ADVANCED PLANNING

ESTATE PLANNING IN THE CURRENT TAX ENVIRONMENT

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ESTATE PLANNING: THE OPPORTUNITY

- Projected wealth transferred through 2045 will total **$84.4 trillion** —**$72.6 trillion** in assets transferred to heirs and **$11.9 trillion** donated to charities.[1]
- **57%** of existing client assets are expected to pass to the next generation by 2045.[2]
- Millennials are expected to hold **five times** as much wealth as they do today by 2030, when they're estimated to inherit over $68 trillion from Baby Boomers.[3]
- More than **2 out of 3** U.S. adults do not have a will.[4]
- Nearly **65%** of millennials and Gen Z investors believe that a financial advisor is important to achieve financial success.[3]

1. U.S. High-Net-Worth and Ultra-High-Net-Worth Markets 2021, Cerulli Associates, January 2022.
2. Fidelity® Research Spotlights Significant Growth Opportunity for Advisors With Young Investors, Fidelity Investments, January 2023
3. Boomers Dying Out Could Lead to a Colossal Transfer of Wealth, Carbonaro, G., Newsweek, April 2023
4. 2023 Wills and Estate Planning Study, Caring.com

THE TIME IS NOW

PLAN NOW

The upcoming federal estate and gift tax sunset is driving clients to attorneys to update estate plans

GIFT NOW

Gifting can remove assets and their appreciation from the taxable estates of clients

INSURE NOW

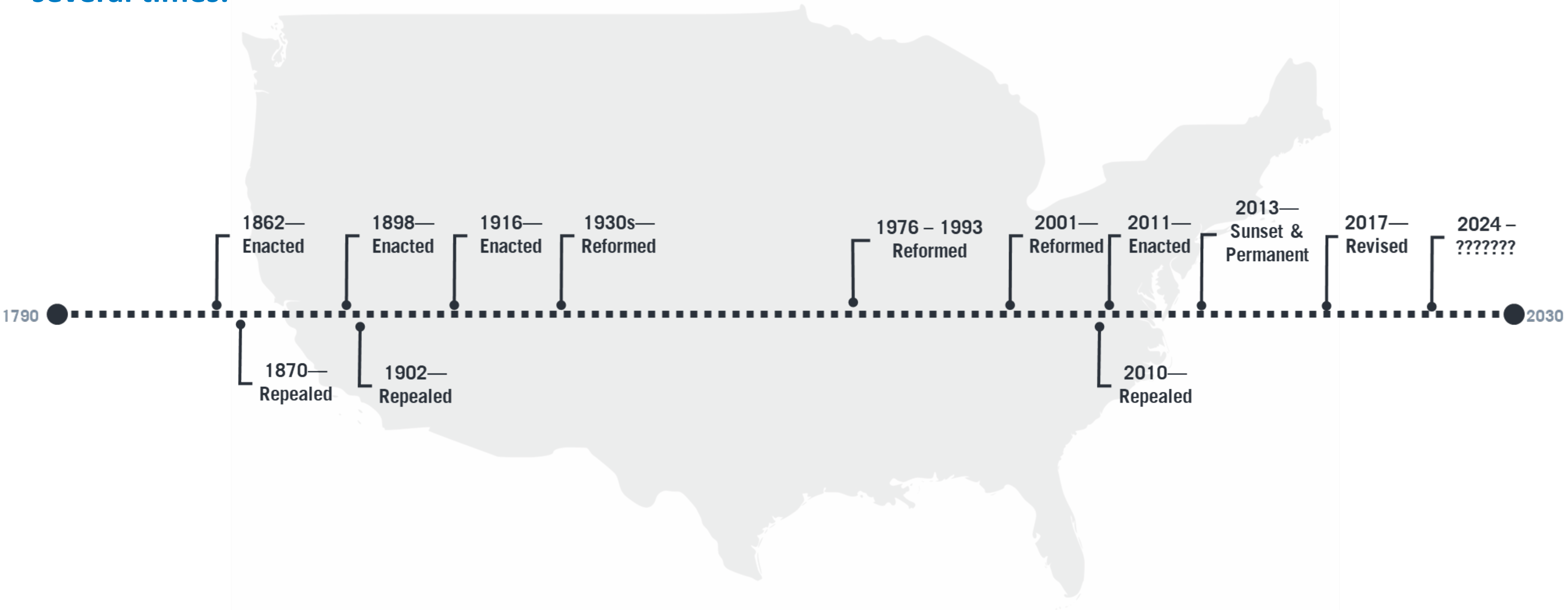
Life insurance can be an economical way to offset expenses and transfer more wealth to the next generation

THE IMPORTANCE OF ESTATE PLANNING

- Manage probate costs
- Prepare for potential loss of capacity
- Protect against potential creditor issues
- Control disposition of assets
- Plan for care of minors & special needs children
- Protect against the mismanagement of funds
- Manage estate taxes

THE MOVING TARGET

The history of the federal estate tax law is one of change. As priorities shifted and the need for revenues increased or diminished throughout our country's history, the status of the estate tax law has changed several times.



ESTATE AND GIFT TAXES

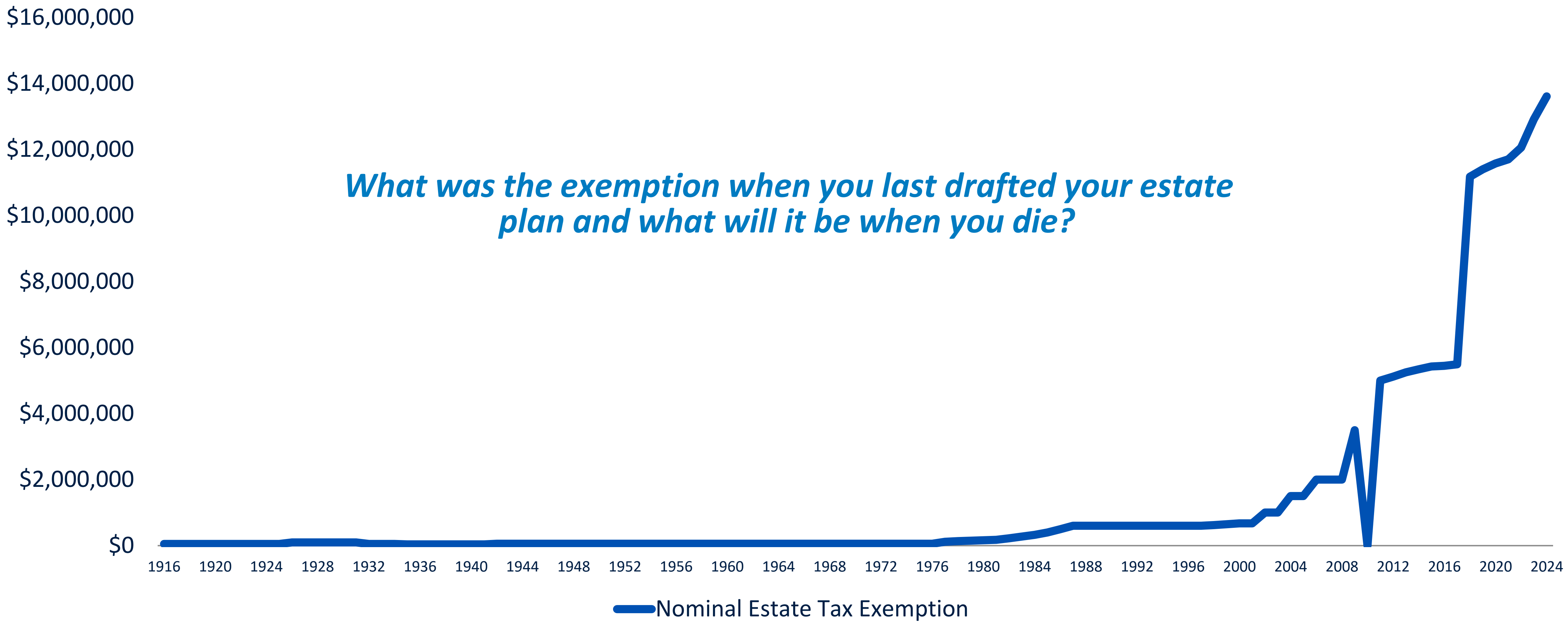
2024 Inflation Adjusted

	BEFORE TCJA	AFTER TCJA
ESTATE TAX	Top Rate: 40% Exemption: $5.60 million	Top Rate: 40% Exemption: $13.61 million
GIFT TAX	Top Rate: 40% Exemption: $5.60 million Annual Exclusion: $15,000	Top Rate: 40% Exemption: $13.61 million Annual Exclusion: $18,000
STEP UP IN COST BASIS	Available	Preserved
PORTABILITY	Available	Preserved

* Rev. Proc. 2023-34 Nov. 9, 2023

HISTORICAL ESTATE TAX EXEMPTION AMOUNTS

HISTORICAL ESTATE TAX EXEMPTIONS, 1916–2024



Source: Federal Estate and Gift Tax Rates, Exemptions, and Exclusions, 1916-2014, Tax Foundation, accessed January 2024; How the Federal Estate Tax Exemption Changed from 1997 to Today, The Balance, November 2022; Estate Tax Exemption: How Much It Is and How to Calculate It, Investopedia, November 2023.

ESTATE PLAN REVIEWS

Review wills that use formula provisions to fund Credit Shelter Trusts.

John Smith has $5,000,000

The Will states:

"The Smith Family Trust shall be funded with an amount equal to the applicable exclusion amount. The remaining amount shall pass to my spouse."

IF JOHN PASSES AWAY IN:

2008 → Wife receives $3,000,000

2009 → Wife receives $1,500,000

2010 → Wife receives $5,000,000

2011 thru 2024 → Wife receives $0

A significant rule change—such as the expiration on 12/31/2025 of the increased exemptions under the TCJA —creates an opportunity for a review to determine if an estate plan needs an update.

ESTATE PLAN REVIEWS

Prince

Aretha Franklin

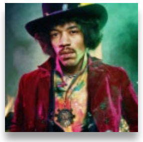
John Denver

Sonny Bono

Jimi Hendrix







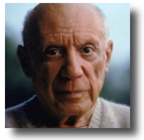
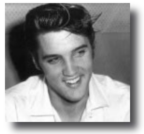
Chief Justice
Warren Burger

Florence “FloJo”
Griffith Joyner

Pablo Picasso

Elvis Presley



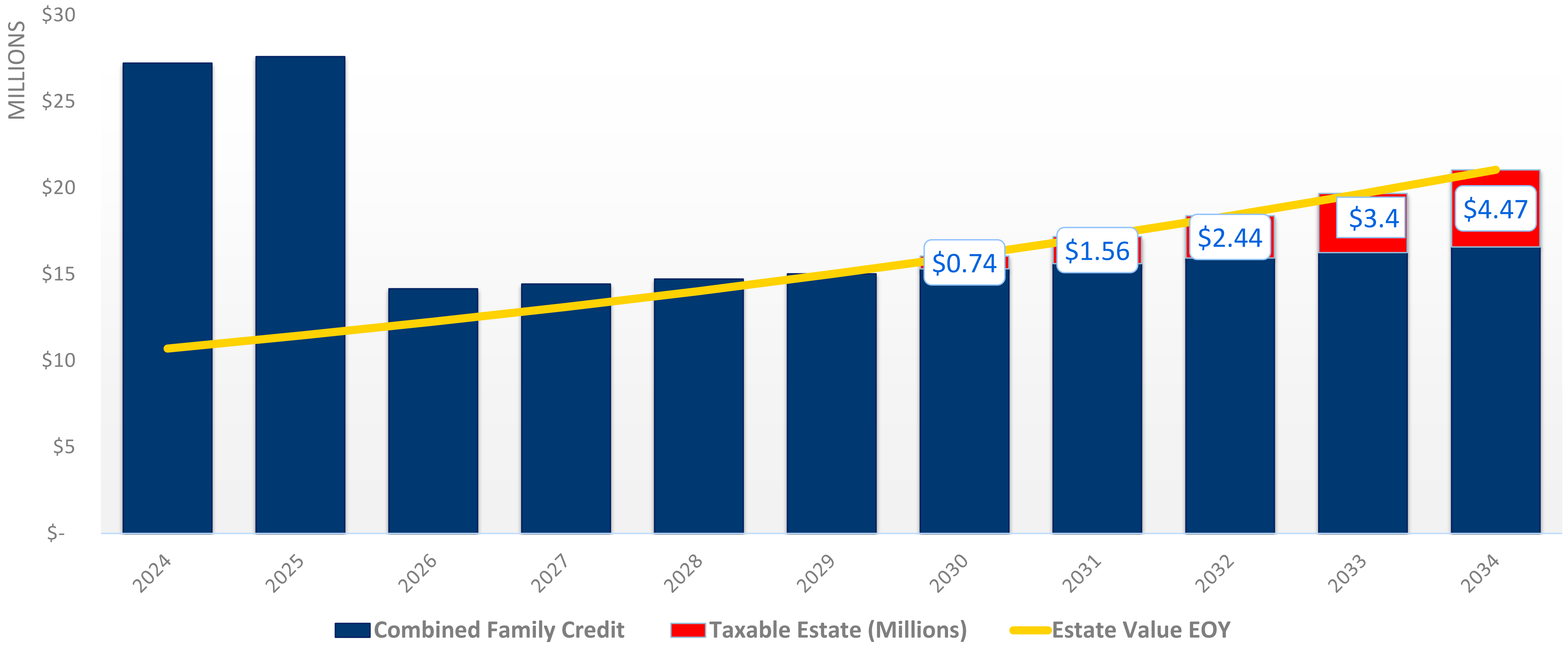



ESTATE PLANNING: CLIENT PROFILE

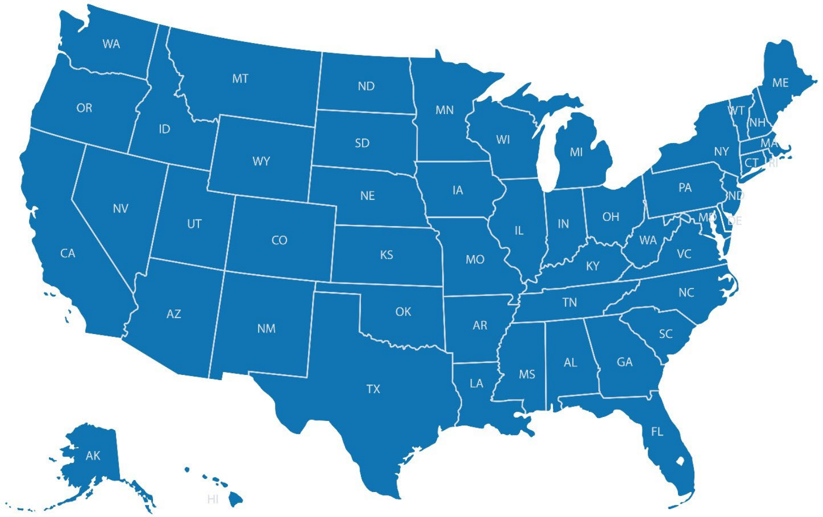
- Robert and Diane, Married, Age 62
- $10 million net worth
- They understand their combined federal estate tax exemption is $27.22 million
- They are currently not concerned about minimizing estate tax exposure

But let's assume their estate grows by 5%.
Let's take a look what their estate tax problem could be in a short few years.

CURRENT PLAN 2024



STATE ESTATE AND INHERITANCE TAXES



State	Inheritance Tax Rates
IA[1]	1% - 3%
MD	10%
KY	4% - 16%
NE	1% - 15%
NJ	11% - 16%
PA	4.5% - 15%

[1]In 2021, Iowa began phasing out its inheritance tax over a five-year period.

State	Exemption Level*	Estate Tax Rates
CT	$13,610,000	12%
DC	$4,710,000	11.2% - 16%
HI†	$5,490,000	10% - 20%
IL	$4,000,000	0.8% - 16%
ME	$6,800,000	8% - 12%
MD†	$5,000,000	0.8% - 16%
MA	$2,000,000	0.8% - 16%
MN	$3,000,000	13% - 16%
NY	$6,940,000	3.06% - 16%
OR	$1,000,000	10% - 16%
RI	$1,774,583	0.8% - 16%
VT	$5,000,000	16%
WA	$2,193,000	10% - 20%

***Exemption amounts are for 2024.**

† Hawaii and Maryland allow a surviving spouse to assume the decedent spouse's unused state exemption with an election on a timely filed state estate tax return.

REDUCING ESTATE TAX EXPOSURE WITH GIFTS

- Reduce future estate tax exposure
  - $1 for $1 reduction in the estate
- Removes future appreciation from the estate
- Leave more to family, less to IRS
- Keep estate assets intact
- Preserve a family business
- Can leverage gifted proceeds with life insurance

ADDRESSING THE "CLAWBACK"

- Concerns were raised regarding the possibility of lifetime gifts being taxed unfavorably at death
- Treasury Department issued TD 9884 in November 2019
- Allows the estate tax credit to be based on the greater of two credit amounts
  1) The amount in effect in the year of death, or
  2) The amount in effect in the year of the gift (not to exceed the amount of the gift)

BENEFITS OF LIFE INSURANCE FOR LEVERAGED GIFTING

- Provide wealth and liquidity for heirs
- Tax-deferred cash value growth potential
- Cash value can be accessed through loans and withdrawals*
- Typically, income tax-free death benefit (Pursuant to U.S. IRC§101(a))
- Can help remove volatility from the transfer of wealth
- May be estate tax-free if the policy is owned by an Irrevocable Life Insurance Trust (ILIT)

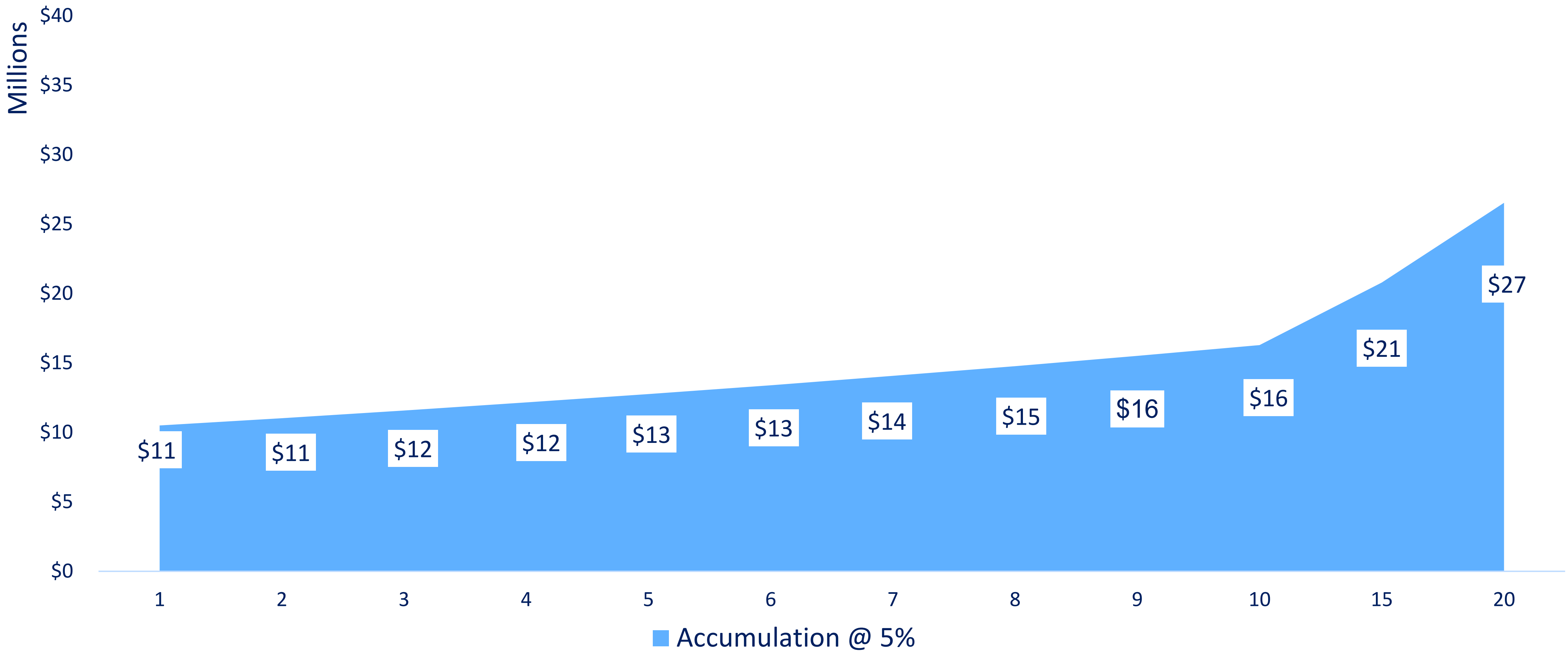
* Outstanding loans and withdrawals will reduce policy cash values and the death benefit and may have tax consequences

GIFTING: CLIENT PROFILE

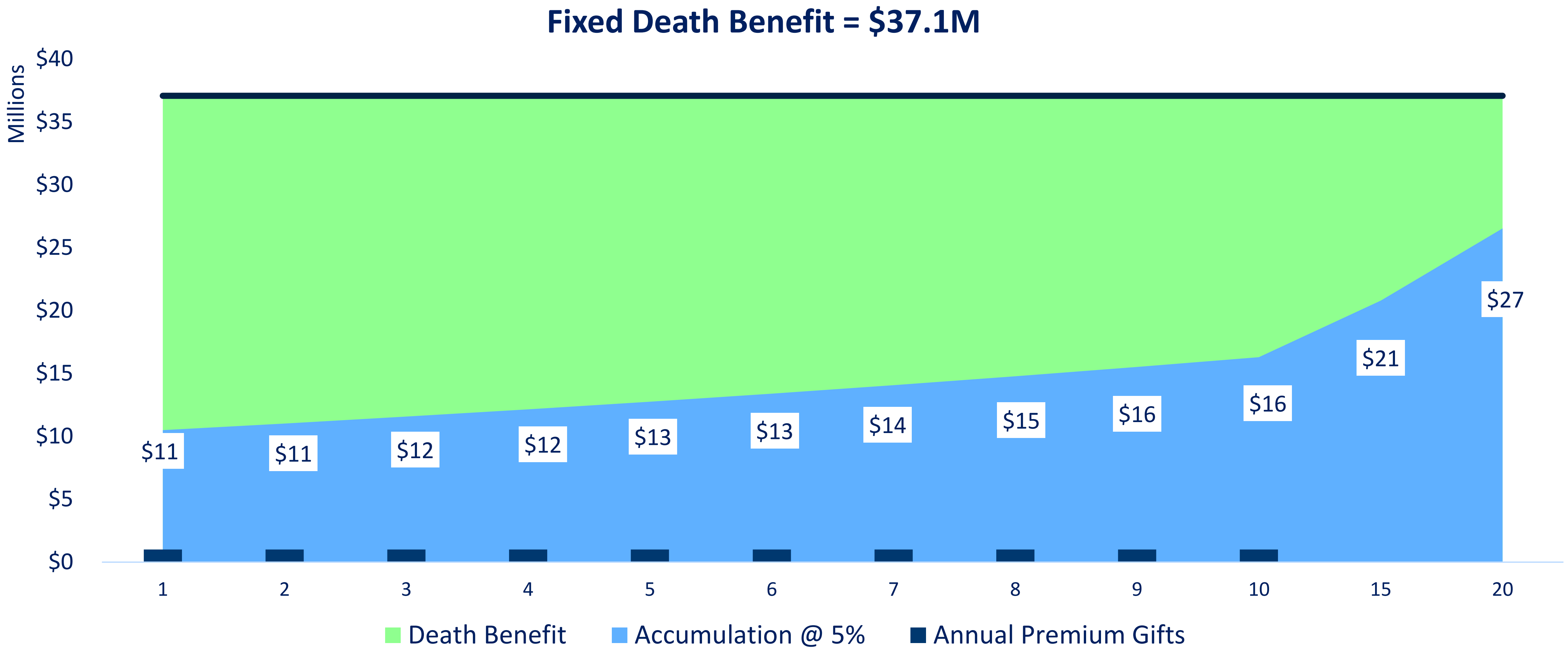
- Jon and Lucy, Married, Age 61
- $20 million net worth
- Have an established wealth transfer need

GOAL: Leverage large gift tax exemption by making a $10 million gift before the estate tax exemption reverts to $5 million.

LEVERAGING THE CURRENT LIFETIME GIFT EXEMPTION

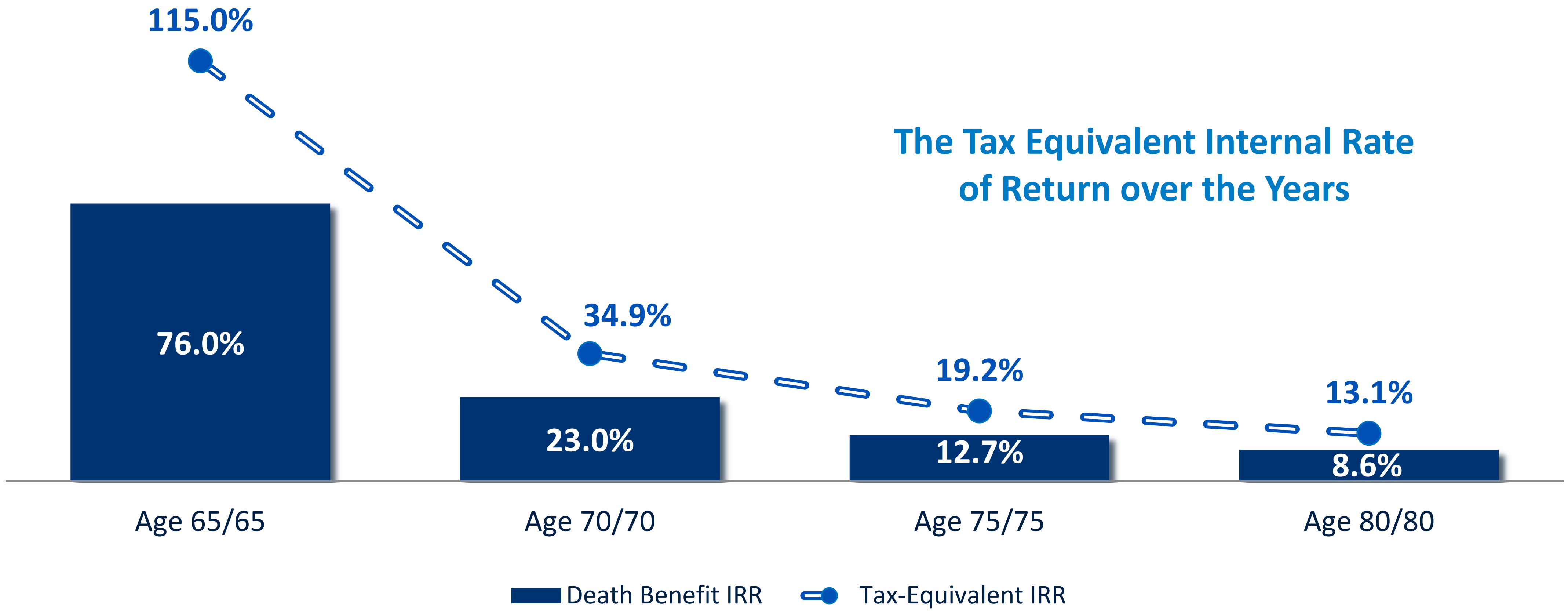


LEVERAGING THE CURRENT LIFETIME GIFT EXEMPTION



Hypothetical example: Survivorship Variable Universal Life policy, Male and Female age 61, both Preferred Non-Tobacco, Type A (Fixed) Death Benefit, Non-guaranteed results based on hypothetical annual Gross Returns of 6.5% (Net 5.72%) and Current Charges. Actual client results will vary. Should the policy not perform as illustrated, at 0% and max charges the policy lapses at age 113 and would have no cash value after year 20. Outstanding loans and withdrawals will reduce policy cash values and the death benefit and may have tax consequences.

INTERNAL RATE OF RETURN



Hypothetical example: Survivorship Variable Universal Life policy, Male and Female age 61, both Preferred Non-Tobacco, Type A (Fixed) Death Benefit, Non-guaranteed results based on hypothetical annual Gross Returns of 6.5% (Net 5.72%) and Current Charges. Actual client results will vary. Should the policy not perform as illustrated, at 0% and max charges the policy lapses at age 113 and would have no cash value after year 20. The Internal Rate of Return does not reflect the effects of income taxes. The Tax Equivalent IRR reflects an assumed annual tax rate of 34.0%. These hypothetical accounts are for demonstrative purposes only and do not reflect any investments available on the market.

Outstanding loans and withdrawals will reduce policy cash values and the death benefit and may have tax consequences.

IRREVOCABLE LIFE INSURANCE TRUSTS (ILITS)

- **Outside** of estate
- **Avoid** probate
- **Create** liquidity to pay estate taxes
- **Increase** amount of money left for beneficiaries
- A.K.A. Wealth Replacement Trust

GIFTS OF CASH
TO PAY LIFE INSURANCE PREMIUMS

ILIT OWNS
THE LIFE INSURANCE POLICY

ALL PROCEEDS FOR BENEFICIARIES

Insured must survive 3 years after transfer of existing policy.

OBJECTIONS TO ILITS

Contributions to an ILIT can't be recovered.

The grantor is giving up control.

The insured will have no access to cash value of a life insurance policy in the ILIT.

Any access to the cash value of a life insurance policy in an ILIT will result in the inclusion of the entire death benefit in the estate.

IRREVOCABLE DOESN'T MEAN INFLEXIBLE

- Floating spouse provisions
- Trust protector provisions
- Incentive provisions
- Dynasty provisions
- Special needs provisions

SPOUSAL LIFETIME ACCESS TRUSTS (SLATS)

- An ILIT where one spouse is a beneficiary while the other spouse is the grantor
- The trustee can make distributions to the grantor’s spouse as a beneficiary

There are multiple ways to fund a SLAT with life insurance.

SLAT: CLIENT PROFILE

- Peter (55) and Susan (50)
- Married
- $10 million net worth
- Want access to diverse income sources in retirement
- Have an established wealth transfer need

SLAT USING A SURVIVORSHIP LIFE INSURANCE POLICY

- Insures both spouses
- Only the grantor spouse makes contributions to the trust
- Provides the non-grantor spouse with access to the cash values through loans and withdrawals via the trustee[1,2]
- Death benefit provides tax-free income protection[3]
- Provides federal estate tax-free wealth transfer

[1] Outstanding loans and withdrawals will reduce policy cash values and the death benefit and may have tax consequences.

[2] Access to any of the policy cash values is subject to the trustee's discretion. Outstanding loans and withdrawals will reduce policy cash values and the death benefit and may have tax consequences.

[3] Per IRC 101(a).

SLAT USING A SURVIVORSHIP LIFE INSURANCE POLICY

Grantor
Peter

Gift of Premium

SLAT with Third Party Trustee purchases a Survivorship Life Insurance policy

Upon the death of both insureds, income and an estate tax-free death benefit are paid to the SLAT

Non-Grantor-Spouse
Susan

Income Tax-Advantaged Access to Cash Values through Loans and Withdrawals*

Through Trustee

Beneficiaries

Income Tax-Advantaged Access to Cash Values through Loans and Withdrawals*

Children
(or other trust beneficiaries)

*Outstanding loans and withdrawals will reduce policy cash values and the death benefit and may have tax consequences.

SLAT USING A SURVIVORSHIP LIFE INSURANCE POLICY

Non-Grantor spouse cannot:

- Be the grantor
- Have trustee powers over the life insurance
- Make direct or indirect contributions to the ILIT

CONSIDER:

- ❑ **Non-grantor spouse beneficiary dies first**
  - **The other trust beneficiaries (i.e., typically the children) will have access to the trust's assets.**
- ❑ **Grantor spouse dies first**
  - **How will future premiums be paid by the trust?**

SLAT USING A SINGLE LIFE INSURANCE POLICY

- Insures only one spouse
- Only the insured spouse makes contributions to the trust
- Provides the uninsured spouse with indirect access to the cash values through loans and withdrawals via the trustee[1,2]
- Death benefit provides tax-free income protection[3]
- Provides federal estate tax-free wealth transfer

[1] Outstanding loans and withdrawals will reduce policy cash values and the death benefit and may have tax consequences.

[2] Access to any of the policy cash values is subject to the trustee's discretion. If the uninsured spouse is the trustee, his or her access must be limited to an ascertainable standard, such as health, education, maintenance, and support. Outstanding loans and withdrawals will reduce policy cash values and the death benefit and may have tax consequences.

[3] Per IRC 101(a).

SLAT USING A SINGLE LIFE INSURANCE POLICY

With Spouse as Trustee

Grantor Peter

Gift of Premium

Spousal Lifetime Access Trust with non-insured spouse trustee purchases a life insurance policy on the husband.

Upon the death of the insured, income and an estate tax-free death benefit are paid to the ILIT

Non-Grantor Spouse Susan

Income Tax-Advantaged Access to Cash Values through Loans and Withdrawals*

Trustee

Beneficiaries

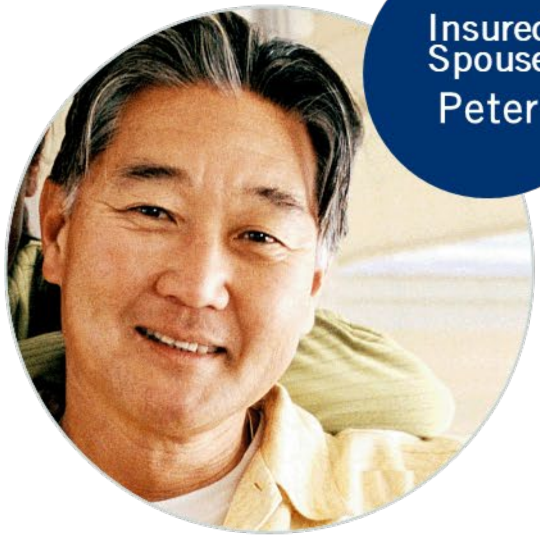
Income Tax-Advantaged Access to Cash Values through Loans and Withdrawals*

Children (or other trust beneficiaries)

* Outstanding loans and withdrawals will reduce policy cash values and the death benefit and may have tax consequences.

SLAT USING A SINGLE LIFE INSURANCE POLICY

With Spouse as Trustee



Insured Spouse
Peter

Gift of Premium

SLAT

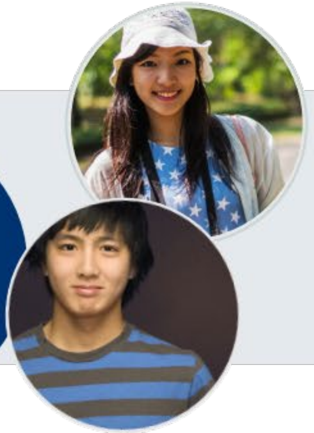
Spousal Lifetime Access Trust

Life insurance policy insuring the husband, with the spouse as trustee.

Uninsured Spouse
Susan

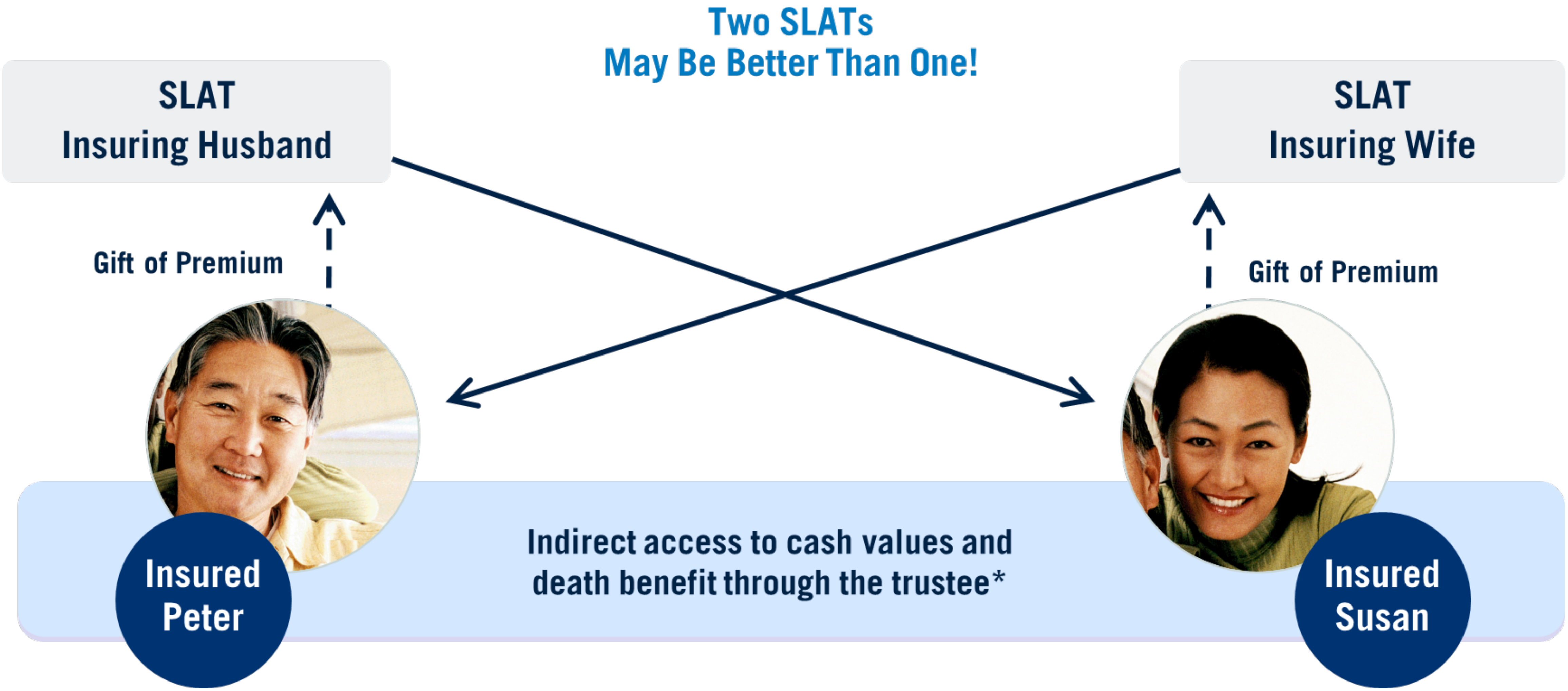
Trust distributions must be subject to an *ascertainable standard: health, education maintenance or support*

Children
(or other trust beneficiaries)



* Outstanding loans and withdrawals will reduce policy cash values and the death benefit and may have tax consequences.

SLAT USING TWO SINGLE LIFE INSURANCE POLICY



*Outstanding loans and withdrawals will reduce policy cash values and the death benefit and may have tax consequences.

CAUTION: RECIPROCAL TRUST DOCTRINE

CURRENT RULE

Where donors create reciprocal trusts that avoid estate taxes under the literal terms of the Internal Revenue Code but do not change the economic position of each donor with respect to the property, the *trusts will be included in the estate of the donors at death*

TWO-PART TEST

1. **Are the trusts interrelated? And, if so,**
2. **Have the economic positions of the grantors been altered?**

SURVIVORSHIP STANDBY TRUST (SST)

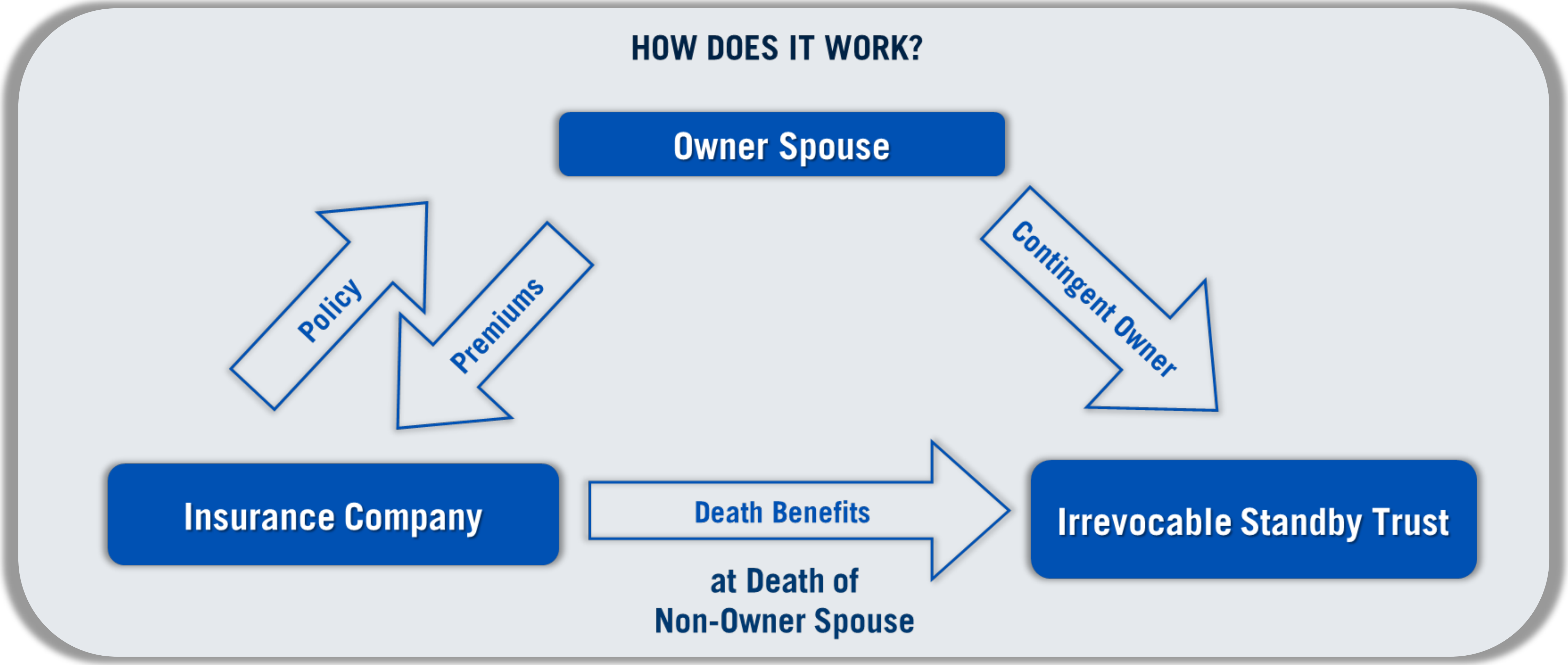
Overview

- Spouse with anticipated shorter life expectancy purchases and owns a survivorship life insurance policy
- Owner spouse has access to policy during lifetime

SURVIVORSHIP STANDBY TRUST: OVERVIEW

At the death of the owner	At the death of the surviving spouse
• Irrevocable Trust (previously named as contingent owner) takes ownership of the policy • The policy's fair market value is included in his or her estate, but NOT the death benefit	• Death proceeds are passed income and estate tax-free to heirs

SURVIVORSHIP STANDBY TRUST: MECHANICS



SURVIVORSHIP STANDBY TRUST

CLIENT PROFILE

- Couples
- Net worth: Between $5M—$10M
- Age: 45 & up

WHY?

- As per the Tax Cuts and Jobs Act (TCJA)[1], this demographic is not currently subject to estate taxes
- In 2026, TCJA will “sunset” and the lifetime exemption amount will revert to the levels prior to 2018
- $5M for an individual; $10M for a married couple[2]

[1] Effective for 2018.

[2] As adjusted for inflation.

SURVIVORSHIP STANDBY TRUST: STRATEGY BENEFITS

- Access to policy values during the lifetime of both insureds to meet changing needs
- Minimize gift taxes during lifetime of the owner spouse
- Only the policy's fair market value is part of the taxable estate at the owner spouse's death
- **Estate and income tax-free proceeds at survivor's death**

SURVIVORSHIP STANDBY TRUST: CASE EXAMPLE

- Michael (45) and Carla (45)
- Married
- $15 million net worth
- Want to plan for estate taxes while maintaining control
- Michael: Mild chronic condition, Standard risk

SURVIVORSHIP STANDBY TRUST

Using a Survivorship Life Insurance Policy

Michael

Pays Premium

Michael reasonably believes Carla will outlive him

- He purchases a survivorship life insurance policy in his name
- He creates a trust that will become owner of the policy when he dies

During Life

Income Tax-Advantaged Access to Cash Values through Loans and Withdrawals*

Michael's Death

Beneficiaries

- Policy to Standby Trust
- Outside Carla's estate
- Family access

Spouse and Children

* Outstanding loans and withdrawals will reduce policy cash values and the death benefit and may have tax consequences.

SURVIVORSHIP STANDBY TRUST

Using a Survivorship Life Insurance Policy

Michael

Pays Premium

During Life

Income Tax-Advantaged Access to Cash Values through Loans and Withdrawals*

Carla's Death

Beneficiaries

- **Policy gifted to ILIT by Michael after Carla's death**
- **Outside Michael's estate[2]**
- **Family access**

Children (or other trust beneficiaries)

But what if Michael outlives Carla?

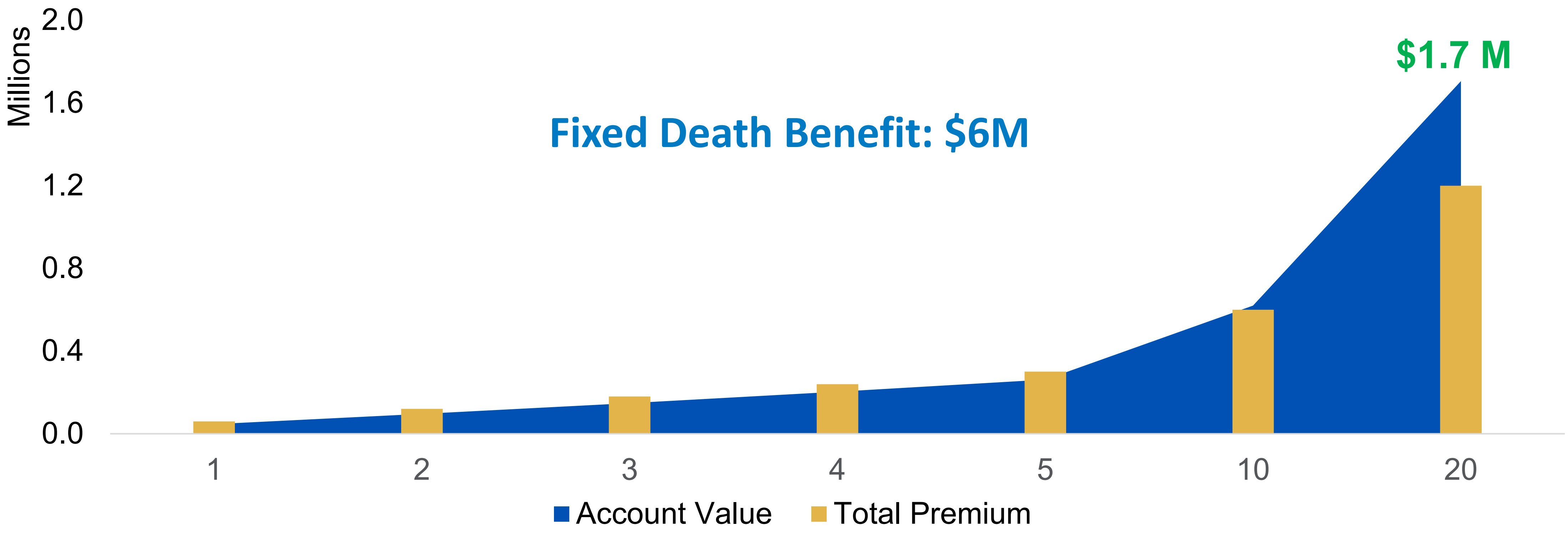
In this case, Michael can:

- Surrender the policy
- Transfer the policy to an irrevocable life insurance trust[1]

[1] Will result in a gift and taxes may be incurred.
[2] Policyowner must live at least three years after the transfer or the death benefit proceeds will be included in the policyowner's estate.
* Outstanding loans and withdrawals will reduce policy cash values and the death benefit and may have tax consequences.

SAMPLE ILLUSTRATION FOR MICHAEL AND CARLA

Hypothetical Illustration representing Survivorship Variable Life policy



Hypothetical example: Survivorship Variable Universal Life policy, Male and Female age 45, Female is Preferred, Non-Tobacco and Male is Standard Non-Smoker, Type A (Fixed) Death Benefit, Non-guaranteed results based on hypothetical annual gross returns of 6.5% (Net 5.72%) and Current Charges. Actual client results will vary. Should the policy not perform as illustrated, at 0% and max charges the policy lapses at age 121 and would have no cash value after year 34.

Outstanding loans and withdrawals will reduce policy cash values and the death benefit and may have tax consequences.

KEY TAKEAWAYS

- Estate planning is an essential part of every client's financial strategy
- Opportunities that exist today, especially for high-net-worth clients, have a scheduled expiration date – now is the time to plan
- Flexible strategies can provide the backbone of an estate plan designed to adapt to any changes life may bring

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