

Life Insurance Trusts

Continuing Relevance for You and Your Clients

Teleconference

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TRUSTS
WEALTH CREATION AND RETENTION
TRUSTS AND LIFE INSURANCE

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William A. Conway

- Professional career includes tax attorney, investment banker, and legal educator.
- Is included in both Who's Who in Finance and Industry and Who's Who in American Law.
- Is dedicated to building wealth enhancement strategies for his clients using advanced planning.
- Radio program, "Family Fortunes," is on WTNT 570 AM in the Washington Metro area Saturday mornings.

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Concepts

- Client Wealth Planning Goals
- Gap in Existing Wealth Planning
- Power of Trusts
- Taxation
- Marketing Ideas
 - Retirement ILITs
 - IRA Preservations ILITs
- Benefits to Advisor Team Members

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Immutable Client Wealth Planning Goals

- Reduce or eliminate current and future income taxes
- Provide future estate and generation-skipping tax inoculation
- Asset Protection for spouse and descendants

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Trusts Provide...

- Asset Protection
- Current Future Estate Tax Inoculation
- Potential Pathway to IRA Income Tax Reduction

“We can do that...”

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Clients- Would You Like to Protect Assets From...?

- High Income Taxes
- Divorce from survivor's future spouse
- Divorce of children
- Lawsuits against self, spouse, or children
 - Accidents
 - Malpractice
 - Business Failure
 - Co-signatory on future spouse's or children's debts

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The Gap Between Goals and Reality

- More than 50% of married clients who have completed plans will fail to achieve desired protections for the surviving spouse.
- 90-95% of clients who have “completed” plans do not have continuing trusts for non-spousal beneficiaries.
- It's NOT “all taken care of”
 - Subject to state and federal estate tax
 - No “gigolo”/”bimbo” remarriage protection
 - Subject to all creditors

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Toothpaste Tube Planning

- Are the assets protected or exposed?
- If you could protect it all easily and completely why would you not?



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The Gap Creates Opportunity For:

- Multigenerational Asset Protection
- Multigenerational Estate Tax Avoidance
- Multigenerational Income Tax Planning

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Magical Mystical Power of Trusts

Multigenerational Trusts

“Everything is possible”

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Grantor Trust Taxation

- A Grantors trust’s income and expenses flow through to its trustmaker—the grantor.
- Grantor trusts income taxes are the same as the grantors for income tax purposes; sale by grantor to grantor does not trigger income tax.
- Income tax paid by the grantor is not a gift
- Can shift asset value from estate of Trustmaker
- Trustmaker retains income tax obligation
- ILITs are grantor trusts

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Non Grantor Trust Taxation

- Trusts are separate tax payers
- If a trust accumulates income, the trust pays the tax.
- If a trust distributes the income, the beneficiaries pay the tax.

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Income Taxation of Trusts

- Capital Gains taxed at 15% maximum
- Dividends taxed at 15% maximum
- Interest taxed at 35% after \$11,150 net income
- The "HIGHER" levels of Income tax only apply to interest income + rents

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The Tax Problem "Myth"

- Even for interest income the rate is relative NOT absolute
- Comparison is between beneficiaries' "AFTER DISTRIBUTION" Tax Rate and Trust Rate

2009	Married	Single	Trust
25%	\$67,901	\$33,951	\$2,300
28%	\$137,051	\$82,251	\$5,350
33%	\$208,851	\$171,551	\$8,200
35%	\$372,950	\$372,950	\$11,150

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Advisors together will minimize the total tax impact and ensure the plan meets the client's unique planning objectives.

- Asset Protection
- Income Taxation Reduction
- Future Transfer Tax Inoculation

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Marketing Concepts

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Where Not to Die
State Estate Tax

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Client Questions

- What will be the estate tax rate in:
 - Chelsea Clinton's first term?
 - Jenna Bush's second term?
- What will be the income tax rate:
 - Next Year?
 - 20 Years?
 - 40 Years?

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Strategies for ILITs

- Retirement ILIT
- IRA Preservation ILIT

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Retirement ILIT

Issues:

- Client has/wishes to buy high cash value policy or variable life policy
- Desires proceeds to be estate tax free
- Desires access to cash value via loans
- Desires cash value to be asset protected
- Concerned that if policy places in ILIT will deny access to cash value build up

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Retirement ILIT

Recipe:

- Form Irrevocable Trust able to
 - Make loans to client/grantor
 - Able to distribute to client's spouse and/or children
 - Allocate \$13,000 annual gifts on lifetime gift exemptions and GST allowance to trust

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Retirement ILIT

Results:

- Removes insurance proceeds from estate tax free
- Provides multigenerational asset protection
- Provides multigenerational estate tax free account
- Can use ILIT to provide supplemental retirement benefits
- Maintain estate tax exclusion for death benefits

“Have It Both Ways”

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IRA Preservation ILIT

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IRA Tax Disadvantages

- All income and growth taxed at highest bracket
- Converts lower taxed and dividends into capital gains bracket
- Subject to state estate taxes
- Subject to federal estate tax
- Income taxes move to next generation
- Total tax bill will be 30-82%

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Roth IRA Income Tax Advantage

- Grows 100% income tax free
- No income tax when distributed
- No required minimum distributions for owner
- No income tax for beneficiaries
- Fully convertible in 2010+

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Creating Tax Free Generational Wealth

Harness the Wealth Multiplying Tax Power of a Roth IRA

Would you like to...?

- Create an Income Tax Free Account for Your Spouse
- Providing Tax Free Resources for Generations
- Fully Asset Protected from Divorce and Lawsuits

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Generational Tax Free IRA

Planning situation and objectives

- Client couple at or near retirement
- Do not need any or all of IRA for retirement
- Want to mitigate estate and income tax loss
- Desires to enhance the family inheritance
- Relatively good health

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Generational Tax Free IRA

The recipe...

- Client acquires life insurance policy inside an IRA Preservation ILIT
- Client and spouse acquire survivor life inside a joint IRA Preservation ILIT
- At age 59 ½, client can use a portion of the IRA pay for life insurance
- At death, the IRA is passed to the spouse estate tax free under the unlimited marital deduction.
- The spouse converts the IRA to a Roth IRA.

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Generational Tax Free IRA

The recipe ...

- The spouse borrows death proceeds from IRA ILIT #1 to pay the income taxes due upon conversion.
- Surviving spouse has full access to tax free Roth IRA
- There is no required minimum distribution, RMD, to spouse so all principal will grow in the Roth completely tax free
- Tax free principal still within the IRA may be distributed to generations of the family in asset protected trusts after surviving spouse's death.

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Generational Tax Free IRA

The recipe ...

- At surviving spouses death, the death benefit proceeds from the survivor life payable to IRA ILIT #2 will be used to pay estate taxes due as result of growth of tax free Roth IRA
- Surviving spouse leaves Roth IRA in Trust for children or grandchildren
- The result is that the full value of the Roth is preserved and asset protected for their children and grandchildren.
- A life insurance policy on the life of the non owner spouse can be purchased using a portion of the RMDs (or other sources)

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Generational Tax Free IRA

Results:

- Preserved and maximized the value of IRA assets passing to their children and grandchildren.
- Tax free growth created generational wealth.
- Provided liquidity to pay income taxes.
- Provided liquidity to pay estate taxes.
- Created value for an asset by converting it into an asset that is more flexible and income tax friendly for future generations.

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Magical Mystical Power of Trusts

If you could protect it all,
why would you not?

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Planning to Achieve

“Planning is not hoping, not expecting, but
achieving.”

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Planning to Achieve

Lead. Do not take line of least resistance.

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Magical Mystical Power of Trusts

Best for client and for advisor team

"Everything is possible"

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Magical Mystical Power of Trusts

The odds of keeping money under management is
5x more likely with a Trust.

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