



**NORTH RISK PARTNERS** **E4 INSURANCE SERVICES**

# Estate Planning 101

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## PRESENTERS



**Steve Walker, CLTC®, LUTCF®**  
 Vice President of Institutional Accounts  
 E4 Insurance Services



**Brett Berg, J.D.,\* LL.M., CLU®, ChFC®**  
 Vice President, Advanced Planning Retirement and Life Distribution  
 Prudential  
 \*Not in the practice of law for Prudential

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## AGENDA

- What is estate planning
- The importance of controlling your estate
- Areas for potential planning
- Creating leverage, predictability, and tax-efficiency in your estate plan



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**I WANT TO KNOW MORE...WHAT NOW?**

**REACH OUT TO YOUR NORTH RISK PARTNERS RISK ADVISOR**



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**ADVANCED PLANNING**

**It's Your Estate, Are You in Control?**

Presented by:  
Brett Berg  
Vice President, Advanced Planning  
Prudential

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**Agenda**

-  What is estate planning?
-  What planning tools do we have?
-  Three Areas for Potential Planning

This material is designed to provide general information about ideas and strategies. It is for discussion purposes only since the availability and effectiveness of any strategy are dependent upon your individual facts and circumstances. Always consult with your independent attorney and/or tax advisor before implementing any financial, tax, or estate planning strategy.



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**Do You Know . . .**

- Who should inherit your assets?
- Which assets they should inherit?
- When and how they should inherit the assets?



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**Let's create a strategy!**

- What taxes will be paid?
- Should I have a will and/or trust?
- How can I ensure my business lives on without me?
- Are there other planning documents?
- What areas are being overlooked?



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**How Assets Are Transferred at Death**

<p><b>Probate</b></p> <ul style="list-style-type: none"> <li>• Court process to:           <ul style="list-style-type: none"> <li>- Determine validity of the will</li> <li>- Appoint an executor or administrator</li> <li>- Notify creditors and pay valid claims</li> <li>- Distribute probate assets</li> </ul> </li> <li>• “Probate Property”</li> </ul>	<p><b>Non-probate</b></p> <ul style="list-style-type: none"> <li>• Passing outside of probate</li> <li>• Property passing by contract or beneficiary           <ul style="list-style-type: none"> <li>- Life Insurance &amp; Annuities</li> <li>- Qualified Plans &amp; IRAs</li> <li>- Payable-on-death or Transfer-on-death accounts</li> </ul> </li> <li>• Property owned jointly with “Right of Survivorship”</li> <li>• Trusts</li> </ul>
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**Why Do You Need a Will?**

- To direct the distribution of your assets according to your wishes\*
- To appoint a guardian for your minor children or family members with special needs
- To appoint an executor to manage your estate
- To establish trusts for your spouse, children, or charities
- To take advantage of estate-tax saving strategies

\* In certain instances, state law may supersede. Consult your attorney or legal advisor.

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**Other Documents**



**A Durable Power of Attorney?**



**A Healthcare Power of Attorney?**

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**Answering the Important Questions**

- Who should be guardian for minor children or family members with special needs?
- Who should make healthcare and financial decisions if you become disabled?
- Are family members capable of managing assets after your death? If not, who?
- What will happen to your family business?
- Will your estate owe estate taxes? If so, how can they possibly be reduced?



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**Addressing Today's Needs**

- Finding a strategy that works for your unique family structure
- Planning for digital assets, including NFTs and cryptocurrency
- Accessing online accounts and caring for social media pages or websites



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**What planning tools do we have?**



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**What is a trust?**

**Fiduciary arrangement that allows a third party, or trustee, to hold assets on behalf of a beneficiary or beneficiaries**

**Trusts may be used to help:**

- Provide asset management for your heirs
- Avoid costs of a court-appointed trustee for minors
- Keep the distribution of your estate assets private
- Ensure that assets go to the people you intend
- Keep life insurance proceeds outside your taxable estate and provide liquidity for estate taxes and related costs



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**Revocable Living Trust**

- **Revocable Living Trust may provide:**
  - Avoidance of probate
  - Asset management
  - Distribution of assets after death
  - Privacy
  - Avoidance of probate in multiple states
- **No estate tax savings**
  - Because assets held in a revocable living trust are still part of your taxable estate, there are no direct estate tax savings from a living trust
  - But with proper drafting by your attorney, a living trust can offer many of the same benefits as a will, including saving estate taxes



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**Revocable vs. Irrevocable**

- **Revocable Living Trust:**
  - Can be amended or terminated by the grantor
  - Grantor retains control over the assets placed in the trust
  - Assets may be subject to the grantor's creditors
  - Assets may be included in the grantor's estate for estate tax purposes
- **Irrevocable trust:**
  - Cannot be amended or terminated by the grantor once it has been created
  - Grantor gives up control over the assets placed in the trust
  - Assets are generally protected from the grantor's creditors
  - Assets are not included in the grantor's estate for estate tax purposes



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### State Estate and Inheritance Taxes



State	Inheritance Tax Rates
IA <sup>1</sup>	2% - 6%
MD	10%
KY	4% - 16%
NE	1% - 15%
NJ	11% - 16%
PA	4.5% - 15%

10/2021, Iowa began phasing out its inheritance tax over a five-year period.

State	Exemption Level*	Estate Tax Rates
CT	\$12,920,000	11.6% - 12%
DC	\$4,525,800	11.2% - 16%
HI†	\$5,490,000	10% - 20%
IL	\$4,000,000	0.8% - 16%
ME	\$6,410,000	8% - 12%
MD†	\$5,000,000	0.8% - 16%
MA	\$1,000,000	0.8% - 16%
MN	\$3,000,000	13% - 16%
NY	\$6,580,000	3.06% - 16%
OR	\$1,000,000	10% - 16%
RI	\$1,733,264	0.8% - 16%
VT	\$5,000,000	16%
WA	\$2,193,000	10% - 20%

\*Exemption amounts are for 2023.  
 † Hawaii and Maryland allow a surviving spouse to assume the decedent spouse's unused state exemption with an election on a timely filed state estate tax return.

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### Estate and Gift Taxes

2023 Inflation Adjusted

Estate Tax	<p><b>Top Rate: 40%</b>  <b>Exemption: \$12.92 million*</b></p>
Gift Tax	<p><b>Top Rate: 40%</b>  <b>Exemption: \$12.92 million*</b>  <b>Annual Exclusion: \$17,000</b></p>

\* For estates of decedents dying and gifts made, after 12/31/2017 and before 1/1/2026, indexed annually for inflation.

† Rev. Proc. 2022-08, Oct. 18, 2022

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### The Value of Life Insurance in Estate Planning

**Life insurance can be a very effective tool in the estate planning process and can help you:**

- Provide funds to help replace lost income for your family
- Ensure any outstanding debts are paid
- Provide funds for college/higher education
- Fund a Special Needs Trust
- Provide liquidity to help pay any federal and/or state estate taxes that may be due

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**Three Areas for Potential Planning**



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**How else could your plan change?**

- Market Risk & Diversification
- Tax Changes
- Unexpected death
- Disability
- Divorce
- Family Emergency
- Medical Expenses
- Lawsuit

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**#1: Addressing Chronic Illness Needs**

Someone turning age 65 today has almost a 70% chance of needing some type of long-term care services<sup>1</sup>

**Average annual costs<sup>2</sup>**

- \$62,920 home health aide
- \$97,740 assisted living facility
- \$139,795 nursing home facility

**Overall impact:**

- Costs likely to exceed \$300,000 over lifetime

1 How Much Care Will You Need?, Long-Term Care.gov (February 2020). Accessed: <https://ncl.gov/foi/basic-needs/how-much-care-will-you-need> "with-Someone%20turning%20age%2065%20today%20has%20an%20over%2070%20chance%20of%20needing%20some%20type%20of%20long-term%20care%20services%20-%20Long-Term-Care.gov" (February 2020). Accessed: <https://www.governor.com/aging-and-pwd/long-term-care-of-care.html>

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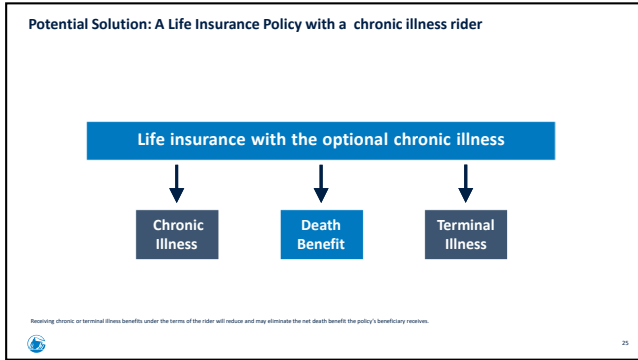
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**Addressing Chronic Illness**

Optional riders can be added to a life insurance policy\* to accelerate the policy's death benefit in the event of a qualifying chronic or terminal illness with

- No elimination or waiting period
- No permanency requirements
- Benefits can be used for family care/no professional care required
- No restrictions on benefit use
- Permanent lapse protection
- Potentially available in annual lump sum
- **Benefit grows as policy death benefit grows\*\***

\*Riders are typically offered for additional cost and/or underwriting.  
\*\*Benefits received under the rider will reduce and may eliminate the death benefit available to beneficiaries.

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**#2: Estate Equalization**

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**Illiquid Asset Example: Meet Ned and Julie**

**Ned and Julie**

- Own a lakefront vacation property, which has appreciated significantly
- Two Children, Sara and Tom
  - Sara wants to keep the home long term
  - Tom is not interested
- \$3.5 million net worth
  - \$2.5 million—Vacation home
  - \$1 million—Investable Assets
  - \$500k—Primary Residence



**Goal: Provide an equal inheritance to son while allowing daughter to retain vacation home**

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**Proposing a Solution for Ned and Julie**

Ned and Julie purchase a **\$1,000,000 survivorship life insurance policy**, naming Tom as beneficiary

Ned and Julie die

Sara inherits the home worth **\$2.5 million**

Tom receives **\$1 million death benefit, \$1 million in investments, and \$500k home**

This is a hypothetical example for illustrative purposes only. Ned and Julie did not require more complex estate or trust planning due to the size of their estate.

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**#3: Business Succession Planning**

**30 days ago, Partner A died unexpectedly**

- Partner A's ownership transferred to his wife, via his will
  - If his wife had also died, ownership would have passed to their minor children (via guardian)
- Partner A's wife has a successful career and does not want to be part of the business
  - Entitled to 50% of the profits as owner
  - Equal decision-making authority as Partner B
  - Inadequate skillset to replace Partner A
  - Could choose to sell her shares of the business to whomever she wishes

**Planning can avoid this outcome!**

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**What does that planning look like?**

**Buy/Sell Agreement**

- Written contract
- Dictates outcomes in the event of death, disability, or retirement of an owner
- Provides a predetermined value of the business (fixed amount or via formula)



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**Buy/Sell Benefits**


**Benefits to the Buyer**

- Cash at the owner's death to help meet purchase obligations created by the agreement
- Assurance to a valued key employee or a family member that their loyalty and dedication are recognized and that their role in the business will continue
- Access to policy cash values, if any, for use in a lifetime purchase of the business interest\*

**Benefits to the Departing Owner or Heirs**

- Provides a ready market for the sale of the business
- Cash is available for estate liquidity or other family needs
- The departing owner and their heirs are relieved of the business responsibilities

\*Accessing cash values through loans and withdrawal which reduces cash values and death benefits if unpaid; may reduce the duration of any guarantee against lapses, which may lapse the policy and may have tax consequences.



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**The same scenario, but with planning!**

**Partner A died unexpectedly**

- Partner A's ownership resides in his estate
- Obligated via the agreement, Partner A's estate executor sells shares to Partner B, who is obligated to buy them
- B purchased A's shares and became sole owner of the business, he can run it how he chooses
- Partner A's wife received cash equal to the value of the business, she can use it how she sees fit



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**How else could your plan change?**

- Market Risk & Diversification
- Tax Changes
- Divorce
- Family Emergency
- Unexpected Death
- Medical Expenses
- Lawsuit
- Disability
- Chronic Illness
- Estate Equalization
- Business Succession Planning



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**Next Steps**

- Learn about the rules
- Review your current beneficiary designations
- Educate your beneficiaries, trustees, & power of attorneys
- Coordinate with your estate plan
- Seek advice from your team



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**Questions?**



**THANK YOU FOR JOINING US!**



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