TRANSAMERICA®

Financial Professionals Guide to Estate Planning

ADVANCED MARKETS

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The Importance of Estate Planning

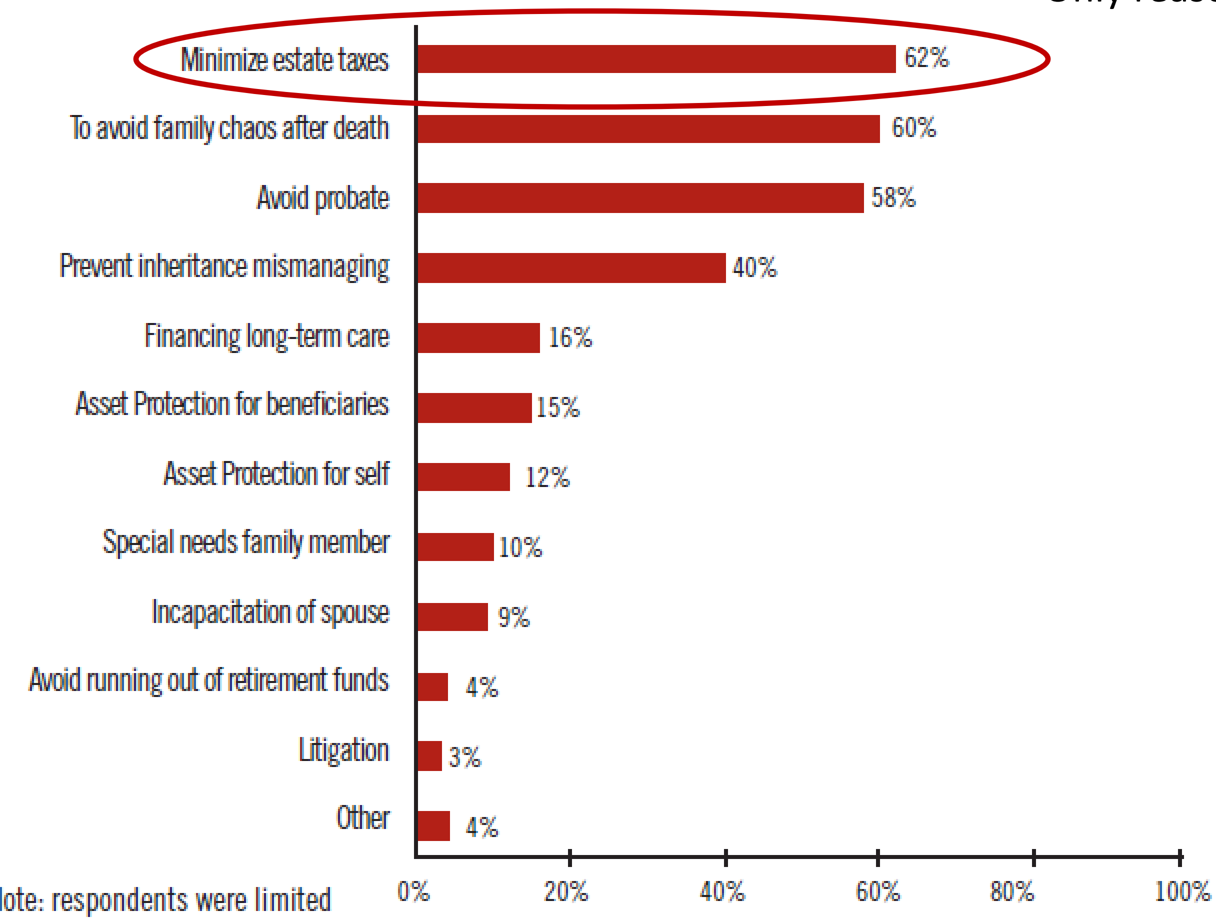
Personal Goals for Using Wealth: Net worth in excess of $3M

Ranking	Goal	% "important"
#1	Financial security for you/family	90%
#2	Financial freedom	78%
#3	Travel	64%
#4	Quality of relationships with family and friends	53%
#5	Leaving a financial inheritance	49%
#6	Having fun	36%
#7	Making a positive impact on society	36%
#8	Education	25%
#9	Leaving a legacy of contribution to society	13%
#10	Something else	2%

US Trust, Survey on Wealth and Worth, 2011.

Top Reasons Clients Plan

Only reason exclusive to the wealthy



Analyst Note: respondents were limited to 3 choices

Wealth Council and Trusts and Estates, A Look Inside the Estate Planning Industry, 2011.

The Reality

Estate planning is not just for the wealthy

- It affects every client.
  - Retirement planning becomes estate planning.
- 65% of married estate planning clients have a net worth less than $2M.
- 78% of single estate planning clients have a net worth less than $2M.

Source: Wealth Council and Trusts and Estates, A Look Inside the Estate Planning Industry, 2011.

Why Focus on Estate Planning?

Client Service and Retention

- Retirement planning becomes estate planning.
  - The retirement planning issues you address with your clients today will impact their estate plan tomorrow.
- High net worth clients need advice on estate planning issues.
  - Your most valued clients.
  - If you do not provide it, someone else may.
- Client Loyalty.
  - Puts you in a position to know your clients better.
  - Ensure your involvement in every aspect of the overall financial plan.

Why Focus on Estate Planning?

Asset Retention

- A lack of planning can result in a loss of assets due to unnecessary income and estate taxes.
- If clients need to seek guidance and advice on estate planning issues elsewhere, their assets may follow.
  - Be viewed by the estate planning attorney and CPA as part of the team.
  - Maintain control of the client relationship.
- Do you know the individuals who will inherit your client's assets?
  - Build bridges to the beneficiaries.
  - Position yourself to retain assets and gain new clients.

Why Focus on Estate Planning?

Business Building

- Prospecting.
  - High net worth clients are looking for estate planning expertise.
  - “Holistic” financial planning.
    - » Differentiates you from other advisors.
- Referrals.
  - Estate planning attorneys and CPAs need:
    - » Investment advisory services.
    - » Someone who understands the goals and objectives of the client.
    - » Help with coordinating the estate plan with the financial plan.

Estate Planning Approach

What is your plan?

- Ignore it.
  - Holistic financial planning is time consuming.
  - Estate planning is complex.
  - Risk losing your most valued clients.

Estate Planning Approach

What is your plan?

- Outsource estate planning concerns to other experts.
  - Clients receive the service without your time commitment.
  - Clients receive guidance from an expert.
  - You jeopardize your role as the primary advisor.
    - Conflicts of opinion.
    - They could recommend a different advisor!

Estate Planning Approach

What is your plan?

- Establish yourself as the primary advisor.
  - It takes time to become an expert.
  - The process can be time consuming.
  - Enhance client loyalty and retain assets.
    - » Focus on your most valued client.
    - » Provide holistic approach and address client concerns.

Estate Planning Approach

What should you do?

- Educate yourself.
  - This course.
  - Accompanying resource materials.
- Utilize tools provided to collect client information.
  - Develop a process
- Stay current on changing rules and regulations.
  - Transamerica’s Advanced Markets group

Estate Planning Objectives

Transferring Wealth

- Efficient and effective transfer of assets.

Control

- Planning how, when and to whom assets pass.

Reduce Taxes

- Income and transfer taxes.

Transferring Wealth

The goal:

- Transfer assets to the intended beneficiaries.
- Avoid delays and chaos.
- Reduce expense.

Three methods that control wealth transfer:

- Probate.
- Ownership (titling) of Assets.
- Beneficiary Designations.

Transferring Wealth

Probate

- Process of proving the will in order to pass legal title from the estate of the deceased to the beneficiaries.
  - **The Will** : Governing instrument used by the probate court to determine who inherits the decedent's assets.
- Potential disadvantages of Probate (DEAD):
  - **D**elays.
  - **E**xpense.
  - **A**ccess to Creditors.
  - **D**isinheritance.

Transferring Wealth

Wills – Three Action Steps

- Step 1: Ensure the client has a will.
  - Ask if the will is up to date.
  - Request a copy.
- Step 2: Review the will.
  - Ensure it fits with the financial plan and client's intentions.
- Step 3: Identify property that does not pass by will.
  - The will may be superseded by the way assets are owned or through beneficiary designations.

Transferring Wealth

Ownership of assets

- The way property is owned will dictate how it transfers after death.
  - Joint Tenants with Rights of Survivorship (JTWROS)
  - Tenants in Common (TIC)
  - Trust Ownership
- Community property laws may impact wealth transfer:
  - Alaska, Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, and Wisconsin.

Transferring Wealth

Beneficiary Designations

- A beneficiary designation dictates how assets transfer after death.
  - Types of accounts with Beneficiary Designations.
    - » Qualified plans, IRA's, annuities, life insurance, Transfer on Death (TOD) accounts, and Pay on Death (POD) accounts.
- Beneficiary designations supersede the will, avoiding probate, and allowing assets to pass directly to the listed beneficiary.
- Incorrect or out of date beneficiary designations may result in disinheritance.

Transferring Wealth

Beneficiary Designations - ***Warning Signs***:

- Blank designations.
  - Assets pay to the estate and are subject to probate.
  - Check to ensure contingent designations are listed.
- Estate is listed.
  - Probate issues.
- Out of date beneficiary designations.
  - Death, disability, divorce, birth and marriage can fundamentally alter a beneficiary designation.

Transferring Wealth

Beneficiary Designations - ***Warning Signs***:

- Multiple beneficiaries.
  - What happens if one passes away?
  - Per Capita vs. Per Stirpes.
  - Ignoring the income tax implications.
    - » Stretch.
    - » Charities.
- Trust listed as beneficiary.
  - Ensure the trust is necessary.
  - May limit post death distribution options.

Transferring Wealth

Best Practices:

- Ensure the client has a will and that it is up to date.
- Review how property ownership impacts who inherits assets.
- Make beneficiary designation reviews an ongoing process.
- Involve the client's beneficiaries in the process.
- Organize the client's beneficiary designations.
  - Encourage clients to keep account information and beneficiary designations in a safe location.
- Coordinate the will, asset ownership, and beneficiary designations to the overall financial plan.

Control

The Goals:

- Limit how the inheritance is provided.
  - Spendthrifts.
- Stipulate when assets are inherited.
  - All at once, periodically, at a specific time.
- Account for special considerations.
  - Special needs beneficiaries.

Instruments that can control wealth transfer:

- Wills.
- Restricted beneficiary designations.
- Trusts.

Control

Wills

- Wills can be drafted to include provisions that control an inheritance.

Advantages:

- Ease of setup:
  - All that is necessary is a proper will.
- Simplicity:
  - The intent of the deceased can be expressed easily.
    - » Not as involved as drafting a trust.

Disadvantages:

- Assets are subject to probate.
- The estate must remain open and the executor of the estate is responsible for management.

Control

Restricted beneficiary designation (aka poor man's trust).

- Custodian-provided program that controls the beneficiary's access to the account via the beneficiary designation.
  - Restrictions can be based on age, a number of years, or a specific distribution amount.

Advantages:

- Ease of setup.
- No Cost.
- Beneficiary customization (limited)

Disadvantages:

- Limited capabilities.
- Limited to specific asset.
- Lacks flexibility.
- Only as good as the custodian.

Control

Trust Ownership

- Trusts can be drafted to provide the greatest amount of control.

Advantages:

- Customization: Trusts language provides control.
- Flexibility: Trustees may be granted discretion over assets.
- Capabilities: Trusts can accomplish multiple objectives.

Disadvantages:

- Cost: Attorney fees and administration fees.
- Rigid: The terms of the trust may not be able to be changed.
- Complexity.

Control

Two types of trusts:

Revocable Trusts (Living Trusts)

- Treated as grantor for tax purposes.
- Can be changed or revoked.
- Trust may use the grantor's SSN.
- All taxes pass through to the grantor.
- Does not separate the asset from the grantor for tax purposes.

Purposes:

- Probate avoidance
- Asset consolidation
- Asset distribution
- Incapacity provisions

Irrevocable Trusts

- Separate legal entity from the grantor.
- Uses a Tax Identification Number (TIN).
- Files a separate tax return (1041).
- Provides separation of assets from the grantor, including for tax purposes.
- Special reporting rules apply to Irrevocable Grantor Trusts

Purposes:

- Asset distribution
- Wealth transfer
- Tax planning

Control

Types and purposes of common irrevocable trusts:

Control	Tax Planning	Charitable Planning
Spendthrift Trusts	Credit Shelter Trusts	Charitable Lead Trusts
Special Needs Trusts	Irrevocable Life Insurance Trusts	Charitable Remainder Trusts
QTIP Trusts	Generation Skipping Trusts	
	Grantor Retained Trusts	
	Intentionally Defective Trusts	

Control

Best Practices

- Fact finding is critical. Understand what methods of control your client already has in place or has access to.
- Identify the method of control that makes the most sense for the client (i.e. cost, ease of implementation, objectives).
- Communication and collaboration with professionals (such as CPAs and estate planning attorney) is necessary to ensure proper execution of a strategy.
- The ability to identify specific estate planning concerns and employ a strategy enhances your value.

Reduce Taxes

The Goal:

- Transfer assets with as little tax as possible.
- Create post death tax efficiencies.
- Provide liquidity to pay taxes.

Taxes that impact wealth transfer:

- Income Tax.
- Estate Tax.
- Gift Tax.
- Generation Skipping Transfer Tax.

Reduce Taxes

Income Tax Considerations

- Step-up in Cost Basis
  - Inherited assets that receive an adjustment in cost basis to current value when inherited (e.g.).
    - » Stocks.
    - » Mutual Funds.
    - » Real Estate.
    - » Bonds.
  - The “Step-up” can also be a “Step-down” if the value of the asset has fallen below the original cost basis.
  - Gifted assets do not receive a step-up in cost basis, instead they receive a carryover basis.

Reduce Taxes

Income Tax Considerations

- IRD – Income in Respect of a Decedent
  - Inherited assets that are income taxable to a beneficiary.
    - » IRAs.
    - » Qualified Plans.
    - » Deferred Annuities.
    - » Interest and Dividends earned but not received until after death.
- Stretch Option (IRAs, Qualified Plans and Deferred Annuities)
  - Beneficiary taxed as distributions are received.
    - » Manage Taxation.
  - Maintain tax deferral on undistributed amounts.
    - » Account must be depleted over beneficiary's life expectancy.
  - A trust beneficiary may be limited or unable to stretch.
    - » Qualified vs. nonqualified.

Reduce Taxes

Income Tax Considerations

- Income taxation of trusts
  - Trusts have a more compressed income tax schedule.
  - Taxable income retained beyond the end of the tax year is taxable to the trust.
  - Selection of investments is important.

Reduce Taxes

Estate Tax

- Estate Tax Exclusion - per person.
  - Unlimited transfers to spouses – Unlimited Marital Deduction.
  - Unused exclusion is "portable" to surviving spouses.
- Amounts in excess of the estate tax exclusion are subject to the top estate tax rate.
- Unified with the Gift Tax exclusion.
  - Unified tax exclusion during life or at death.
- Consult the client's estate planning attorney.

Reduce Taxes

Gift Tax

- Annual Gift Tax Exclusion.
  - No reporting necessary.
  - Gifts to spouses are generally excluded.
  - Does not reduce the lifetime gift tax exclusion.
  - Applies separately to each giftee.
  - Can be split with spouse, but requires a gift tax return.
- Lifetime Gift Tax Exclusion.
  - For gifts over the annual gift tax exclusion.
  - Gifts to spouses are generally excluded.
  - Gift tax return necessary.
  - Taxable gifts subject to the gift tax rates if they exceed lifetime estate and gift tax exclusion.
  - Reduces the Unified Credit exclusion for gift and estate tax.

Reduce Taxes

Generation Skipping Transfer Tax

- Assessed against transfers that skip a generation subject to estate or gift tax.
- Intended to ensure transfer tax is paid per generation.

Reduce Taxes

Tax Reduction Strategies

- Income Tax
  - Roth IRAs
    - » Eliminate RMDs during owners life
    - » Tax-free inheritance to beneficiaries
  - Stretching IRD Assets
    - » Maintain tax-deferral and control taxation of inherited assets
  - Preserve low cost basis assets
  - IRD deduction
    - » Income tax deduction for estate taxes paid on IRD assets
  - Trusts
    - » CRT, capital gain and income tax planning

Reduce Taxes

Tax Reduction Strategies

- Estate Tax
  - Gifting to heirs
    - » Reduces taxable estate
  - Charitable gifts
    - » Reduces taxable estate
    - » Estate tax deduction
  - Trusts
    - » Irrevocable Life Insurance Trust (ILIT)
    - » Credit Shelter Trust (CST)
    - » Charitable Remainder Trust (CRT)

Reduce Taxes

Best Practices

- Determine the tax status of your client’s assets
- Identify assets entitled to step-up in cost basis
- Identify IRD assets
- Determine if your client is charitably inclined
- Consider gifting opportunities
- Notify beneficiaries of stretch option

Next Steps

Enhance your most valued relationships

- Help clients organize their estate planning documents.
- Ensure beneficiary designations are up to date.
- Discuss how assets will pass to their beneficiaries and address concerns.
  - Involve the beneficiaries in this process.
- Develop relationships with centers of influence.

Next Steps

Incorporate estate planning into your business

- Demonstrate your value and ability to meet the needs and concerns of your high net worth clients.
- Retain your most valued clients and their assets.
- Set the groundwork and establish relationships with the heirs who will inherit the assets you already manage.
- Work with Transamerica’s Advanced Markets Group.

Thank You

Questions?

End Note: Concepts and information compiled for this presentation were cited from:

- Tools and Techniques of Estate Planning, 15th Edition, Stephan Leimberg.
- Uniform Probate Code amended 2006.

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