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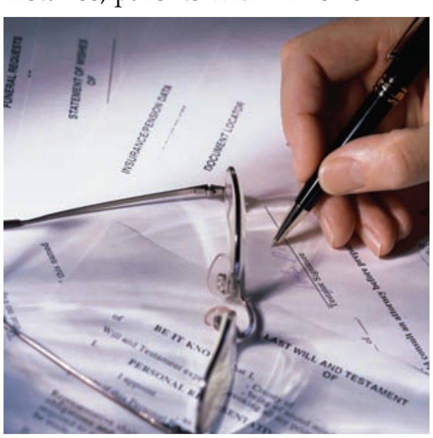
# Estate Planning Tips

Current tax laws have made estate planning more complicated. The estate tax is scheduled to have a higher credit amount for 2009, be repealed in 2010, and then be reinstated in 2011 based on 2001 tax laws. That assumes there will be no future tax legislation before then. Don't let these evolving tax laws prevent you from planning your estate. Instead, consider the following tips:

✔ **Plan your estate, even if it won't be subject to estate taxes.** The amount you can distribute to beneficiaries other than your spouse without paying estate taxes will increase from the current $2,000,000 to $3,500,000 in 2009. As noted above, estate taxes will be repealed in 2010, but reinstated again in 2011 based on 2001 tax laws. However, there are reasons other than minimizing estate taxes for planning your estate. For instance, parents with minor children should name guardians and provide for their children's support, while individuals in other than first marriages may want to protect children from prior marriages. You may also need a will, durable power of attorney, and health care proxy.




✔ **Leave written instructions for beneficiaries.** You can provide heirs with important financial and personal information and clarify requests made in other legal documents. You can also explain your rationale for distributing assets, especially if they aren't split equally among beneficiaries.

✔ **Decide whether to leave your entire estate to your spouse.** With the unlimited marital deduction, you can leave all your assets to your spouse without paying any estate taxes. However, if you have assets in excess of the estate tax exclusion amount (detailed above), your estate does not get to utilize that exclusion amount when all assets are left to your spouse. Thus, when your spouse dies, the beneficiaries may pay more estate taxes than if you had left some assets to them, either outright or through trusts. If your spouse needs those assets after your death, you can set up a trust that allows your spouse to use income during his/her life,

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## Setting Goals

Properly designed, your financial goals should provide motivation to help you control spending. Keep these tips in mind when developing financial goals:

✔ **Set exciting goals.** Your goals should keep you motivated to reduce spending and save for the future. Whenever you're tempted to abandon that goal, visualize what you're saving for.

✔ **State your goals in measurable terms.** Quantify your ultimate goals as well as interim goals so you can track your progress. If you need $500,000 in 20 years, how much should you have accumulated after one year, five years, or 10 years?

✔ **Prioritize your goals.** If you have more than one goal, you may not have the resources to pursue them all at the same time. Prioritize your goals so you can work toward those most important to you.

✔ **Reward yourself when you make progress toward your goals.** To maintain your commitment to goals that can take years to achieve, reward yourself when you reach interim goals. ❍❍❍

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# Dealing with Stock Price Declines

When a stock's price substantially declines, you might wonder what you should do. If you own the stock, should you sell before the stock declines more or purchase more shares at the lower price? If you are interested in the stock, should you purchase now or wait for a while? Before you decide, you need to assess the cause of the price decline. Typically, the stock's price is reacting to one of three things:

✔ **Market trends** — When the overall market is weak, individual stock prices can also be affected. Compare the performance of a stock to the overall market to see if it is moving in line with it. Some stocks may move to a greater extent than the overall market, while others may move to a lesser extent. Review the beta of the stock when making this comparison. Beta, which can be found in a number of published services, is a statistical measure of how stock market movements have historically impacted a stock's price.

✔ **Industry factors** — A stock's price can also be affected by industry-wide factors. Those factors could include the cyclical nature of the industry's sales, a structural change in the industry, a change in government regulations, industry liability issues, and competitor announcements. With these types of changes, you need to assess whether the industry's changes are significant enough to cause you to sell the stock.

✔ **Company-specific issues** — These changes relate solely to the company in question and can include items like earnings, management, liability questions, government regulations, competition, and fraud. With these types of changes, you need to determine what is causing the stock price decline and then assess whether the change is temporary or permanent. Reassess the company's fundamentals to make sure you still believe its future prospects are good, looking at things like the management team and trends in sales and net income. If, after making this assessment, you believe the change is temporary and has not affected the company's fundamentals, you probably will not want to sell the stock and may even want to add to your position.

Please call if you'd like to discuss this in more detail. ❍❍❍

## Assessing Your Investment Accounts

At least annually, you should thoroughly review your investments to ensure they are helping you work toward your investment goals. Since you may have a large number of investment accounts, consider these steps:

**1. Identify your investment goals and which accounts are beneficial to those goals.** Often, you will have several investment goals with specific investment accounts set up for each goal. For instance, if you are saving for retirement, you may have an individual retirement account (IRA) and a 401(k) plan. If you are saving for your children's college educations, you may have a section 529 plan and an education savings account. Make sure to list your investment accounts by the investment goal they are intended to cover, so you can determine what progress you are making toward each goal. At the same time, consider whether there are ways to consolidate your accounts to make them easier to manage. For instance, you may want to roll over assets from a former employer's 401(k) plan to an IRA or consolidate several IRAs.

**2. Determine your current asset allocation mix.** Your asset allocation strategy represents your personal decisions about how much of your portfolio should be allocated to various investment categories. If you don't have an asset allocation strategy, go through the process of setting one, which involves assessing your time horizon for investing, risk tolerance, returns needs, and investment preferences. If you already have an asset allocation strategy, determine how close your current investment mix is to that strategy. Since you'll probably need to make adjustments to your portfolio, take a fresh look at each investment you own making sure the reasons you chose to initially invest are still valid.

**3. Rebalance your portfolio.** You'll probably find that your current asset allocation has strayed from your desired allocation due to varying rates of return on your investments. Determine how much variation you are willing to tolerate, perhaps 5% or 10% from your desired allocation. If portions of your portfolio have strayed more than that, take steps to get your allocation back in line. However, first determine if there are ways to do so without incurring tax liabilities that can result from selling assets in taxable accounts. Instead, you may want to make new investments in underweighted assets, redirect periodic income to other asset classes, or take withdrawals from overweighted classes.

**4. Review your accounts regularly.** You should review your portfolio at least annually, making adjustments as needed. As time goes on, your investment goals or feelings about particular investments may change, requiring changes in your overall asset allocation. By reviewing your investments annually, you can gradually make changes to ensure you are making steady progress toward your investment goals. Asset allocation and rebalancing do not assure a profit or protect against loss in declining financial markets. ❍❍❍

## Estate Planning Tips

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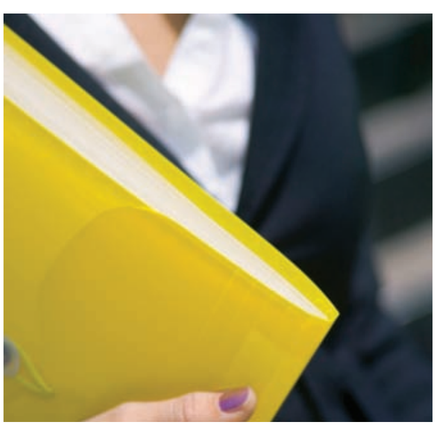
with the balance distributed to beneficiaries after your spouse's death.

✔ **Name executors, trustees, and guardians carefully.** An executor (or personal representative) administers your estate through probate court, locates and values all assets, pays your estate's obligations, and distributes your estate. A trustee manages property in the trust and distributes income and principal. A properly named guardian takes physical care of your minor children and handles their finances. All three roles significantly impact your estate, so choose these individuals carefully, making sure they can handle the responsibilities.

✔ **Review the distribution of assets that bypass your will.** Jointly owned property will transfer directly to the co-owner, while assets with named beneficiaries will transfer directly to those beneficiaries. If you don't keep this in mind, some beneficiaries could receive a higher percentage of your estate than intended. Beneficiaries of assets such as life insurance policies, 401(k) plans, and individual retirement accounts should be reviewed after major personal changes, such as a marriage, divorce, death, or birth.

✔ **Consider adding a disclaimer provision to your estate planning documents.** This provision details what will happen if your beneficiaries disclaim all or a portion of their inheritance. That way, beneficiaries can decide after your death how much to place in various trusts. For instance, a husband can leave all assets to his wife with the condition that any disclaimed assets go into a trust paying her income for life and distributing the remaining assets to their children after her death. This gives the wife the opportunity to divide assets based on her needs and the estate tax laws at the time of her husband's death.



✔ **Implement an annual gifting program.** You can make annual gifts, up to $12,000 in 2008 ($24,000 if the gift is split with your spouse), to any number of individuals without paying federal gift taxes. Since estate tax repeal is only scheduled for one year, this strategy removes assets from your taxable estate as well as any future appreciation or income generated on those gifts. Over a number of years, an annual gifting program can remove substantial assets from your estate. You may also want to use your $1,000,000 lifetime gift tax exemption.

✔ **Skip a generation on a tax-free basis.** Leaving assets to children who already have sizable estates may mean the assets will be taxed again when they bequeath them to your grandchildren. A better strategy may be to transfer those assets directly to your grandchildren, although you can only transfer a lifetime amount of $2,000,000 in 2008 (over and above the $12,000 per-person annual exclusion) before triggering an additional tax called the generation-skipping transfer tax. This GST exclusion amount is equal to the estate tax exclusion.

✔ **Consider making charitable contributions during your lifetime.** While charitable contributions made after death are free of estate taxes, that may not provide any benefit due to higher exemption amounts. Charitable contributions made during your life will still lower your taxable estate, plus, you get a current income tax deduction.

✔ **Understand when a revocable living trust is appropriate.** Living trusts can provide substantial estate planning benefits, such as removing assets from probate and preserving the use of your estate tax exclusion. However, these trusts do not reduce estate taxes, unless used in conjunction with other trusts.

✔ **Shelter life insurance proceeds from estate taxes.** While life insurance proceeds are always free from federal income taxes, owning the policy will cause the proceeds to be included in your taxable estate. Instead, you may want another individual or trust to own the policy, so the proceeds are excluded from your taxable estate.

✔ **Realize a wide variety of trusts exist to meet specific estate planning needs.** Trusts can be established to meet a variety of objectives — to reduce estate taxes, to control asset distribution, to make gifts to charities, to provide for the possible incapacity of the creator, to protect beneficiaries from themselves or others, to avoid probate, to allow a professional to manage assets, or to ensure provisions are made for minors.

Even with the changing estate planning laws, you should take time to plan your estate. Please call if you'd like to discuss your estate planning situation in more detail. ❍❍❍

# The Basics of Intentionally Defective Trusts

For those with large estates, a primary goal of estate planning is to move assets outside the estate to minimize potential estate taxes. Moving sizable assets, however, often results in paying significant gift taxes. One strategy that accomplishes that goal without paying gift taxes is the use of an intentionally defective grantor trust.

An intentionally defective grantor trust is an irrevocable trust designed to trigger the grantor trust rules, thus allowing the grantor, rather than the trust, to pay income taxes on trust income. Assets can be moved to the trust through gifts or sales, thus removing the assets and any future appreciation from the grantor's estate. Larger gifts may trigger use of your lifetime gift tax exclusion or the payment of gift taxes. Selling the assets to the trust and paying interest income on an installment sale are not taxable events. Since the defective trust is considered an extension of the grantor, these are considered transactions with the grantor.

Any income generated by the trust is taxable to the grantor. Since the grantor is required to pay the tax on this income, it is considered a legal obligation and not a gift. Thus, all trust earnings can accumulate inside the trust for the beneficiaries' benefit.

There is no step-up in basis when the assets are transferred or sold to the trust. Thus, while the grantor uses this trust to reduce estate taxes, beneficiaries may find themselves faced with high capital gains taxes. However, the capital gains taxes aren't owed until the asset is actually sold. Also, if the asset is real estate or certain other kinds of property, beneficiaries may be able to perform a section 1031 like-kind exchange to defer gains.

To use this type of trust, the trust document must be drafted to invoke the grantor trust rules. Several conditions can accomplish this. ❍❍❍



# Using Disclaimer Provisions

Adding a disclaimer provision to your estate planning documents can give your beneficiaries the ability to determine how to split assets after your death. A disclaimer details what will happen if one of your beneficiaries disclaims his/her inheritance. That way, your beneficiaries can decide after your death how much should be placed in various trusts.

For instance, a husband can leave all his assets to his wife with the condition that any disclaimed assets go into a trust paying her income for life, and distributing the principal to their children after her death. This gives the wife the opportunity to divide assets based on her needs and wishes at the time of her husband's death.

The disclaimer provision allows you to determine what will happen to disclaimed assets. Before using a disclaimer, you should make sure that you understand the implications for your estate plan. For a disclaimer to be legally valid, it must comply with both federal and state guidelines. ❍❍❍

# Financial Thoughts

Almost 70% of Americans who participated in a recent survey had not planned for the long-term-care needs of themselves, their spouse, or another relative (Source: America's Health Insurance Plans, 2007).

In 2005, 85% of men and women took early retirement benefits compared to 66% of men and 71% of women who took early retirement benefits in 1999. (Source: CNNMoney.com 2007).

In the public sector, 80% of workers are covered by a defined-benefit pension plan, 14% have defined-contribution plans, and 6% have both. Seventy percent of workers participate in Social Security. By contrast, only 10% of workers in the private sector are covered by a defined-benefit pension plan, 64% participate in 401(k) plans, and 26% of workers participate in both types of plans. Virtually everyone participates in Social Security. Public defined-benefit plans tend to provide larger benefits than their private-sector counterparts and most offer retirees cost-of-living increases, a benefit that is essentially nonexistent in the private sector. (Source: Center for Retirement Research at Boston College, 2007). ❍❍❍