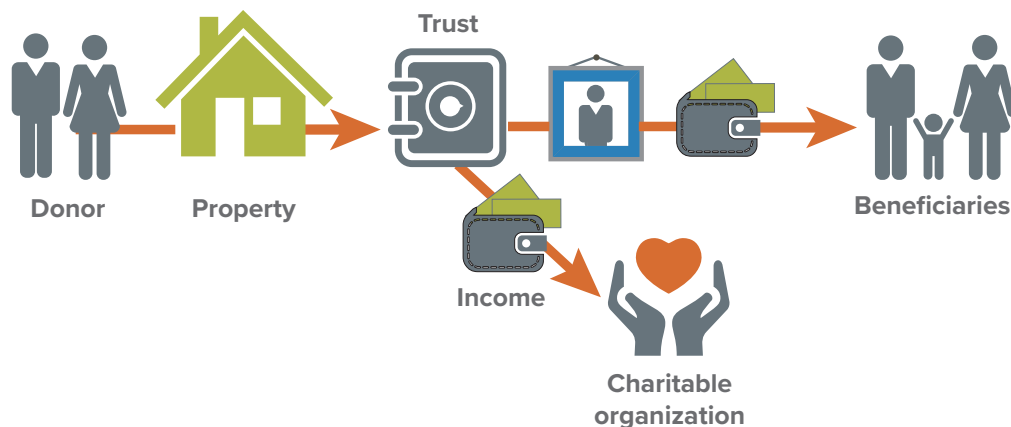
Trust Strategies

Charitable Lead Trust

A charitable lead trust is an alternative gifting strategy in which you can donate the income from a gift while retaining ownership of the principal. This type of trust can be a valuable tool for individuals who don't need income from a particular asset during their lifetimes but want to leave the assets to their heirs.

Basically, money or income-producing assets are placed in a charitable lead trust for a set number of years or for the life of the donor. The income generated from the assets is donated to the charitable organization for the duration of the trust.

Upon termination of the trust (typically when the owner dies), the remaining assets are paid to the donor or to the donor's chosen beneficiaries. This strategy can help reduce, or in some cases even eliminate, gift and estate taxes on appreciated assets that are eventually transferred to the donor's heirs.



Factors to consider if you are thinking about a charitable lead trust:

- **Assets eventually return to beneficiaries**
- **Helps reduce or eliminate gift or estate taxes**
- **Provides a current gift to charity**
- **Donor loses present interest in property during life of the trust**
- **Not tax exempt — you may owe capital gains taxes on highly appreciated assets sold by the trust**
- **Donation is irrevocable**

Why Give Strategically?

The charitable giving method you choose will have different income tax, gift tax, and estate tax consequences.

Strategic giving can benefit both the giver and the receiver, as well as the giver's heirs.

- May enhance the value of your gift to charity
- Can help reduce your income tax liability
- May generate income during your lifetime
- May help you leave a greater legacy

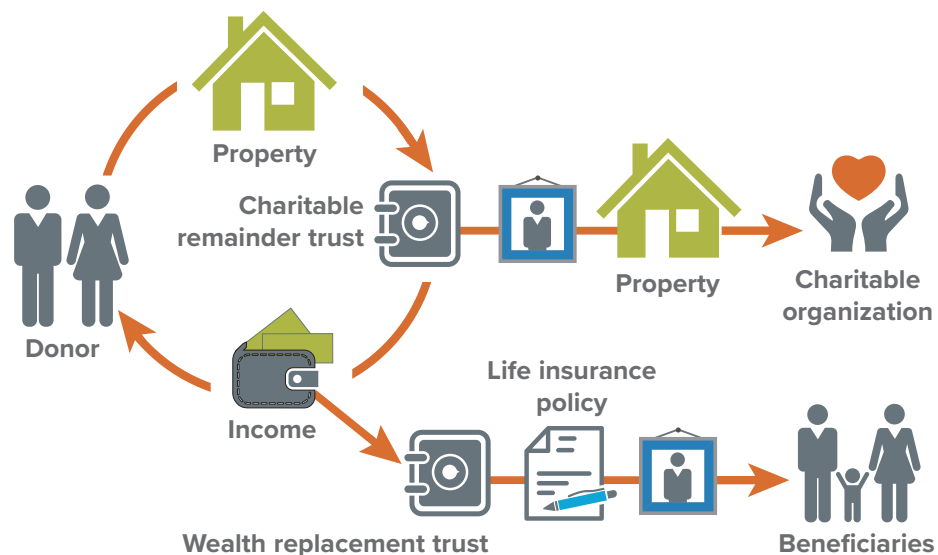
The type of trust that might be appropriate for your needs depends on what you hope to accomplish.

Wealth Replacement Trust

A wealth replacement trust is designed to replace the assets that a donor's heirs would have received if a gift had not been made to charity. It is used most often by people who are donating appreciated assets to charitable organizations using a charitable remainder trust or a pooled income fund.

Donors who use this strategy create an irrevocable wealth replacement trust. The trust purchases a life insurance policy, with the trust named as beneficiary of the death benefit (which generally has a face value equal to the value of the property given to charity), and the donor's heirs are named as beneficiaries of the wealth replacement trust. If a wealth replacement trust is used in combination with a charitable remainder trust (CRT), the income generated from the CRT could be used to pay the life insurance policy premiums.

When the donor passes away, the death benefit paid to the wealth replacement trust is distributed to the donor's beneficiaries free of estate taxes, and the charitable organization receives the property originally donated to the CRT.



When structured properly and used in conjunction with a charitable remainder trust, a wealth replacement trust can make it possible to accomplish many goals:

- **Donate appreciated assets to charity**
- **Avoid capital gains taxes on appreciated assets**
- **Receive income from assets during your lifetime**
- **Provide beneficiaries with life insurance death benefit**
- **Avoid estate taxes**

The cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased. Before implementing this strategy and completing the gift, it would be prudent to make sure you are insurable.

Philanthropy Wars

Andrew Carnegie and John D. Rockefeller, two of the greatest philanthropists in American history, were rivals in the field of giving.

Over their lifetimes, Carnegie gave away about \$350 million and Rockefeller \$540 million.

Source:
pbs.org

Which Charitable Trust Might Be Appropriate for You?

If your goal is to remove assets from your estate in order to help reduce your future estate tax liability, you might choose a charitable remainder trust. The income can be *fixed* with a charitable remainder annuity trust (based on the original value of the donated asset) or *variable* with a charitable remainder unitrust. With the latter, there is the potential for the income to increase and help reduce the effects of inflation.

If you do not foresee the need for income from the donated assets but don't want to give up ownership of the assets, you might consider a charitable lead trust.

If you do want or need to receive income payments and want to leave a legacy to your beneficiaries that is potentially free of estate tax, you might consider a wealth replacement trust in conjunction with a charitable remainder trust.

Type of Trust	Why Consider It
Charitable remainder trust	Assets removed from estate Possible income tax deduction Potential reduction in estate tax liability
Charitable lead trust	You don't need income from the assets You want to retain ownership of the assets
Wealth replacement trust	You want/need the income payments You want to leave a legacy to your heirs

Estate tax rules and regulations can be very complex.

Estate planning is too important to attempt it yourself without professional assistance.

A small mistake could tie up your estate for years.

The use of trusts involves a complex web of tax rules and regulations and usually involves up-front costs and ongoing administrative fees. You should consider the counsel of an experienced estate conservation professional before implementing a trust strategy.

Estate Plans Should Be Reviewed Periodically

Just as you need to review your retirement plan periodically, you also need to revisit your estate plan. An annual review might be a good approach.

Not only could tax laws change, but the composition of your holdings and the value of your assets may change. Although you might not think the size of your estate is large enough today to worry about estate planning, there's a strong possibility that the value of your assets will increase over time.

Your family situation could change. Consider what might happen in the future: the birth of children or grandchildren, marriage, even a divorce. It is important to keep your will, trusts, and beneficiary designations current so your assets will go to the people you want to have them.

Figuring Out Your Net Cash Flow

How much discretionary income do you have available after your monthly obligations are met? Can you account for where the money goes? Some people are surprised at the amount they should be able to save and invest each month but don't. Analyze your cash flow for the current month. Because income and expenses can vary from month to month, you may wish to estimate your cash flow through all 12 months or take a 12-month average.

Monthly Income	
Wages, salary, tips	\$
Alimony, child support	\$
Dividends from stocks, mutual funds, etc.	\$
Interest on savings accounts, bonds, CDs, etc.	\$
Social Security benefits	\$
Pensions	\$
Other income	\$
TOTAL MONTHLY INCOME	\$

Monthly Expenses			
Mortgage payment or rent	\$	Other transportation	\$
Vacation home mortgage	\$	Life insurance	\$
Automobile loan(s)	\$	Homeowners insurance	\$
Personal loans	\$	Automobile insurance	\$
Charge accounts	\$	Medical, dental, disability insurance	\$
Federal income taxes	\$	Unreimbursed medical, dental expenses	\$
State income taxes	\$	Entertainment/dining	\$
FICA (Social Security)	\$	Recreation/travel	\$
Real estate taxes	\$	Club dues	\$
Other taxes	\$	Hobbies	\$
Utilities (electricity, heat, water, telephone, etc.)	\$	Gifts	\$
Household repairs and maintenance	\$	Major home improvements and furnishings	\$
Food	\$	Professional services	\$
Clothing/laundry	\$	Charitable contributions	\$
Education expenses	\$	Other expenses	\$
Child care	\$	TOTAL MONTHLY EXPENSES	\$
Automobile expenses (gas, repairs, etc.)	\$		

NET CASH FLOW	
Total monthly income	\$
Total monthly expenses	\$
Discretionary monthly income <i>(Subtract your expenses from your income)</i>	\$

How much of your discretionary monthly income are you investing or saving each month?

\$ _____

Figuring Out Your Net Worth

Your net worth is the value of all your assets minus your liabilities. It provides a snapshot of your overall health. By tracking your net worth over time, you might become more motivated to save more, spend less, and invest for the future.

Tangible Assets	
Residence	\$
Vacation home	\$
Furnishings	\$
Automobiles	\$
Rental real estate	\$
Art, jewelry, or other valuables	\$

Debt Assets	
U.S. government bonds and agency securities	\$
Municipal bonds	\$
Corporate bonds	\$
Face amount certificates	\$
Debt mutual funds	\$

Equity Assets	
Qualified retirement funds	\$
Stocks	\$
Equity mutual funds	\$
Variable life insurance (cash value)	\$
Variable annuities	\$
Limited partnerships	\$
Business interests	\$

Cash and Cash Alternatives	
Checking accounts	\$
Savings accounts	\$
Money market funds	\$
Certificates of deposit	\$
Other cash reserve accounts	\$
TOTAL ASSETS <i>(Add tangible, equity, fixed principal, debt assets, and cash)</i>	\$

Fixed-Principal Assets	
Fixed-interest annuities	\$
Life insurance (cash value)	\$
Other assets	\$

Liabilities	
Home mortgage	\$
Other mortgage	\$
Automobile loans	\$
Bank loans	\$
Personal loans	\$
Charge-account debt	\$
Other debts	\$
TOTAL LIABILITIES	\$

NET WORTH	
Total assets	\$
Total liabilities	\$
NET WORTH <i>(Subtract your liabilities from your assets)</i>	\$

Set a goal for yourself.

What would you like your net worth to be in 5 years? \$ _____

What would you like it to be in 10 years? \$ _____

