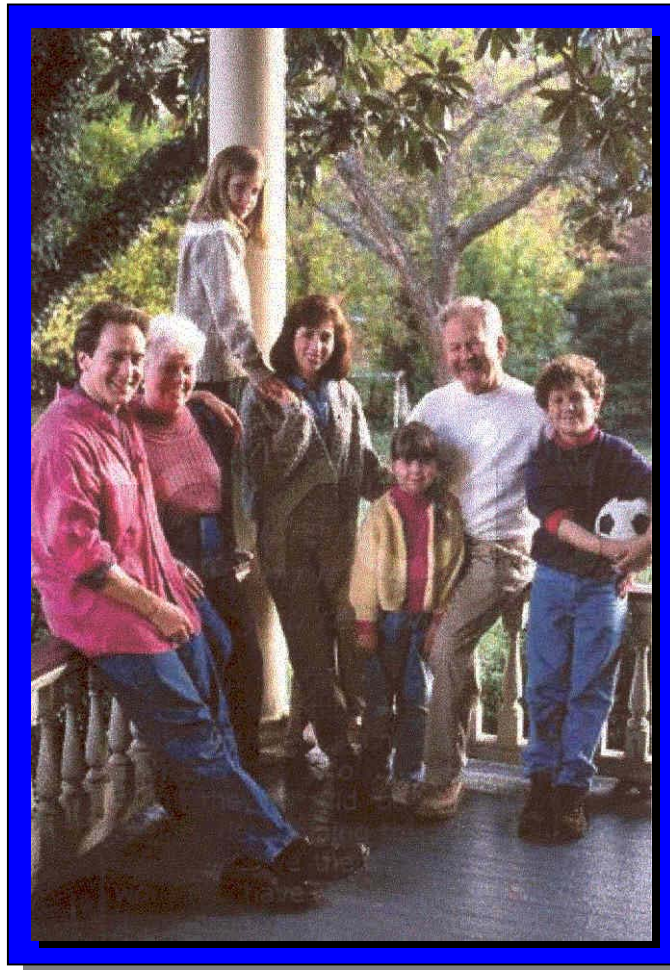

ESTATE PLANNING AN OVERVIEW FOR YOU AND YOUR FAMILY



THE BASICS

ESTATE PLANNING

Estate Planning is really a process not an event. In a broad sense Estate Planning is the accumulation of assets over your lifetime, the preservation of these assets and finally the distribution of these assets to your children, heirs or beneficiaries. The assets you accumulate can be divided into three general categories:

- **Real Property:** Your home or other real estate you may own
- **Personal Property:** The furniture in your home, your cloths, jewelry, art and other collections, your automobiles, boats, mobile homes, etc.
- **Titled Assets:** Your bank accounts, brokerage accounts, stocks, bonds, mutual funds, annuities, retirement plans, life insurance policies, and any other financial instruments that you own that have your name on them



You preserve assets when you take steps to protect them. As an example, the purchase of insurance on your home "protects" it should it burn down. You would receive your home's value in a check from the insurance company to have the destroyed house replaced. Many also insure their lives to provide money when they die to pay off debt like the mortgage on your home, education for your children or perhaps to replace your lost income. As we get older, many of us will consider Long Term Care insurance to help pay the costs of living in a nursing home so that the other assets we have accumulated do not have to be used for this purpose and are thus protected!

Eventually, each of us will die. This is when our asset will be distributed. To have your assets transferred to whom you want, when you want and the way you want requires a plan - an **Estate Plan!**

HOW ASSETS TRANSFER

There are several ways an asset can transfer when an individual dies. These are:

- Joint Tenancy With Right of Survivorship
- Will via Probate
- Beneficiary via Contract

JOINT TENANCY WITH RIGHT OF SURVIVORSHIP (JTWROS)

JTWROS is a very common way for many people to hold title to assets, especially a home. When a couple own a home titled as JTWROS and one of them dies, the surviving person automatically then owns the asset. Pretty simple!

What happens if the surviving person then wants the house to go to her son when she dies? If no action is taken on her part to change the title ownership of the house, when this person dies the house will have to go through the Probate process for the title of the house to be transferred to her son. Why? Probate is the only legal process through which the court makes sure that, after you die, your Will is legally valid, your debts are paid and your assets are distributed to the instructions in your Will *If you don't have a Will, the State has one for you.* So, if your name is on the title of an asset and you die, probate is the *only legal* way to take your name off the title of an asset and put the new owner's name on it.

THE BASICS

Or, the surviving person could change the title of the house and put her son's name on it as a Joint Tenant, creating a new JTWRROS. Now, when the surviving person dies, the title of the house goes directly to the son! Again, pretty simple!. Let's take a look at some of the consequences of doing this.

When you have an asset titled as JTWRROS the following are some consequences:

- **You could end up in court.** It is very easy to add a co-owner. But taking someone's name off the title can be very difficult. If you co-owner doesn't agree.
- **Your assets are exposed to your co-owner's debt and obligations.** For example, if you add your adult son on the title of your home and he is successfully sued, you could be forced to sell your home. This could also apply in a divorce situation.
- **There could be gift tax and/or income tax problems**
- **The court could become a co-owner.** If your co-owner becomes incapacitated, you could find yourself with a new "co-owner" -- the court!

Maybe joint ownership will work for you - but then again, maybe it won't. With joint ownership, you're playing a kind of "estate planning roulette" with your family.

USING A WILL

A will is an expression of your wishes - what you want to happen to your assets after you die. Because a Will does not actually change the title of an asset, it must go through some kind of probate court process. Probate is designed to provide an orderly method of paying bills and transferring ownership of your assets after you die - all under direct supervision of the court system. How complicated that process will be will depend on the laws in your state and may be costly. A survey by AARP found that probate is big business. AARP estimates that probate costs could top \$2 billion a year - \$1.5 billion for attorneys and hundreds of millions more for Executors, bonding companies, appraisers and probate courts.

The costs to probate your estate must be paid before your assets can be fully distributed to your heirs. These costs vary widely from state to state, but usually are estimated at 3%-8% of an estate's gross value.* Additionally, the process can take several months to many years to complete!

Not everything you own will automatically go through probate. For example, jointly owned assets that transfer to the surviving owner generally do not go through probate. nor do assets that have a valid beneficiary designation - like a life insurance policy or a qualified retirement plan.

BENEFICIARY VIA CONTRACT

Some assets allow for transfer directly to a beneficiary and avoid the probate process. Life insurance is an example. The adult beneficiary of a life insurance policy will have proceeds paid directly to him or her. This also applies to qualified retirement plans - IRA's 401k's, etc. The retirement plan is paid to the beneficiary at the death of the plan participant. Certain other accounts, like a bank account, can be set up to have the asset paid to a named beneficiary. These are called " Totten Trusts". The account title probably includes the words "in trust for" (ITF), "as trustee for" (ATF), "payable-on-death (POD) or "transfer on death" (TOD). Another vehicle that transfers assets directly to the named beneficiary avoiding probate is the Revocable Living Trust.

**Understanding Living Trusts*, by Schumacher, 2000

THE REVOCABLE LIVING TRUST

HOW A REVOCABLE LIVING TRUST WORKS

A Revocable Living Trust is a legal document that, to many of us, looks much like a Will. Like a Will, it includes instructions for who you want to handle your final affairs and who you want to receive your assets after you die. But, unlike a Will, a Living Trust a) Does not go through probate, b) Prevents the court from controlling your assets at incapacity and c) Gives you - not the courts - control over the assets you leave to your minor children or grandchildren. Let's see how this works.

When you set up a Living Trust you usually become a:

- **Grantor** (also known as Settlor or Trustor) - One who provides the instructions in the trust such as who gets what. Also, the one who transfers legal title of property to the trust
- **Trustee** - One who holds the title of assets transferred into the trust and manages the assets
- **Beneficiary** - One who uses and enjoys the assets in the trust

A trust can have more than one Grantor, Trustee and/or Beneficiary. For example, a husband and wife could act as co-Grantors, transfer property to a trust with themselves as co-Trustees, with both as life Beneficiaries and have their children be Successor Trustees and contingent Beneficiaries of all assets at the death of the surviving spouse.

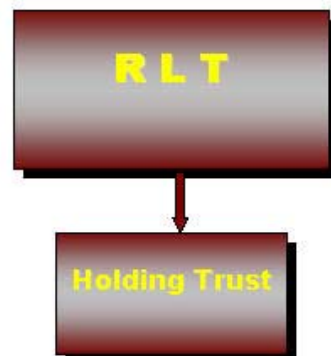
One key issue when you set up your Revocable Trust (RLT) is to make sure ALL assets are transferred into your completed trust:



When one of the Grantors dies, the Trustee follows the instructions in the trust. As an example, if the husband is the first to die, the surviving wife may not have to do anything. However, when the surviving wife dies, the Successor Trustee will follow the distribution instructions stated in the trust as to what needs to be done with the assets. Usually, the assets are distributed to the named Beneficiaries. In this example, the beneficiaries would be the children.

Another technique that can be used with a Revocable Trust is to NOT distribute assets to the Beneficiary at the death of the Grantor(s) but to HOLD the assets. Holding assets for the use of a Beneficiary has many advantages and allows you not only to be in control of to whom your assets are distributed, BUT when they are distributed and the way they are distributed. Additionally, you can provide incentives for your beneficiaries to achieve as a prerequisite to getting income or principal from a "Holding Trust".

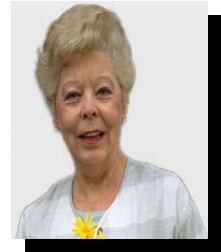
Next, more detail about uses for a "Holding Trust".



THE REVOCABLE LIVING TRUST

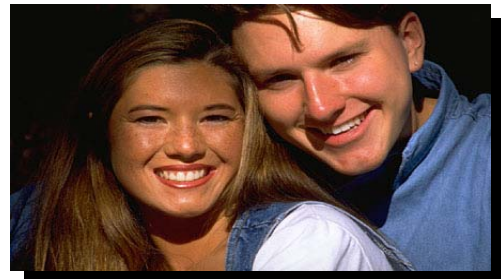
HOLDING TRUSTS

Assets can be "held" for the benefit of a surviving spouse. The spouse could be provided all income from the assets and be able to have principal under certain circumstances. This works well when there are children from a previous marriage. The spouse can have the "use" of assets, and at her death the assets go to your children from a previous marriage. This type of trust can also allow for the use of your Federal Estate Tax exemption, which is currently \$1,000,000 per person.



Assets can be "held" when the beneficiary is too young to receive assets or is not capable of managing them. Assets are held in a trust until the beneficiary reaches a certain age. Also, a beneficiary may not be capable of managing assets because of medical reasons or financial incompetence. The trust can provide income and distribute principal based on guidelines you establish or you may allow the Trustee to make decisions as to this process. Another example would be leaving an asset for a person to use for a period of time and then the asset would go to another beneficiary.

Assets can be preserved and protected through a "Holding" trust. A recent study by Cornell University indicates that within five years 90% of an inheritance is gone! You may want to preserve and protect your assets. As an example, you want to "leave" your assets to your daughter. You want to make sure your assets will be preserved and protected should she get a divorce. A Personal Adult Management (PAM) trust can accomplish this objective. This trust allows your daughter to be Trustee, deciding how assets are managed. She can receive income from the trust and principal based on certain conditions. A special Trustee for principal distributions will follow your guidelines. When your daughter dies, these assets stay in trust for your grandchildren and continue to be preserved and protected from creditors.



You can ensure you do not give up any of your Federal Tax exemption. Using a "Holding Trust" can ensure that when you have a large IRA or other qualified plans you do not give up any of your Federal Estate Tax exemption or if you are in a second marriage and want to make sure that your children from a previous marriage will receive a portion of

your retirement plan. Also, you can make sure that your retirement dollars are "stretched" generating significant long-term growth of money to your heirs. As an example, say you left \$100,000 in an IRA to your ten-year old grandson through a special "Holding Trust". At this age your grandson would begin receiving income based on his life expectancy. Assuming he pay taxes on this money and that the IRA grows at 9%, by the time your grandson reaches age 65 he would have received \$1,336,221. His IRA would still have an account balance of \$3,010,702. *What a legacy!*

GETTING STARTED

Ask your Financial Advisor to give you a **GETTING STARTED** form so he or she can help you select the appropriate **Estate Plan** designed by attorneys who specialize in the area of Estate Planning.

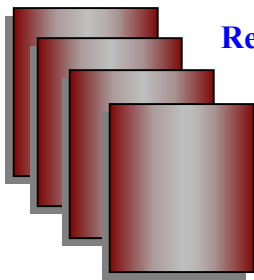
EPS PORTFOLIOS & FEATURES - AN EXPLANATION

EACH EPS PORTFOLIO IS A COMPLETE ESTATE PLAN

Once you complete your **GETTING STARTED** form, your Financial Advisor will assist you to select the appropriate Estate Plan to suite your personal needs. Following is an explanation of the elements that will make up your personal Estate Plan. Each Plan *or* **EPS Portfolio** will look like the picture on the right and have ten sections. These sections are:



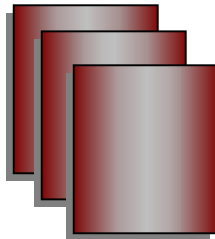
Four Document Sections



- Revocable Living Trust (RLT)
- Durable Powers of Attorney
- Living Will
- Last Will & Testament

These documents provide the "core" of your personal Estate Plan. The RLT is designed to meet your personal needs and circumstances. Therefore, EPS provides several Portfolios.

Three "Funding" Sections



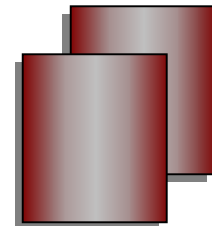
- Certificate of Trust
- Transfer & Funding
- Correspondence & Miscellaneous

These Sections allow your Financial Advisor to help you to "transfer" all your assets into your completed Estate Plan

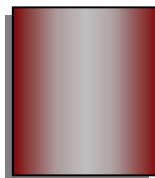
Two Information Sections

These two Sections provide a wealth of information. The Portfolio Summary provides a detailed overview of what makes up each Section of your Portfolio. Trustee Memorandum gives a range of instructions to your Trustee from how to "fund" your Trust to what to do when someone dies.

- Portfolio Summary
- Trustee Memorandum



Administration Documents Section



This Section provides a number of already prepared documents. These documents can be used for future changes or to handle future administration issues such as how the Successor Trustee takes over at the death of the initial Trustee. These documents add value as there is no charge to use any of these forms.

EPS PORTFOLIOS & FEATURES - AN EXPLANATION

EXPLANATIONS OF FEATURES THAT CAN CUSTOMIZE YOUR ESTATE PLAN

TRANSFER DOCUMENTS - The law office prepares a transfer document to transfer a home and other real estate property into a Client's Trust.

LOCAL ATTORNEY REVIEW - For states, other than Arizona, a local attorney reviews the completed EPS *Portfolio* to assure its conformity with that State's laws - Call EPS for the State Attorney fee.

QUICK RETURN - A *Portfolio* that needs to be completed in a week or less.

SPECIAL BEQUEST - A provision that allows for a specific asset (usually NOT personal property) to go to a specified beneficiary or to be used for a time by a beneficiary.

MINOR'S TRUST (MT) - Trust with special language to provide for needs of a minor beneficiary. These could be needs such as providing for a private education, giving funds for a child while in college, paying for a college education and or a post-graduate degree, etc.

SPECIAL NEEDS TRUST (SNT) - Trust provides language to take care of one who *usually* cannot, for a reason, take care of him or herself. The beneficiary may be disabled, on Government benefits,

INCENTIVE PROVISIONS for the MT & SNT - Language that allows a client to provide various incentives for a beneficiary to act in a certain manner to receive a financial reward.

PERSONAL ADULT MANAGEMENT (PAM) TRUST or **PERSONAL ADULT LIFETIME (PAL) TRUST** - Trust provides that assets from an estate are to be used and enjoyed but NOT owned by a beneficiary. The beneficiary can receive all income from assets and principal under certain conditions. Assets of a PAM / PAL are usually protected from creditors and divorce proceedings of the beneficiary and go to the next generation. Beneficiary is usually Trustee of the PAM with a Special Principal Distribution Trustee. A third party is always Trustee of PAL.

INCENTIVE PROVISIONS for the PAM or PAL - Language that allows a client to provide incentives for a beneficiary to receive a financial reward after completing a specific objective or objectives.

PRESERVATION OF ASSETS TRUST (PAT) - A Trust that holds an asset for the benefit of multiple beneficiaries for more than one generation of beneficiaries.

GENERATION SKIPPING TAX LANGUAGE (GST) - Language, that by formula, assigns use of the Generation Skipping Tax exemption.

TOTAL RETURN PROVISION (TRP) - Allows for a stated % to be distributed from a Trust.

QUALIFIED PLAN DISTRIBUTION (QPD) - Provision to transfer an IRA through a "B" and or "C" Trust to a beneficiary.

QUALIFIED INDIVIDUAL CONDUIT TRUST (QIC) A trust that "stretches-out" IRA distributions over the lifetime of a beneficiary.

ATTORNEY CUSTOMIZATION - Attorney customizes language to suit individual client objectives.