

Estate Planning

While a very complex topic, estate planning is a critical component of any well developed financial plan. To be effective, this planning needs to be carefully coordinated with the other areas of planning such as Insurance, Retirement, Investments, etc. The primary goal of this section is to highlight estate planning concepts, and help illustrate potential benefits of implementing basic estate planning techniques available today.

Estate Tax

Minimizing estate tax exposure is generally a primary goal of most clients. History is full of examples of estates decimated by unnecessary estate taxes and expenses. We will provide you with an analysis of your current situation and illustrate suggestions to minimize your current and future estate tax exposure. Some of the basic planning techniques we will consider are the use of:

- Unlimited Marital Deduction
- Maximizing use of Applicable Exclusion Amount
- Unlimited Charitable Deductions
- Annual Gift Exclusion
- Revocable Living Trusts
- Irrevocable Life Insurance Trusts

Other Financial Goals

Other financial goals to consider in your planning are:

- Estate liquidity
- Managing probate, administrative and other expenses
- Minimizing Income Tax

Non-Financial Goals

The non-financial aspects of estate planning are just as important as the various financial goals described above. They will often be of a very personal nature and should be customized to fit into your overall plan. Generally, this can be accomplished by discussing these goals noted above. We will be able to point out only general concepts in this report. However, some of the non-financial goals for you to consider are:

- Caring for dependents or minor children
- Distribution of property to heirs
- Maintaining control over assets
- Lifetime planning issues such as incapacity and health care powers

Summary

Protecting your estate requires careful planning. The diverse skills required to coordinate a plan might require a team approach consisting of your financial planner, attorney, insurance specialist, accountant, and investment advisor. The illustrations provided here are intended as tools to help you and your team make informed decisions. In addition, your situation will most likely change with time. Therefore, you will need to monitor your estate planning situation periodically and make amendments as required.

This report is a hypothetical illustration and does not constitute legal or tax advice. You should always obtain legal counsel and professional tax advice before taking action affecting your estate planning.

Estate Net Worth Statement

ASSETS

	<u>William</u>	<u>Nancy</u>	<u>Joint/ Community</u>	<u>Total</u>
Savings and Investments				
Checking accounts			\$10,000	\$10,000
Money market accounts/funds		15,000	48,000	63,000
Passbook & credit union savings			15,000	15,000
Government bonds, T-Bills			15,000	15,000
Common stocks	215,000	325,000		540,000
	<u>\$215,000</u>	<u>\$340,000</u>	<u>\$88,000</u>	<u>\$643,000</u>
Retirement Accounts				
Qualified Plans - William	\$110,000			\$110,000
IRA Assets - William	220,000			220,000
IRA Assets - Nancy		23,000		23,000
	<u>\$330,000</u>	<u>\$23,000</u>	<u>\$0</u>	<u>\$353,000</u>
Other Assets				
Residence			\$1,200,000	\$1,200,000
Personal Property			20,000	20,000
Arizona Condo	150,000			150,000
Life Insurance Cash Values	25,000			25,000
	<u>\$175,000</u>	<u>\$0</u>	<u>\$1,220,000</u>	<u>\$1,395,000</u>
TOTAL ASSETS	\$720,000	\$363,000	\$1,308,000	\$2,391,000
<u>LIABILITIES</u>				
Residence Mortgage			\$120,000	\$120,000
Auto Loans			25,000	25,000
TOTAL LIABILITIES	\$0	\$0	\$145,000	\$145,000
NET WORTH	\$720,000	\$363,000	\$1,163,000	\$2,246,000
<u>ADJUSTMENTS</u>				
Life insurance in estate	\$200,000	\$1,000,000		
Life insurance cash values	(25,000)	0		
Estate share of joint property	581,500	581,500		
ESTATE NET WORTH	\$1,476,500	\$1,944,500		

Your Current Situation

The recommendations in this report are based on information that you provided. Before reviewing the estate plan or implementing any of the recommendations that follow, please verify the following data and assumptions.

Basic Data

	William	Nancy
Age	44	42
Age at Death for this Illustration	44	42

General Assumptions

Administrative & probate expenses as a percentage of estate assets:	4.00%
Estimated final expenses	\$7,500

Existing Estate Planning

Will	No	No
Revocable Living Trust	No	No
Marital Trust Provisions	No	No
Credit Shelter Trust Provisions	No	No
QTIP Trust Provisions	No	No
Generation Skip Trust Provisions	No	No
Irrevocable Life Insurance Trust	No	No
Durable General Power of Attorney	No	No
Durable Health Care Power of Attorney	No	No
Living Will	No	No
Existing percentage of Estate in Living Trust	0%	0%

Previous Gifting Detail

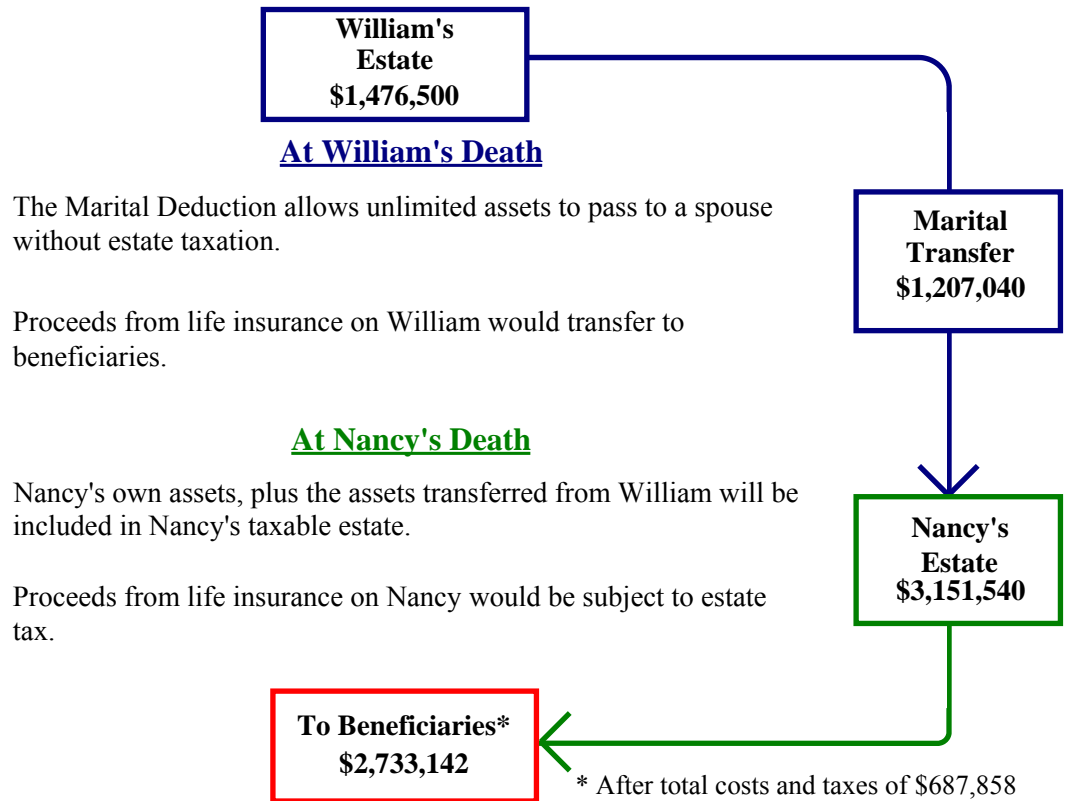
Previous Taxable Gifts	\$0	\$0
Previous Gift Taxes Paid	\$0	\$0

Current Estate Summary

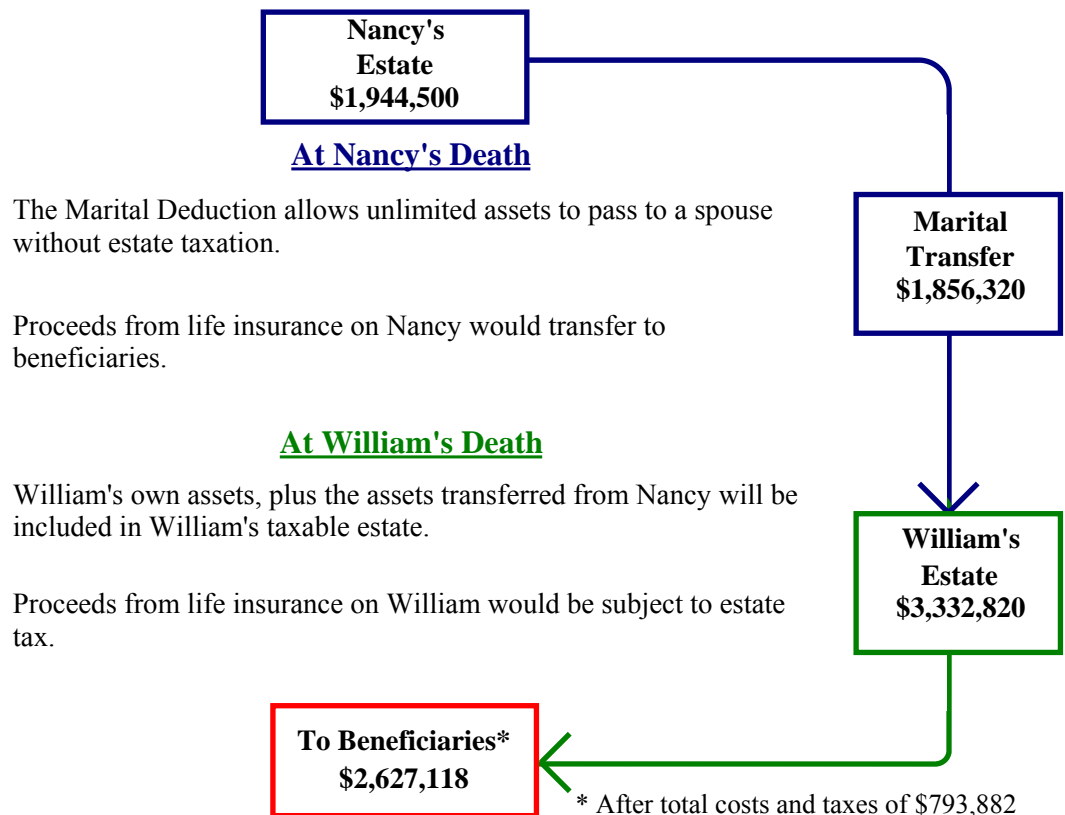
- William's gross estate consists of \$1,476,500 and Nancy's consists of \$1,944,500.
- Potential federal estate taxes currently range from \$481,936 to \$561,989.
- Administrative, probate, and final expenses could total from \$205,922 to \$231,893.
- Additional planning could save up to \$759,954 in estate taxes and other costs.

Current Situation - Flowchart

William Predeceases Nancy



Nancy Predeceases William



Current Situation - Estimate

William Predeceases Nancy

Estate	William's Death	Nancy's Death
Separate property (assets balanced)	\$365,000	\$340,000
50% of jointly owned & community property	654,000	654,000
Retirement Accounts	330,000	23,000
Life Insurance	200,000	1,000,000
Debt	(72,500)	(72,500)
Marital Transfer	0	1,207,040
	\$1,476,500	\$3,151,540
Deductions and Expenses		
Marital Transfer	(\$1,207,040)	\$0
Administrative, Probate and Final Expenses	(69,460)	(136,462)
	(\$1,276,500)	(\$136,462)
Federal Taxable Estate	\$200,000	\$3,015,078
Federal Estate Tax		
Federal Estate Tax	(\$54,800)	(\$1,262,736)
Applicable Credit Amount	54,800	780,800
Federal Estate Tax	\$0	(\$481,936)

Nancy Predeceases William

Estate	Nancy's Death	William's Death
Separate property (assets balanced)	\$340,000	\$365,000
50% of jointly owned & community property	654,000	654,000
Retirement Accounts	23,000	330,000
Life Insurance	1,000,000	200,000
Debt	(72,500)	(72,500)
Marital Transfer	0	1,856,320
	\$1,944,500	\$3,332,820
Deductions and Expenses		
Marital Transfer	(\$1,856,320)	\$0
Administrative, Probate and Final Expenses	(88,180)	(143,713)
	(\$1,944,500)	(\$143,713)
Federal Taxable Estate	\$0	\$3,189,107
Federal Estate Tax		
Federal Estate Tax	\$0	(\$1,342,789)
Applicable Credit Amount	0	780,800
Federal Estate Tax	\$0	(\$561,989)

Your Alternate Estate Planning Structure

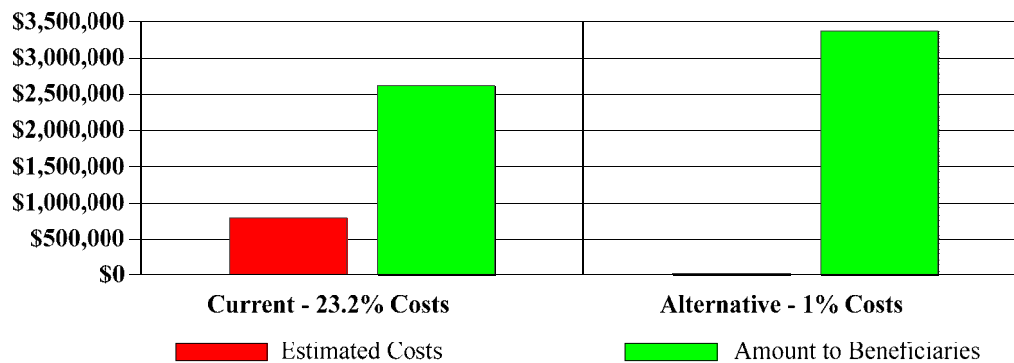
Summary of Alternative Estate Results

This report reviews and compares the cumulative impact of the suggested estate planning alternatives upon your estate. The Suggested Alternative Flowchart diagram which follows this page illustrates how the improved estate structure reduces the amount of your estate exposed to estate taxes. In your specific case, you may be able to reduce your estate costs and taxes by up to 96%. These savings directly translate into additional assets available for beneficiaries.

Currently, your combined total estate is estimated to be \$3,421,000. Using estimated estate settlement costs of \$793,882, you would pass approximately \$2,627,118 to your beneficiaries.

With proper implementation of suggested alternative estate structures, your current estimated estate settlement costs may be reduced to approximately \$33,928. This would allow you to save \$759,954 in taxes and expenses, transferring \$3,387,072 to your beneficiaries.

Impact of Planning upon Estate Costs



Alternative Wills and Trusts

By implementing suggested alternative estate strategies, you may significantly increase the assets passing to your beneficiaries at death and reduce your estimated estate settlement costs.

Your current estate documents:

- None

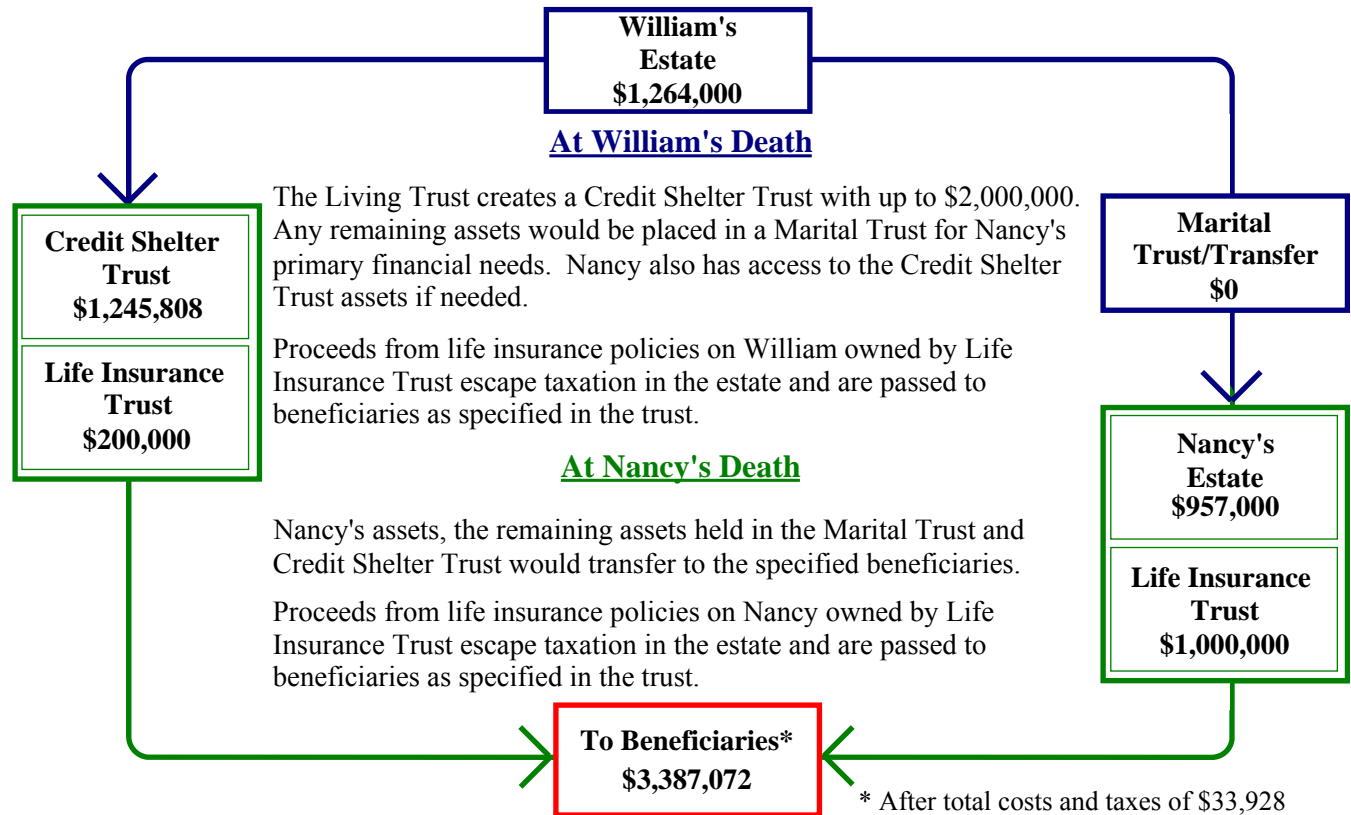
Suggested additional/alternative estate documents:

- A Will for each spouse if necessary
- Revised asset ownership to balance property if necessary
- A Revocable Living Trust for each spouse
- Fund the Revocable Living Trusts
- Marital Trust provisions
- Credit Shelter Trust provisions
- Irrevocable Life Insurance Trusts*
- Durable General Powers of Attorney
- Durable Health Care Powers of Attorney
- Living Wills

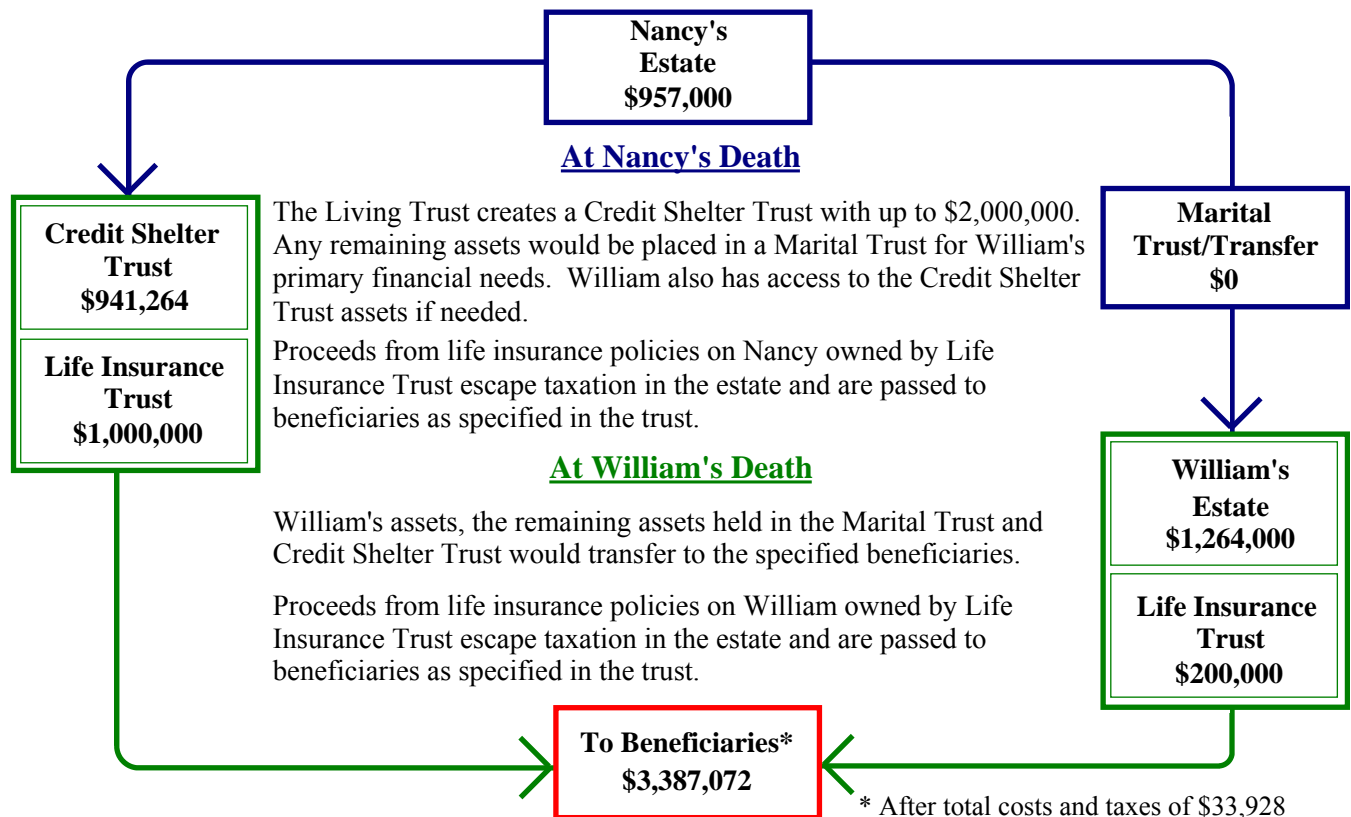
* Please note that Irrevocable Life Insurance Trusts may not be needed in all cases. Please consult your attorney.

Alternative Situation - Flowchart

William Predeceases Nancy



Nancy Predeceases William



Alternative Situation - Estimate

William Predeceases Nancy

Estate	William's Death	Nancy's Death
Separate property (assets balanced)	\$1,006,500	\$1,006,500
Retirement Accounts	330,000	23,000
Life Insurance	0	0
Debt	(72,500)	(72,500)
Marital Transfer	0	0
	\$1,264,000	\$957,000
Deductions and Expenses		
Marital Transfer	\$0	\$0
Administrative, Probate and Final Expenses	(18,192)	(15,736)
	(18,192)	(15,736)
Federal Taxable Estate	\$1,245,808	\$941,264
Federal Estate Tax		
Federal Estate Tax	(\$446,581)	(\$322,893)
Applicable Credit Amount	446,581	322,893
Federal Estate Tax	\$0	\$0

Nancy Predeceases William

Estate	Nancy's Death	William's Death
Separate property (assets balanced)	\$1,006,500	\$1,006,500
Retirement Accounts	23,000	330,000
Life Insurance	0	0
Debt	(72,500)	(72,500)
Marital Transfer	0	0
	\$957,000	\$1,264,000
Deductions and Expenses		
Marital Transfer	\$0	\$0
Administrative, Probate and Final Expenses	(15,736)	(18,192)
	(15,736)	(18,192)
Federal Taxable Estate	\$941,264	\$1,245,808
Federal Estate Tax		
Federal Estate Tax	(\$322,893)	(\$446,581)
Applicable Credit Amount	322,893	446,581
Federal Estate Tax	\$0	\$0

Estate Tax Estimate

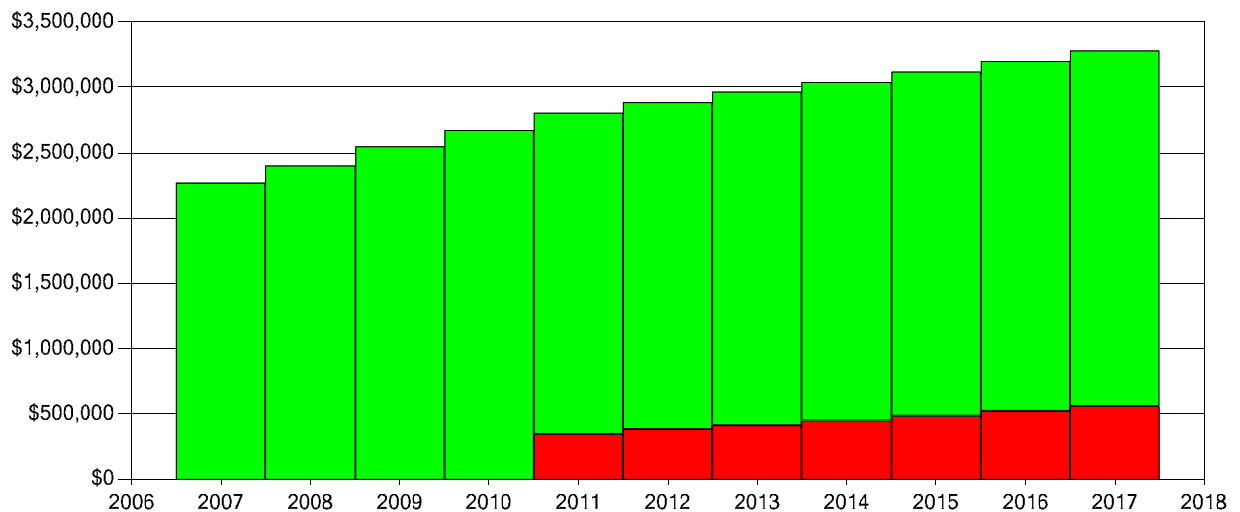
EGTRRA 2001

In June 2001, The Economic Growth and Tax Relief Reconciliation Act of 2001 was signed into law. One feature of the new law is to completely phase out estate taxes by 2010. This will be done by increasing estate tax exemptions and decreasing estate tax rates each year. In 2010, inherited property will no longer receive a step-up in basis as is done now, exposing those assets to potentially large capital gains when sold. In addition, Gift Tax rules have been changed. Congress must decide by 2011 if these changes will be permanent or revert back to previous law. We have shown your estate tax exposure in 2011 in terms of the previous law.

An Estimate of Your Estate Tax Exposure Using Suggested Planning

We have taken information provided about your current estate net worth to estimate your estate tax exposure under the new law over the next several years. We make some general assumptions regarding the growth of assets. Also, as previously suggested in this analysis, we assume that each individual has funded a credit shelter trust utilizing the applicable exclusion amounts available to them (currently \$2,000,000 per person in 2007). We also assume that any life insurance benefits are kept out of the taxable estate. The graph below shows your estimated estate tax exposure (red) and your estate remainder after taxes (green) at each year end. Keep in mind that the status of estate tax law is uncertain beyond year 2010.

Estimated Estate Growth vs. Federal Estate Tax



Year End	Retirement Capital	Other Assets	Debts & Expenses	Adjustments *	Estate Tax Base	Exclusion Amounts	Estimated Estate Tax
2007	\$1,082,300	\$1,370,000	(\$181,432)	\$0	\$2,270,868	\$4,000,000	\$0
2008	1,174,616	1,411,100	(183,531)	0	2,402,185	4,000,000	0
2009	1,273,347	1,453,433	(181,234)	0	2,545,546	7,000,000	0
2010	1,378,918	1,497,036	(204,096)	0	2,671,858	0	0
2011	1,464,067	1,541,947	(198,139)	0	2,807,875	2,000,000	(348,544)
2012	1,496,432	1,588,205	(199,366)	0	2,885,271	2,000,000	(383,372)
2013	1,528,144	1,635,852	(200,604)	0	2,963,392	2,000,000	(418,526)
2014	1,559,053	1,684,927	(201,850)	0	3,042,130	2,000,000	(453,959)
2015	1,588,995	1,735,475	(203,103)	0	3,121,367	2,000,000	(489,615)
2016	1,617,791	1,787,539	(204,359)	0	3,200,971	2,000,000	(525,437)
2017	1,645,251	1,841,165	(205,618)	0	3,280,799	2,000,000	(561,359)

*Adjustments include charitable deductions or previous taxable gifts that have been included in your estate plan analysis.