Having Your Cake and Eating it Too! Maximizing Flexibility in an Uncertain World

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Affluent Markets virtual 2020 Annual Meeting

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Agenda

I. Current Legacy Planning Landscape

II. Advanced Planning Techniques with Retained Control

   A. Case Study #1 – GRAT with Convertible Term Insurance

   B. Case Study #2 – Irrevocable Life Insurance Trust (ILIT)/ Spousal Lifetime Access Trust (SLAT)

   C. Case Study #3 – Non-Reciprocal SLATs

Current Legacy Planning Landscape

Opportunity is everywhere…

or is it?

Current Legacy Planning Landscape

Keep Assets

Give Away

Is it this simple?

Window of Opportunity?

- The Great Environment:
  - All-time high transfer tax exemptions sunset as of December 31, 2025 (if not sooner).
  - All-time low hurdle rates (7520, AFR).
  - Broad market indexes still off previous highs, private equity, and commercial real estate values off.
  - Elevated market volatility.

- The question becomes: Can I have my cake and eat it too?

Can I Have It All?

Case Study #1: Grantor Retained Annuity Trust (GRAT) with Convertible Term Insurance

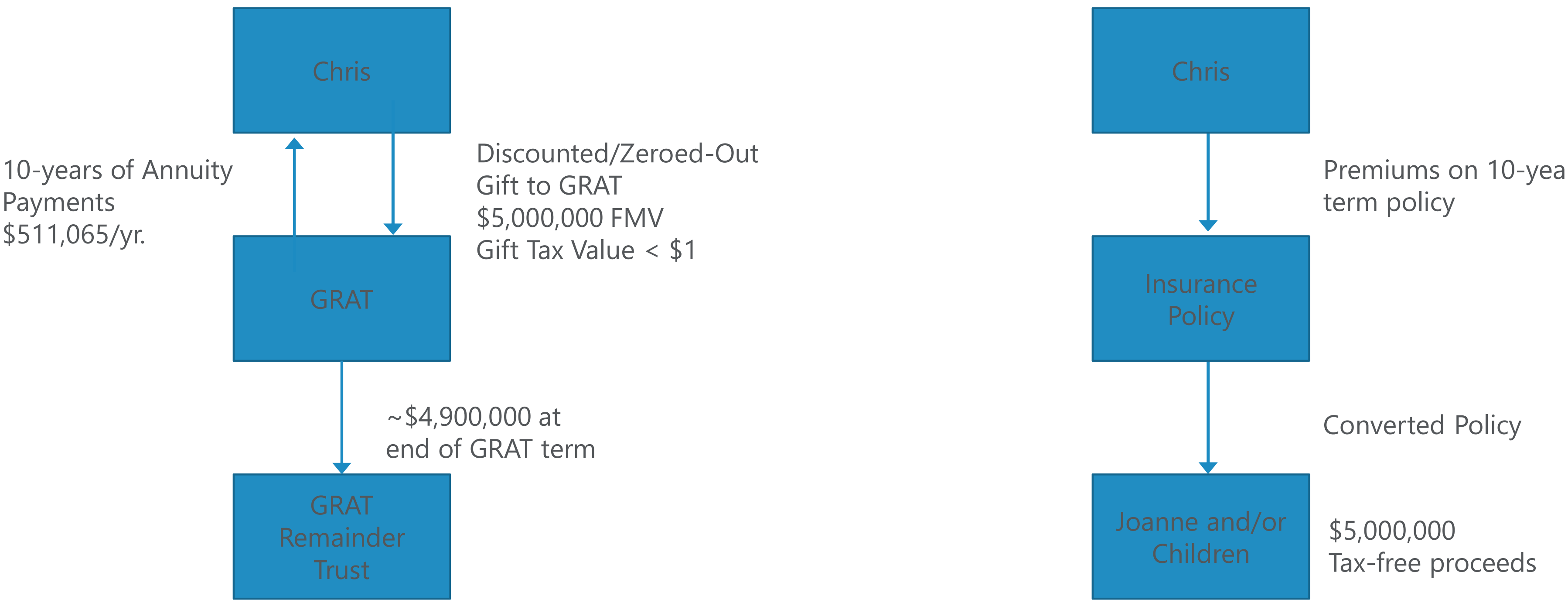
- Chris and Joanne, in their 50's, have two adult children in their 20's, no grandchildren.
- Net worth of $40 million, some assets are high-yielding.
- Moderate ($5 million+) estate tax exposure.
- Willing to take some risk, but interested in ways to mitigate risk.

Case Study #1: GRAT with Convertible Term Insurance

Our Solution:

- Chris transfers assets worth $5,000,000 to a "zeroed-out" GRAT.
- Chris also obtains a $5,000,000 convertible term policy to "hedge" the risk that the GRAT will fail (could be owned through an ILIT), with an annual premium of $12,500.
- GRAT pays Chris an annual annuity equal to the transferred assets, plus a hurdle rate (7520 rate).
- If the rate of return on GRAT assets exceeds the 7520 rate, the excess passes to their children transfer tax free.

Case Study #1: GRAT with Convertible Term Insurance



Case Study #1: GRAT with Convertible Term Insurance

- Annual Return: 10%
- Annual Cost of Insurance: $12,500
- Projected Value of Principal After 20 Years: $4,900,000
- Estate Tax Savings on GRAT: $1,960,000
- Estate Tax Savings on Insurance (if owned in ILIT): $2,000,000
- Total Estate Tax Savings: $3,960,000

Case Study #1: GRAT with Convertible Term Insurance

Heads – I Win/ Tails – You Lose

- Chris's GRAT is for a term of 10-years.
- Chris's life insurance policy is a 10-year convertible, level term.
- If the GRAT fails due to Chris's death during the GRAT term, the insurance hedge will mitigate that failure.
- Alternatively, if Chris survives the annuity term, but the GRAT itself fails, the 10-year term policy could be converted to a permanent product.

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Case Study #1: GRAT with Convertible Term Insurance

Benefits:

- If the GRAT succeeds, Chris has transferred $4.9M transfer-tax free and has a convertible term policy to boot.
  - Estimated Estate Tax Savings: $1.96M
- If the GRAT fails, the $5M policy pays proceeds to Joanne and/or kids income-tax free.
  - If owned in an ILIT, policy proceeds are transfer-tax free
  - Estimated Estate Tax Savings: $2M
- Insurance serves as a mortality and uncorrelated asset hedge

Case Study #2: Simplicity with ILIT/SLAT

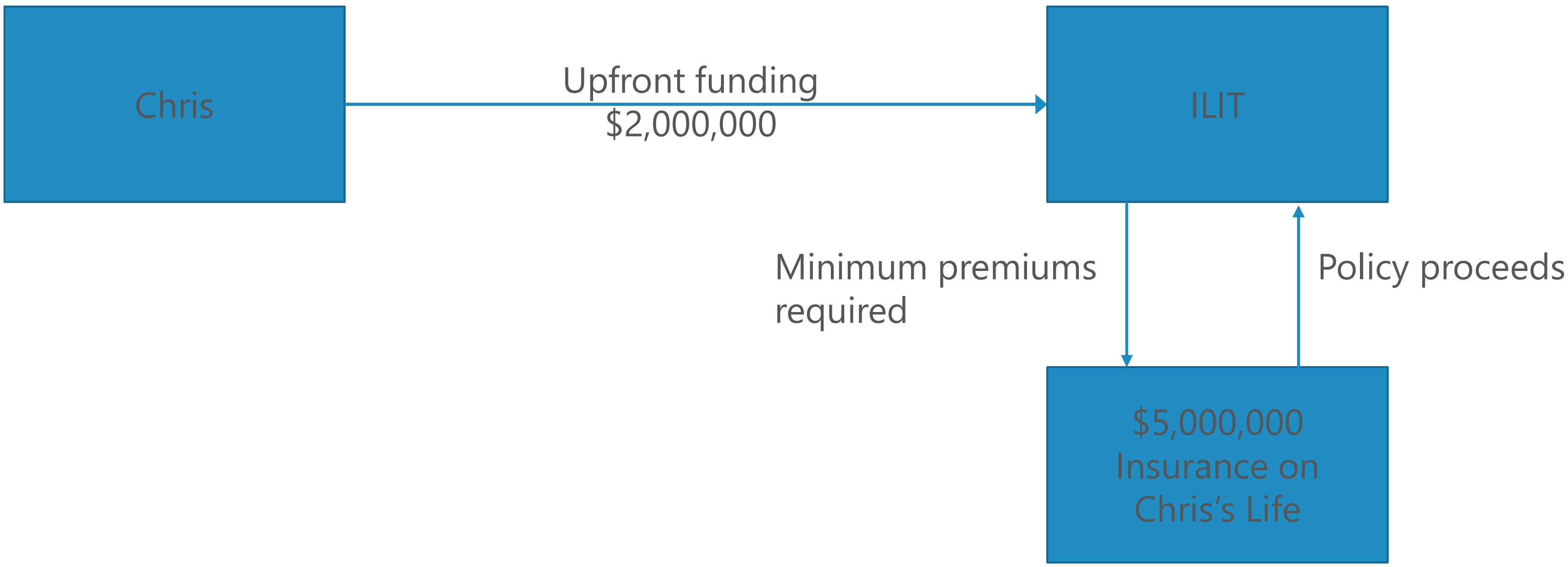
Second Solution:

- Chris and Joanne have two adult children, two minor grandchildren.
- Net worth of $30 million. Annual burn rate = $1.5 million
- Low-Moderate estate tax exposure (~$2.7 million).
- Risk averse.
- They know they need some planning, but are not willing to part with a significant block of their assets

Case Study #2 – ILIT/SLAT

- Chris creates an irrevocable life insurance trust ("ILIT") or a spousal lifetime access trust ("SLAT").
- Funds the trust with a one-time gift of $2,000,000.
- Trust uses the gifted funds to pay the minimum premiums required to carry a policy on Chris's life.
- This limits Chris's outlay and maintains the maximum amount in trust for family.

Case Study #2 – ILIT/SLAT



Case Study #2 – ILIT/SLAT

- Annual Return: 8%
- Annual Cost of Insurance: $20,000
- Projected Value of Principal After 20 Years: $8,300,000
- Estate Tax Savings on Gift to Trust: $3,300,000
- Estate Tax Savings on Insurance: $2,000,000
- Total Estate Tax Savings: $5,300,000

Case Study #2 – ILIT/SLAT

Benefits:

- ILIT provides liquidity, financial stewardship, risk management and creditor protection for Chris's descendants.
- Asset access to family.
- Life insurance proceeds in ILIT not subject to 40% estate tax nor 37% income tax.
- Dynasty trust structure preserves GST tax benefit for multiple future generations –saving 40% GST tax on every distribution to grandchildren and descendants.
- Provides simplicity with tremendous value.

Case Study #3 – Non-Reciprocal SLATs

- Chris and Joanne have two adult children, four grandchildren.
- Net worth of $40 million.
- Moderate-high estate tax exposure ($6 million+).
- Illiquid – significant portions of wealth in family business.

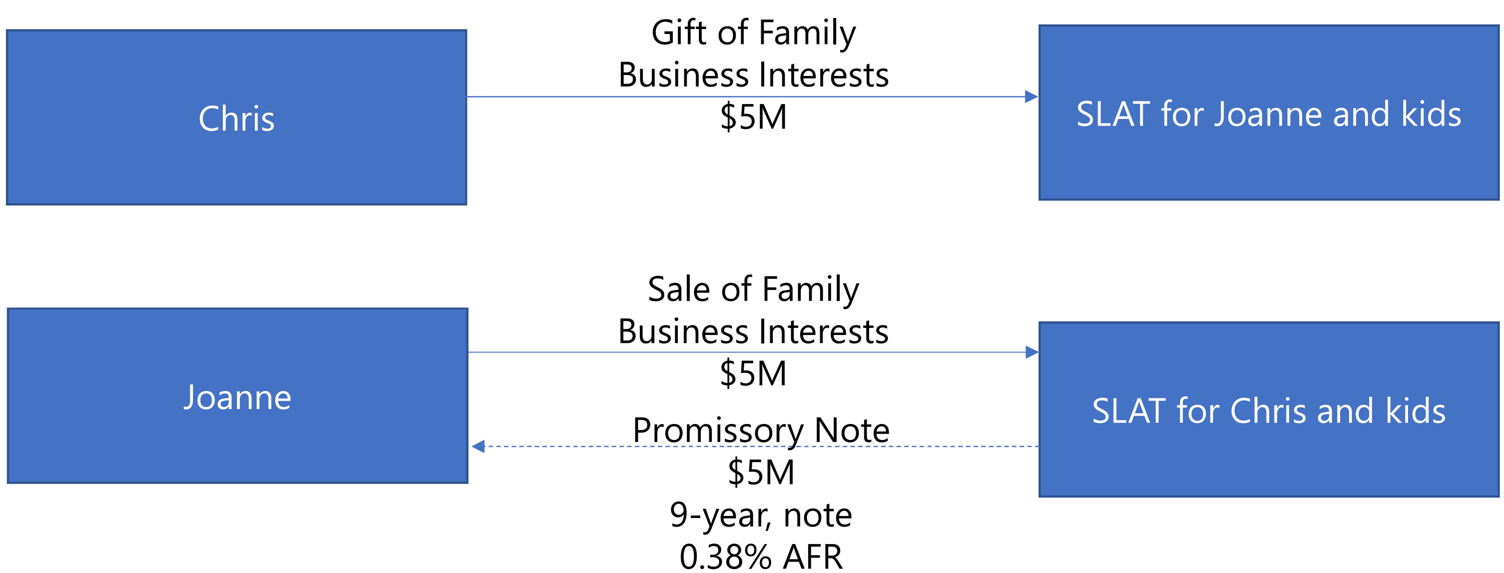
Case Study #3 – Non-Reciprocal SLATs

- In Year 1, Chris transfers partial interests in the family-owned business to a SLAT for the benefit of Joanne and children.
  - Chris grants Joanne a limited power of appointment over trust assets upon her passing exercisable in favor of descendants only.
  - Joanne is Trustee.
  - Transfer to SLAT is a taxable gift for gift tax purposes.
  - Chris's SLAT must distribute all income annually to Joanne with discretionary principal distributions to Joanne and descendants for any purpose.

Case Study #3 – Non-Reciprocal SLATs

- In Year 2, Joanne sells partial interests in the family-owned business to a SLAT for the benefit of Chris and children in exchange for a promissory note.
  - Chris has power of appointment exercisable in favor of descendants and charity.
  - Independent Trustee.
  - Transfer to the SLAT is a sale, and not a taxable gift for gift tax purposes.
  - All distributions of income and principal are discretionary but limited to an ascertainable standard.

Case Study #3 – Non-Reciprocal SLATs



Case Study #3 – Non-Reciprocal SLATs

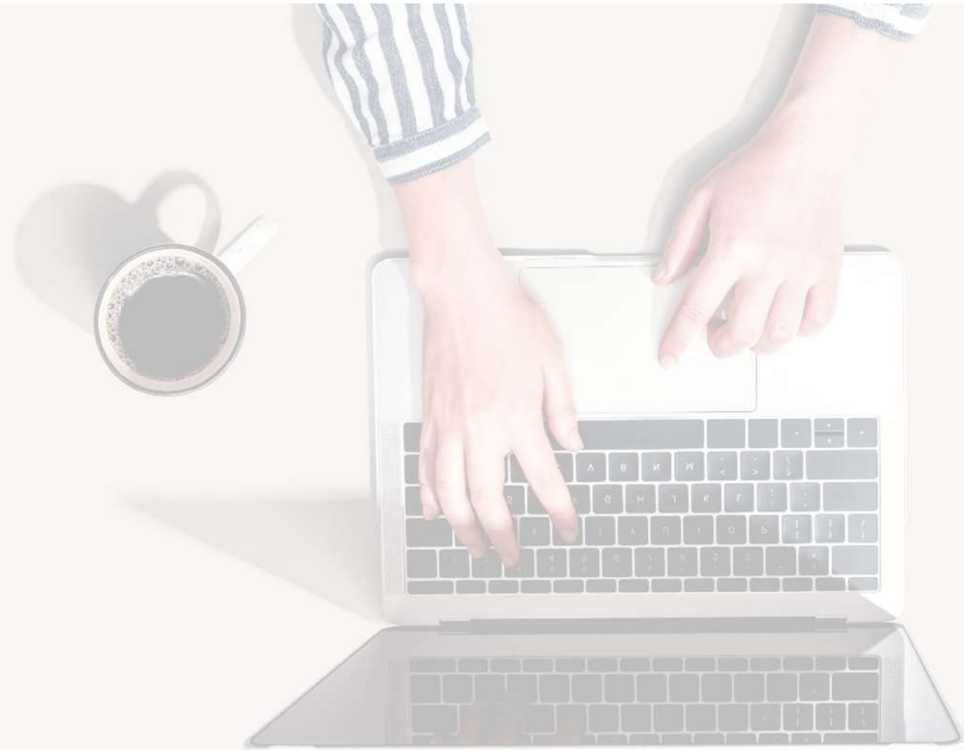
- Annual Return of Each SLAT: 7%
- Projected Value of Principal after 9 Years:
  - Chris's SLAT: $9,800,000
  - Joanne's SLAT: $2,400,000
- Estate Tax Savings on Gift to Chris's SLAT: $3,920,000
- Estate Tax Savings on Sale to Joanne's SLAT: $960,000
- Total Estate Tax Savings: $4,880,000

Case Study #3 – Non-Reciprocal SLATs

Benefits:

- Asset access to family unit.
- Like an ILIT, the SLAT provides financial stewardship, risk management and creditor protection for descendants.
- SLATs remove assets from the grantor's estate, while maintaining family access to the gifted assets during the spouses' lifetimes.
- Dynasty trust structure preserves GST tax benefit for multiple future generations – saving 40% GST tax on every distribution to grandchildren and descendants.
- The SLATs could also purchase life insurance on the life of the grantor to provide additional flexibility.

Questions and Answers



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