Estate Planning

Advanced and Intermediate Planning
for the Family Physician

MIDWEST TRUST FCI ADVISORS
THE SOURCE

AMERICAN ACADEMY OF FAMILY PHYSICIANS FOUNDATION

Midwest Trust and FCI Advisors

- FCI Advisors manages assets for the AAFP Foundation
- Over 70 professionals who provide investment services for:
  - Institutions and individuals nationally
  - Over $15 Billion in assets under management and custody
- Midwest Trust provides:
  - Estate Administration
  - Trust Administration
  - Financial & Retirement Planning Services
  - Custody Services

What Keeps Estate Planners Up at Night?

Estate Planners
Not preparing an estate plan
Not getting legal advice for your plan
Naming the wrong trustees or executors
Not changing your titling to be consistent with your plan – funding Your plan
Not changing your beneficiary designations

Recent Changes in Estate Planning Laws

PERMANENT?

- Exemption amount of $5,490,000 per person, indexed for inflation
  - (it was $600,000 in 1997)
- Portability of spouses exemption amount
- 40% tax rate above that

Basic Estate Planning Goals

- Provide for care of minor children upon your incapacity or death
- Appoint decision makers - Executor, trustee and attorney-in-fact
- Pass property to heirs and/or charities upon death
- Avoid probate – by trust, titling arrangements or beneficiary designation
- Protect inheritances from creditors, predators and failed marriages
  - This can sometimes be accomplished by leaving assets "In Trust" after your death for some period of time.

Advanced Estate Planning Goals

- Avoid federal estate taxes
  - ($5,490,000 current exemption)
- Avoid or minimize State inheritance or estate taxes
  - Exemption is much lower is some States
- Set up Special Needs Trusts for disabled child or grandchild
  - Special Needs Trusts
- Create long-term legacy for descendants
  - Dynasty Trusts are possible in some States
- Maximize tax and income benefits from charitable giving

What is the Process?

- Gather information on assets
- Determine beneficiaries and how to leave to them
- Have initial visit with estate planning attorney (sometimes free)
- Attorney will draft documents in one to three weeks
- Meet to review and possibly sign documents
- If trust is prepared then fund, or retitle assets into name of trust

What is needed?

- **General Durable Power of Attorney** ***(Everyone needs)***
- **Healthcare Power of Attorney** ***(Everyone needs)***
- **Health Care Directive or Living Will** ***(Everyone needs)***
- **Will** ***(Everyone needs)***
- **Revocable Trust** ***(Everyone needs)***
- **Optional**
  - **Irrevocable Trust**
  - **Insurance Trust**
  - **Charitable Trust**

Revocable Trust

- Controls when beneficiaries receive money
- Avoids probate
- Creditor protection after death
- Works more efficiently than other titling arrangements
- Flexibility

Irrevocable Trust

- Controls when beneficiaries receive money
- Removes assets from your estate for estate tax purposes
- Creditor protection now, depending on State Laws
- Grantor does give up control
- Insurance Trust is a common type of Irrevocable Trust
- A Charitable Remainder Trust is another type

Trustee Decision

- Individual Trustee?
  - Do they have ability, interest and time?
  - Do they want to take on **personal liability**?
  - It can be a burden
  - It can cause family unrest
  - A professional trustee may be a better option

How to Reduce Taxable Estate

- Valuation Discounts – Family Limited Partnership or FLLC
- Family Gifting
  - Annual Exclusion Gifting **(currently $14,000/year/person)**
  - Paying education and medical expenses directly
  - Using Lifetime Exemption ($5,450,000)
  - Charitable Giving (Leave a legacy)

Reduce Taxable Estate and/or Leave Legacy

Charitable Planning – Leaving a Legacy & Providing Income

You can benefit AAFP Foundation and/or other charities with the following:

Outright Gifts - make gifts during your lifetime

- Appreciated Securities (avoid tax on gains)
- Real Estate (avoid tax on gains)
- Life Insurance Policy (paid up)
- Personal Property (in-kind gifts)
- Retirement Plan income/assets
  - QCD – Qualified charitable distribution

Gift of Cash vs. Appreciated Securities

- Dr. Smith is in the 25% tax bracket and is interested in making a $5,000 gift to the AAFP Foundation
- She owns 100 shares of stock currently valued at $50/share ($5,000) which she purchased for $10/share ($1,000 cost basis)

Gift Vehicle	Stock	Cash
Gift Amount	$5,000	$5,000
Income Tax Savings	$1,250	$1,250
Capital Gains Tax Avoided	$600	$0
Total Tax Savings	$1,850	$1,250
Net Cost of Gift	$3,150	$3,750

Gift of Cash vs. Appreciated Real Estate

- Dr. and Mr. Gonzales are in the 25% tax bracket and are interested in making a $250,000 gift to establish an endowed fund at the AAFP Foundation to honor their parents
- They own a vacation home with a current appraised value of $250,000; they purchased it in 1992 for $100,000, no longer use it, but continue to pay for taxes and annual maintenance. If they sell it, they will incur both capital gains tax and a hefty real estate commission.

Gift Vehicle	Real Estate	Cash
Gift Amount	$250,000	$250,000
Income Tax Savings	$62,500	$62,500
Capital Gains Tax Avoided	$22,500	$0
Total Tax Savings	$85,000	$62,500
Net Cost of Gift	$165,000 (plus savings of annual tax and maintenance, and real estate commission)	$187,000

Gifts of Life Insurance

- When her career and family were just getting started, Dr. Young took out a modest life insurance policy to ensure her family's future. The policy is now fully paid-up.
- Now that she is retired, her children are doing well on their own, and she and her spouse are living comfortably, Dr. Young is considering how she might make a significant difference for other physicians just starting out in their careers. She doesn't want to sacrifice a large chunk of her retirement savings, which they may need in the future, but she could really use a tax deduction.
- By gifting the paid-up policy to the AAFP Foundation to start a fund for aspiring family docs, she makes an irrevocable gift of the asset and may be eligible to take an income tax deduction equal to the lessor of the adjusted cost basis of the policy or its cash value. She could opt to simply name AAFP Foundation as a beneficiary of the policy, but then she would receive no income tax deduction.

Gifts of Retirement Plan Income

- When he reached 70 ½, Dr. Schwartz was still working part time but began receiving the required minimum distribution from a sizable IRA. He had invested well and the extra income from the fund was not needed— according to his accountant, neither was the additional taxable income.
- Dr. Schwartz decides to gift the full amount of his IRA distribution to the AAFP Foundation for the next 5 years to establish an endowed fund in memory of his mentor.
- Since the Qualified Charitable Distribution (QCD) Law has now been made permanent, the gift can be excluded entirely from taxable income.

Gifts of Retirement Plan Assets

- When Dr. Schwartz meets with his attorney to establish a plan for his estate, the attorney advises that any remaining assets in his IRA will also be taxable income for his heirs and may also be subject to estate tax.
- He is advised to consider gifting the remaining IRA assets to a qualified charity in increments not exceeding $100,000 per year, or naming the charity as a beneficiary of the policy, rather than leaving this particular asset to his heirs.

Reduce Taxable Estate and Leave Legacy

Bequest – Leave property after death through your Will or Trust or through beneficiary designations (life insurance or retirement plans)

Deferred Gifts

Charitable Gift Annuity or Charitable Remainder Trust

Income tax deduction
Reduces taxable estate
Provides lifetime income stream
Remaining principal goes to charity after death

Reduce Taxable Estate and Leave Legacy

Charitable Lead Trusts – Leave income to charity during specified period of time and then leave the principal to yourself or others at the end of that time. This trust can be created during life or after death.

*Provides current income tax deduction during life
*Provides estate tax deduction after death
*Provides stream of income for the chosen charity
*Provides principal back to individual beneficiaries

Case Strategy for a Gift Annuity

- Dr. & Mrs. Jones have a $100,000 CD earning just 1%
- Dr. & Mrs. Jones are nearing retirement and are looking to obtain a higher guaranteed income for life
- They will also pay more taxes now than after retirement
- They would like to leave money to the AAFP Foundation or other charity in their estate plan
- A Charitable Gift Annuity (CGA) may be a possible solution

Example of the Charitable Gift Annuity

- Dr. & Mrs. Jones are both age 65 and in 25% tax bracket
- They contribute $100,000 to the Charitable Gift Annuity
- $26,768 immediate tax deduction is received
- 4.2% payout rate guarantee, by the charity, for both lives
- 71% of income is tax free* therefore equivalent to 5.6% rate
  - * Until all of the principal is distributed
- Also reduces estate size

Case Strategy for a Charitable Remainder Trust

- Dr. & Mrs. Jones have a $100,000 in stock with a $50,000 cost basis and the stock only yields 1%
- Dr. & Mrs. Jones are nearing retirement and are looking to obtain a higher income for life but they don't want to pay the tax on the gain
- They are also worried about inflation in the future
- They would like to leave money to the AAFP Foundation in their estate plan
- A Charitable Remainder Trust (CRT) may be a possible solution

Example of a Charitable Remainder Trust

- Dr. & Mrs. Jones are both age 65 and in 25% tax bracket
- Contribute $100,000 of stock to a 5% Charitable Remainder Trust
- They don't have to currently pay tax on capital gain on the stock
  - May save $7,500 in taxes
- $34,062 immediate tax deduction is received.
  - May save $8,516 in taxes
- 5.0% payout rate that will vary with investment returns
- More money can be added at any time

Avoid Simple Mistakes -Take Action Now

- Failing to create an estate plan because you're too busy
- Failing to fund your trust after it is established
- Failing to change all beneficiary designations on retirement accounts and insurance policies when family situation changes
- Choosing an inappropriate trustee or executor
- Not keeping plan up-to-date (review it periodically)

Resources

How to find the gift calculator

www.aafpfoundation.org/plannedgiving

Click "Gift Calculator" on menu on the left side of the page

or

Request a FREE Wills Guide from the AAFP Foundation

www.aafpfoundation.org/plannedgiving

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