by using an advanced estate planning technique involving **charitable giving** and a **wealth replacement life insurance trust**. Here's an example:

Paul and Lynn — in addition to having other assets worth exactly the exemption amount — have accumulated a significant stock portfolio during their marriage, currently valued at about $2 million. Their **basis**, or the amount they have put into the purchase of the stocks, is only $200,000. If they were to sell these stocks at their $2 million value, they would realize a gain of $1.8 million. The **capital gains tax** of 15% on the $1.8 million would be $270,000, reducing their estate to about $1.73 million. This amount would then be available to generate income for Paul and Lynn.

They could, instead, use the $2 million to establish a **charitable remainder trust (CRT)** that would provide Paul and Lynn with a lifetime income. At their deaths, the remainder interest would pass to the charity. They would save money by receiving a charitable deduction and removing the value of the stock from both of their estates.

To complete the cycle of giving something away *and* keeping it, Paul and Lynn could establish a wealth replacement life insurance trust for the benefit of their children, which replaces the $2 million given to charity. The charitable income tax deduction could provide Paul and Lynn with sufficient cash to help pay the premiums necessary to sustain the life insurance.

Review Your Estate Plan Regularly

Because of its complex nature, estate planning often requires consultation with trusted professionals. Additionally, regular review of your estate plan is essential, particularly in view of potential tax

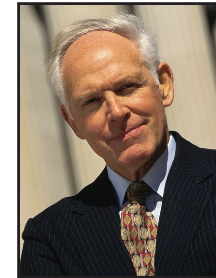
reform, as well as your own changing assets and life circumstances.

It may be time for a review of your estate plan when any of the following occur:

- Tax laws undergo change.
- Change in marital status occurs.
- Children or grandchildren are added to your family.
- Your net worth changes significantly.
- You move to another state or country (tax laws differ by state, as well as outside the U.S.).
- You have any circumstances requiring special consideration, such as a disabled spouse or child, or perhaps a parent who requires custodial care.

Seek Professional Advice

Estate planning questions abound, especially for business owners and those with substantial wealth. Estate planning is an involved process, requiring the knowledge of experienced professionals — it is often the work of a team consisting of your financial advisor, attorney, accountant, insurance professional, and trust officer. The earlier you start, the more likely you are to have a comprehensive plan that will care for your heirs for many years to come.



Name, Designation(s)
Title

Company Name
Street Address
City, State Zip Code
Phone Number
Fax Number
E-mail Address

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Building Your Estate Plan

Tips for Getting Started and Staying Current

planning for the future means considering it before it occurs. Whether your assets are large or small, estate planning will help you preserve assets, manage money during your lifetime, and facilitate the administration of your affairs after death. Furthermore, an estate plan can accomplish the following:

- Ensure that assets are distributed according to your wishes and provide for beneficiaries.
- Help minimize estate taxes and court costs.
- Offer planning and direction to young children or grandchildren who may suddenly receive a large sum of money; you can also nominate a **guardian** for your child.
- Allow you to choose an **executor** whom you trust and who knows your wishes, your family, and the contents of your estate, instead of relying on a court-appointed executor.
- Allow your business to continue after your death with a **successor** of your choosing, thereby reducing the chance of a forced sale.

Beyond a Will

Many individuals believe a **will** is a sufficient means of estate planning. Having a will is a great first step, but it may be legally insufficient to facilitate the attainment of all your estate planning goals and objectives. A properly-implemented estate plan should include the following:

- A valid, up-to-date will.
- A **durable power of attorney**.
- A **living will** or **health care proxy**.
- Instructions to your executor regarding the disposition of your assets and any other requests.
- An **inventory** of your estate.
- **Life insurance** to provide cash for your survivors to help pay debts and estate taxes.

Additionally, you may want to consider a **trust**, depending on the size of your estate and your particular goals.

If you have a basic estate plan, then you're in better shape than most Americans. Here are some additional estate planning considerations you may wish to review with your planning team.

Employer-Provided Benefits

Without proper planning, income and retirement benefits from your employer can significantly impact your estate plan and cost your heirs more than necessary. It is important that you review your employer-provided benefits (particularly any **executive benefits**) with your estate planning team, so you can take the necessary steps to mitigate the tax burden on your heirs. Some issues to examine include the following:

- **Qualified Retirement Plan Benefits.** If there is money in a qualified retirement plan when you and your spouse die, the amount of taxes owed could be high. When the funds are finally distributed to your heirs, the government could take a substantial percentage in taxes. This includes payment of federal and state income taxes, as well as estate taxes.
- **Executive Benefits.** If your employer offers special benefit plans, such as **deferred compensation**, there are other issues that should be considered. Under a deferred compensation plan, benefits payable to your beneficiaries are subject to federal estate and income taxation. Even if the money is paid to your spouse and escapes federal estate taxes at your death, it could inflate the value of your spouse's estate. Also, if you receive deferred compensation income in retirement, the payments can, in effect, increase your estate at a time when you may otherwise be trying to decrease its size.

For Business Owners

If you own a business, there will be special considerations regarding the disposition of your business interests, which raise many questions for review. Do you plan to transfer your business to someone else before or after you die? Will the new owner be a family member, an employee, or another business? How will the value of the business be determined? How will a possible purchase be funded?

Tax Considerations

The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) began what many hope will be the gradual phaseout of estate taxes. Estate taxes are scheduled to phase out by the year 2010, but then the legislation "sunsets," meaning lawmakers will have to vote to continue the estate tax repeal. Until then, estate taxes are decreasing, while exemptions are increasing.

Each individual may exclude assets up to the current **applicable exclusion amount** ($2 million in 2008) from federal estate taxes. This exemption, under the provisions of EGTRRA, will increase to $3.5 million in 2009 and then be repealed in 2010, as shown in the schedule on the right.

While you might think that your estate's value will certainly fall below the exemption amount, remember that *all* property and assets will likely be included, unless otherwise provided for by a will or a trust.

Beneficiary Options

One option is to consider leaving the majority of your estate to your spouse and children. At the time of your death, your spouse is entitled to receive the entire proceeds of your estate, free of tax. You'll need to plan appropriately if this is

your strategy because, when your spouse subsequently dies, his or her estate (the combination of both partners' assets) will be fully subject to federal estate taxes, unless he or she happens to die in the year 2010 — the year the estate tax is repealed.

If your entire estate, or a portion of it, is left to your children, the applicable exclusion can apply, and that amount can be passed at death free of federal estate taxes, as long as you have not used this exemption during your lifetime. Once the value of your estate exceeds this exemption amount, the federal estate tax applies. Bear in mind that gifts to your grandchildren may be subject to the **generation-skipping transfer (GST) tax**. Consult a tax professional for additional guidance.

Year	Top Estate Tax Rate	Exemption
2008	45%	$2 million
2009	45%	$3.5 million
2010	repealed	N/A
2011*	55%	$1 million

**(If Congress has taken no action by the year 2011, the estate tax rate reverts to pre-EGTRRA levels, and the exemption amount will be set at $1,000,000.)*

The Gift of Charitable Giving

One simple way to avoid paying federal estate taxes is to leave your assets, or at least some portion of your assets, to a charity. If all wealth beyond the exemption amount is left to charity, there will be no federal estate tax due.

But, there is another option you might want to consider. Estate planning is one of the few situations in life in which you can actually give something away and keep it too. This can be accomplished