Topic:

Estate Planning is About More than Death and Taxes... Planning for You, Your Family, and Your Charities

Prepared For:

AAII San Diego Chapter

Prepared By:

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Grant Hinkle & Jacobs

Introduction to Grant Hinkle & Jacobs (GHJ)

- GHJ is a second generation firm specializing in custom-designed life insurance products used to fund supplemental executive retirement plans (SERPs), business perpetuation and estate planning.
- GHJ has pioneered “institutional” designs that maximize performance and minimize the out-of-pocket expenses associated with the acquisition of “retail” life insurance.
- GHJ’s partners have all earned law degrees and maintain complete life insurance carrier and product independence.
- GHJ’s network of professionals provides point-of-sale expertise, product design and innovations, and annual administration.

Cory C. Grant, J.D.

Founding Partner / Shareholder

For the past 20 years, Mr. Grant has developed his expertise in the design and implementation of advanced estate plans, wealth protection techniques, and business succession strategies for families and business owners. He has been an active member of the California State Bar since 1994.

Among Mr. Grant's specialties are creating intuitive succession plans for companies and families with investment real estate holdings. In addition, he creates innovative approaches to life insurance premium financing and estate planning with large retirement accounts. Mr. Grant also advises clients on charitable planning and has created many unique approaches that encourage the succession of values along with financial bequests.

Mr. Grant serves on the board of trustees for the San Dieguito Boys & Girls Club Foundation, The American Institute for Musical Studies (AIMS), and is a former member of the board of The Del Mar Foundation. He is a member of the Executive Committee at the Burnham-Moores Center for Real Estate at the University of San Diego, and also provides pro bono advice on planned giving to the U.S.S. Midway Museum and Palomar College.

Mr. Grant is the author of two books, Tax Deferred Investing (Wiley, 2000), and Estate Planning is About More Than Death and Taxes (Wiley, 2005). His new book on business succession is due out in early 2017. Mr. Grant frequently speaks at estate planning and investment conferences. He was also a recent speaker on the topic of estate planning on NBC Early Today.

A veteran of the life insurance industry, Mr. Grant is a lifetime member of Million Dollar Roundtable (MDRT) Top of the Table, and the American Association of Life Underwriters (AALU). He actively consults with life insurance companies on the topics of product design and pricing.

Mr. Grant received his B.A. from The University of California at Santa Barbara, and his juris doctor (J.D.) from California Western School of Law in San Diego. Mr. Grant is a native of San Diego and resides with his wife Emily in Del Mar. In his spare time, he can be found bodysurfing, golfing, or playing beach volleyball.

Estate Tax and Settlement Costs:
Largely Voluntary, Depending on Written Instructions

WHY DOES IT MATTER?	DID YOU PREPARE INSTRUCTIONS?	WHO IS IN CHARGE?	WHOSE INSTRUCTIONS?	PROBATE OR PRIVATE?
INCAPACITY **Finances**	NO	JUDGE	CALIFORNIA LAW	LIVING PROBATE: Conservator of the Estate
INCAPACITY **Finances**	YES: Power of Attorney for Finances	YOUR AGENT	YOURS	PRIVATE
INCAPACITY **Finances**	YES: Trust (“Living” or “Revocable”)	YOUR SUCCESSOR TRUSTEE	YOURS	PRIVATE
INCAPACITY **Health Care Decisions**	NO	Not spouse, partner, or children	NONE, make educated guess	LIVING PROBATE: Family chaos? Lawsuit? Conservator of the Person
INCAPACITY **Health Care Decisions**	YES: Power of Attorney for Health Care (Advance Health Care Directive) and Living Will	YOUR AGENT	YOURS	PRIVATE
DEATH **Care for Family and Property**	NO	JUDGE	CALIFORNIA LAW	PROBATE: Intestate
DEATH **Care for Family and Property**	YES, but in a Will	YOUR EXECUTOR	YOURS	PROBATE
DEATH **Care for Family and Property**	YES: Trust (“Living” or “Revocable”)	YOUR SUCCESSOR TRUSTEE	YOURS	PRIVATE

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A/B Trusts:

Basic Estate Planning "The Old Way"

STEPS:

1. Estate is valued
2. Estate tax return is filed
3. Trust "B" is funded
4. Trust A" gets funded

Husband's estate:
$2,850,000

$1,500,000 to Husband's
estate tax-exempt "B" Trust

Balance of Husband's assets:
$1,350,000 to "A" Trust

At the surviving spouse's death, all trust assets, plus all growth passes completely estate tax free to children

At the surviving spouse's death, Trust "A" and spouse's assets are subject to estate taxes before going to children

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Revocable Trusts:
Today's Estate Planning

STEPS:

1. Estate is valued
2. Estate tax return is filed
3. Survivor makes decisions
4. Make sure IRAs, annuities, and life insurance have proper beneficiary designations

Husband's estate:
$2,850,000

↓

All assets pass to surviving spouse

↓

At the surviving spouse's death, all assets are subject to estate taxes before going to children. However, both spouses exemptions can apply

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State Estate Tax Consequences

- District of Columbia
- Illinois
- Kansas
- Maine
- Maryland
- Massachusetts
- Minnesota
- Nebraska
- New Jersey
- New York
- North Carolina
- Oregon
- Pennsylvania
- Rhode Island
- Vermont
- Virginia
- Washington
- Wisconsin

Living Trust vs. Irrevocable Trust

Living Trust

- Revocable
- Self Trustee
- Included in estate
- No creditor protection

Irrevocable Trust

- Protected for three generations from creditors, divorce and estate tax
- Control by each child and/or family each generation
- Flexibility for heirs to incorporate into their own plans

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…PROTECTED ASSETS ARE MUCH MORE VALUABLE THAN EXPOSED ASSETS

When you fund an Irrevocable Trust, consider the Internal Rate of Return (IRR) comparing

$$ gifted vs. $$ available to heirs

Recent case:

Clients ages 78 and 76, had decided to gift $25,000 per year to a trust for their heirs and wanted to know how to best invest the funds for the trust beneficiaries.

Funding Your Irrevocable Trust:
Comparing Funding Options

Year	Ages	Total Gift	Life Insurance*	Investments @6% after tax
2016	78/76	$25,000	$1,000,000	$26,500
2021	83/81	$125,000	$1,000,000	$140,927
2026	88/86	$250,000	$1,000,000	$329,349
2031	93/91	$375,000	$1,000,000	$581,899
2036	98/96	$500,000	$1,000,000	$919,639

*Life Insurance is guaranteed by a highly rated carrier (not FDIC insured).

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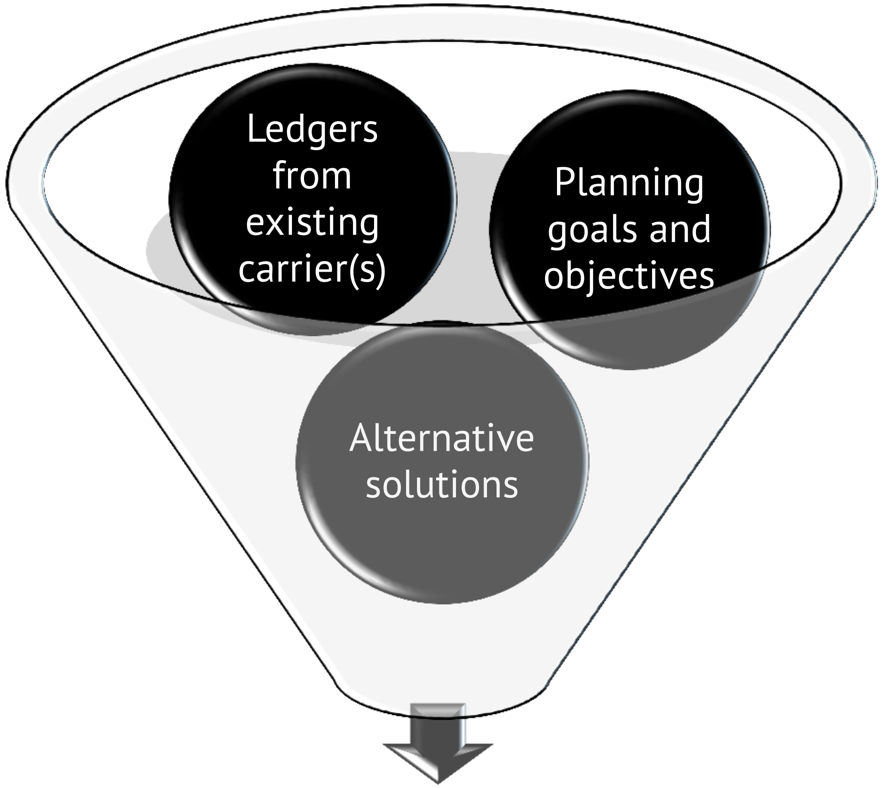
Death Benefit Applications

- Buy-sell / business succession funding
- Key-person protection for employer
- Key-person benefits for family during employment
- Charitable foundation and endowment funding
- Retirement plan cost recovery (qualified and non-qualified)
- ESOP stock redemption funding
- Employee benefit liability-shifting

The PAR Process and Potential Outcomes



Written PAR Report

completely supported by back-up documentation

POTENTIAL PAR OUTCOMES

Existing policy is performing as expected or better.

- no further analysis is required
- policy should be re-evaluated periodically

Existing policy is not performing as expected but can be modified to achieve desired results.

- structural modification and alternative premium funding strategies will be analyzed and presented

Existing policy is not performing as expected but <u>cannot</u> be modified to achieve desired results.

- alternative policies and options will be analyzed and compared to existing coverage

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Why GHJ Can Improve Most Existing Policies

- UL policies are not upgraded automatically
- People are living longer, new mortality tables used
- Competitive forces within the industry
- Lower per unit cost of insurance
- Lower costs are not usually reflected in older policies
- Carriers are focusing on specific demographics
- New secondary market through life settlements
- We monitor your policies so you don’t have to

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Family Limited Partnerships (FLPs) – Basics

- Organization of two or more individuals often from same family.
- At least one General Partner (GP) and one Limited Partner (LP). Upon formation, the GP and LP can be the same person, entity or trust.
- GP manages the activities of the LLC and assumes liability for its activities.
- LPs are passive investors with equity ownership, but restricted rights.

FLPs – Basics

General Partner:	Limited Partner:
Controls the FLP • Day to day operations • Financial decisions • Determines distributions	Has most of equity interest (80 to 99%)
Minimal equity interest (1 to 2%)	Entitled to pro-rata distributions
Has personal liability	Has no personal liability
	No voice in management

FLPs: Ownerships vs. Control

- Client transfers Limited Partnership shares to the trust.
- Client retains control of the Partnership as General Partner.
- Trust now has ownership position as Limited Partner.
- Transfer tax exemptions should be applied to this transfer.

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FLPs – Discounting

GP Shares:
$100,000

LP Shares:
$3,000,000

Transfer of LP interests
will give rise to discounts for:

LACK OF CONTROL &
LACK OF MARKETABILITY

Fewer rights = deeper discounts

GIFT

$3,000,000	value of LP assets
($1,000,000)	combined discount
$2,000,000	value of transfer

Irrevocable Trust

FLPs – Future Growth

Client's GP Shares:
$100,000

Irrevocable Trust's LP Shares:
$3,000,000

After 15 Years @ 5% Growth

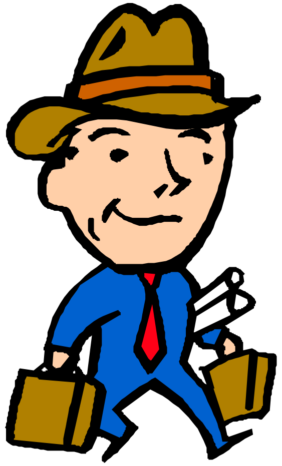
Client's GP Shares:
$200,000

Irrevocable Trust's LP Shares:
$6,000,000

Estate Taxes Due @ 40%

All post-transfer appreciation is Estate Tax-Free

Charitable Remainder Trusts



Donor transfers highly appreciated property

Retains income stream for life

At death remainder interest to charity

Donor

CRT

Charity

Charitable Remainder Trust Comparison

	WITHOUT CRT	WITH CRT
Appreciated Property	$1,000,000	$1,000,000
Capital Gains Tax	**($150,000)**	$0
Net Asset	$850,000	$1,000,000
Income at 7%	$59,500	$70,000
Tax Deduction	$0	**$138,000**
Income Tax Savings	$0	**$62,000**
Estate Taxes	**($382,500)**	$0
Life Insurance	$0	$1,000,000
Net to Children	$467,500	**$1,000,000**
Net to Charity	$0	**$1,000,000**

Bottom line: Trading control of the principal for an income tax deduction.

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Qualified Personal Residence Trust (QPRT)

A Term of Years Trust to transfer your residence and/or vacation home to your children at a substantial discount.

- Transfer property to a trust for a term of years
- Retain control/use and enjoyment during trust term
- Trust provides asset protection
- At end of term, property passes to heirs at a discounted value

QPRT Example

Transfer Date	11/2004
Section 7520 Rate	4.0%
Number of Years Trust Runs	15
Value of Capital Placed into Trust	$500,000
Grantors' Ages	65/64
Value of Nontaxable Interest Retained by Grantor	$265,690
Taxable Gift (Present Value of Remainder Interest)	$234,310
After-Tax Rate at Which Property Grows	4.00%
Value of Property after 15 years	$900,472
Combined Federal and State Death Tax Bracket	50.00%
Potential Death Tax Savings (50% x $900,472 - $234,310)	$333,081
Qualified Annuity payable if not QPRT	$24,802

Meet the Largest Beneficiary of Your IRA

...Unless You Plan Ahead

Summary of the Minimum Distribution Rules

- All IRA owners use uniform table for determining minimum distributions.
- Life expectancy calculations are irrelevant.
- Beneficiary designation is more important, no longer irrevocable at R.B.D. (age 70½).
- Increased opportunity for post mortem (and post 70½) planning.
- Required distributions are reported to the IRS each year!

What Can Happen To Your IRA Without Proper Planning

Plan Balance	$2,000,000
Excise Tax at 15%	$0
Balance Subject to U.S. Tax	$2,000,000
U.S. Estate Tax at 40%	**($800,000)**
Balance Subject to IRD Tax at 40%	$1,200,000
IRD Tax	**($300,000)**
Total of all Taxes*	**($1,100,000)**
Balance to Survivors	$900,000
Percent to Survivors	45%

*Does not include state inheritance tax in excess of state credit, city and county taxes or estate settlement costs.

How to Create a Multi-Generation IRA

STEPS:

1. Designate all beneficiaries properly (name all potential beneficiaries in a cascading format).
2. Establish an outside source of liquidity for taxes.

CASCADING BENEFICIARIES:

- Primary Beneficiary = Spouse
- 1st Contingent Beneficiary = Children
- 2nd Contingent Beneficiary = Grandchildren
- 3rd Contingent Beneficiary = Trust

Each beneficiary may still disclaim his/her share in favor of the next beneficiary.
After a disclaimer, each heir uses his/her actual life expectancy for distributions.

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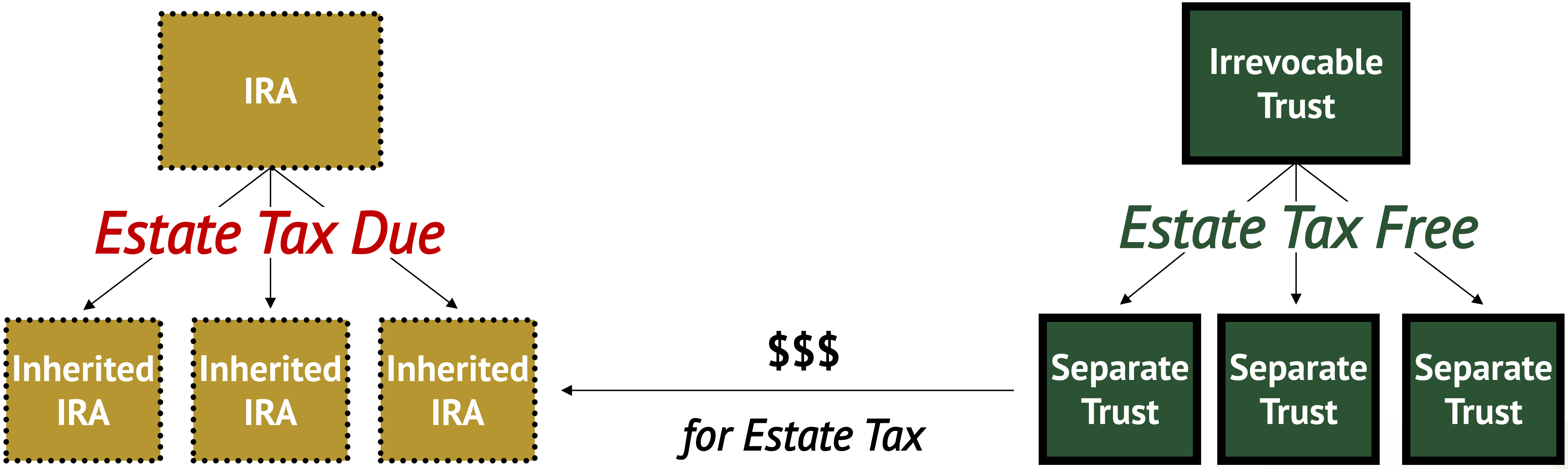
Liquidity Provides Opportunity to Extend Tax-Deferred Growth of IRA



Each child receives a share of the IRA and a share of the irrevocable trust.
Each child may take distributions over his/her lifetime, **INCOME TAX-DEFERRED**.

Case Study Assumptions

Initial Plan Balance	$1,000,000
Expected Annual Plan Growth	8%
Owner’s DOB	05/12/32
Spouse’s DOB	07/16/31
Child’s DOB	05/06/62
Grandchild’s DOB	03/15/96

Multi-Generational IRA - Owner/Spouse

YEAR	PLAN BALANCE	R.M.D.
2014	$1,000,000	$38,168
2015	$1,038,779	$41,058
2016	$1,077,539	$44,161
2017	$1,116,048	$47,491
2018	$1,154,042	$50,839
2019	$1,191,459	$54,654
2020	$1,227,749	$58,744
2021	$1,262,525	$62,812
2022	$1,295,690	$67,484
2023	$1,326,462	$72,090
2024	$1,354,722	$76,973
2025	$1,379,969	$82,141
2026	$1,401,654	$87,603
2027	$1,419,175	$92,757
2028	$1,432,531	$98,795
2029	$1,440,435	$104,379
2030	$1,442,940	$110,148
2031	$1,439,415	$116,082

Plan Balance Transferred to Child/Grandchild:

$1,439,415

Owner and Spouse Total IRA Distributions:

$1,306,379

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Multi-Generational IRA - Child

YEAR	PLAN BALANCE	R.M.D.
2031	$1,439,415	$116,082
2032	$1,429,200	$55,181
2033	$1,538,293	$64,364
2034	$1,591,843	$69,513
2035	$1,644,116	$75,074
2036	$1,694,565	$81,080
2037	$1,828,253	$102,137
2038	$1,864,205	$110,308
2039	$1,894,209	$119,133
2040	$1,931,493	$138,956
2041	$1,928,736	$162,079
2042	$1,871,581	$189,049
2043	$1,742,000	$220,506
2044	$1,517,472	$257,199
2045	$1,361,095	$277,774
2046	$1,169,987	$299,997
2047	$939,589	$323,996
2048	$664,840	$349,916
2049	$340,118	$340,118
2050	$0	$0

Child Total IRA Distributions:

$4,364,193

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How to Create a Multi-Generation Roth IRA

STEP 1

Cascading Beneficiaries

Designate all beneficiaries properly (name all potential beneficiaries in a cascading format).

STEP 2

Liquidity

Establish outside sources of liquidity for taxes and for converting a Traditional IRA to a Roth IRA. "Planned conversion" may occur when the IRA owner passes away or when the surviving spouse passes away. (New rules for 2005.)

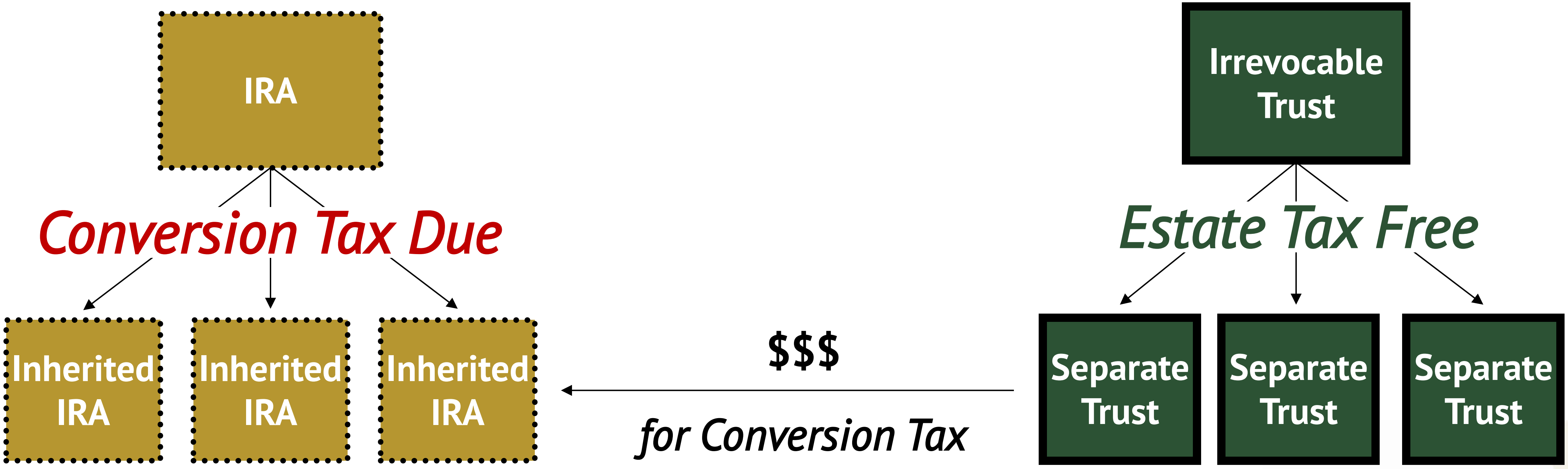
STEP 3

Post Retirement

After conversion, all distributions from the Roth IRA will be income tax-free.

Each beneficiary may still disclaim his/her share in favor of the next beneficiary. After a disclaimer, each heir uses his/her actual life expectancy for distributions.

Liquidity Provides Opportunity to Convert to a Roth IRA



Each child receives a share of the IRA and a share of the irrevocable trust.
Each child may take decide to convert or not. If no conversion, distributions over his/her lifetime, INCOME TAX-DEFERRED. If the child converts, distributions are INCOME TAX FREE.

Roth IRA vs. GHJ IRA

	Roth IRA	GHJ IRA
Funding Mechanism	Stocks, bonds, mutual funds	High cash-value life insurance[1]
Eligibility Income Limits	Yes: MAGI 2016 = <$116,000 single and <$184,000 joint [2]	No
After-Tax Contributions	Yes	Yes
Contribution Limit	Yes: 2016 = $5,500 per year ($6,500 if age 50 or older)	No
Restriction on Source of Contributions	Yes: must be from "qualified compensation" (typically earned income)	No
Contribution Deadline	Yes: tax-filing day	No
Tax-Deferred Growth	Yes	Yes
Tax-Free, Penalty-Free Distributions	Yes: 10% penalty waived after five year waiting period and either reaching age 59½, disability, or death	Yes[3]
Minimum Required Distributions	No for original owner; Yes for beneficiaries	No
Medical Underwriting	No	Yes
Mortality and Expense Charges	No	Yes
Account Management / Transaction Fees	Yes	No
Includable in Taxable Estate at Death	Yes	No, if designed properly

[1] Life insurance is not FDIC or SIPC insured, and is subject to the claims paying ability of the issuing carrier. Life insurance products may contain limitations and exclusions. Pricing provided is based on a point in time, and is subject to financial and medical underwriting.
[2] Partial contributions allowed for MAGI up to $131,000 for single filers and up to $194,000 for joint filers.
[3] Assuming policy is not a modified endowment contract (MEC), gains are not taxed. Policy must stay in force until death or gains will be subject to income tax. If policy is a MEC, then there is a 10% penalty on distributions unless insured is age 59½ or disabled (no exception if employer-owned).

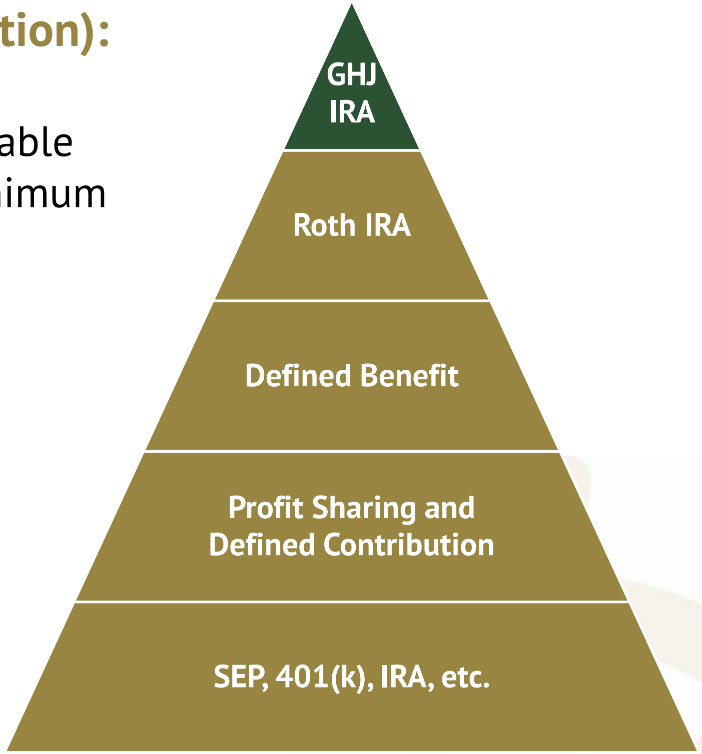
Retirement Plan Pyramid

Higher-income earning Americans are not saving enough money to continue their standard of living in retirement and the government does not make it easy for them to put money away.

Qualified Retirement Plans (defined benefit, profit sharing, and defined contribution): Good tax-benefits but lots of rules.
Contributions are tax-deductible and growth is tax-deferred but distributions are fully-taxable distributions. Compliance burdens, requirements to include "rank-and-file" employees, minimum required distributions, and low caps placed on plan contributions and balances.

Roth IRA: Great tax benefits with practical limitations.
Growth is tax-deferred, distributions are tax-free, and no RMDs. Contributions are limited and based on income, and withdrawals can be restrictive.

GHJ IRA: Great tax benefits with few practical limitations.
Cash value growth is tax-deferred, distributions are tax-free[1] via loans or withdrawals (up to basis), and no RMDs. Death benefit is paid income tax-free, to the policy beneficiaries. Generous contributions limits and no income restrictions.



[1] If tax-free loans are taken in the policy lapses, a taxable event may occur. Loans and withdrawals from life insurance policies classified as "modified endowment contracts" may be subject to tax at the time of the loan or withdraws taken and, if prior to age 59½, a 10% federal tax penalty may apply. Withdrawals and loans reduce the death benefit and cash value.

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Sample GHJ IRA Funding

Female age 51, 6.85% Index Growth

Yr.	Age	Premium Outlay	Account Value	Death Benefit	Account Value IRR	Death Benefit IRR
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1	51	200,000	54,525	4,470,345	-72.74%	2135.17%
2	52	200,000	252,016	4,625,748	-27.11%	333.52%
3	53	200,000	429,820	4,799,341	-15.78%	148.46%
4	54	200,000	624,211	4,989,522	-9.68%	88.94%
5	55	200,000	836,886	5,197,989	-5.88%	61.13%
6	56	200,000	1,066,627	5,423,521	-3.36%	45.47%
7	57	200,000	1,315,065	5,667,751	-1.56%	35.64%
8	58	0	1,383,299	3,179,942	-0.24%	16.72%
9	59	0	1,462,519	3,179,942	0.73%	14.00%
10	60	0	1,546,009	3,179,942	1.42%	12.02%
11	61	0	1,660,280	3,179,942	2.14%	10.52%
12	62	0	1,782,921	3,179,942	2.71%	9.35%
13	63	0	1,914,525	3,179,942	3.16%	8.41%
14	64	0	2,055,746	3,179,942	3.53%	7.64%
15	65	0	2,207,485	3,179,942	3.84%	6.99%
20	70	0	3,159,146	3,633,018	4.88%	5.73%
25	75	0	4,301,597	4,516,676	5.21%	5.44%
30	80	0	5,854,832	6,147,573	5.42%	5.61%
35	85	0	7,939,229	8,336,191	5.55%	5.71%
40	90	0	10,704,293	11,239,508	5.63%	5.77%
45	95	0	14,506,289	14,651,352	5.71%	5.73%
50	100	0	19,708,690	19,905,777	5.77%	5.80%
TOTAL:		$1,400,000				

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Disclaimer

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