MANNING & NAPIER

BUILDING YOUR LEGACY WITH AN ESTATE PLAN



A GUIDE FOR YOU AND YOUR FAMILY

The Importance of Estate Planning

Estate planning can be overwhelming. It often involves complex topics and decisions, which cause many people to fear that it will be costly. As confusing as it may seem, estate planning is a crucial element of financial planning. It ensures that your assets pass as intended, limits the burden placed on your family, and is essential to reducing administrative and tax costs at death.

This guide will walk you through a high-net-worth family, the Burke family, and illustrate the need to have a comprehensive estate plan regardless of the stage you're at in life. In addition, you'll learn about common estate planning techniques and understand the importance of a coordinated estate plan.

Meet the Burkes

The Burkes are a fairly typical four-generation family. Each family situation results in a need for different levels and types of planning. As we explore the unique situations of this family, we'll highlight some estate planning recommendations that a trusted advisor may make based on each family member's personal circumstances and goals.


ELSA (83)


JOHN (85)


MICHAEL (56)


SAMANTHA (60)


ADAM (62)


MARCY (54)


MIKEY JR. (23)


JAIME (33)


LISA (30)


JACK (31)


JILL (28)


MAYA (1)



John & Elsa Burke

Age & Marital Status
John (85) and Elsa (83), married

Family
Three children: Samantha (60), Michael (56), and Marcy (54).

Occupation
Retired; each in generally good health.

Long-Term Planning
Approximately $25 million in net worth, including two properties, a large IRA, and other investments. They are sensitive to paying taxes and their estate plan is about 10 years old.

Goals
John and Elsa would like as much money as possible to stay within the family and would also like to make a gift to their friend's disabled grandchild when they pass away.

Planning Recommendations

John and Elsa Burke have amassed an estate that is far greater than they will ever need. The following planning recommendations are based on the need to reduce the size of their estate in order to limit the likelihood that they will pay estate taxes.

Create Revocable Trusts & Transfer Homes into Trust

Given that estates are probated in each state in which real property is owned, this can be a helpful tool and can help avoid the headache of going through the probate process in multiple states. Their Revocable Trusts should be set up to fund a Credit Shelter Trust when the first spouse dies. Such a Trust is meant to limit the potential estate tax burden on the family over time. Given that the Burkes have a combined estate that is in excess of the lifetime estate tax exclusion, planning for estate taxes is prudent. It is important for the Burkes to consider putting as many of their assets as possible into their Revocable Trusts. Even though the federal estate tax exclusion is portable between spouses, there is a benefit of evenly titling assets between the two spouses.

Gifting

John and Elsa should consider making annual gifts of $17,000 to each family member (and their spouses), and even consider making gifts in excess of this amount. Not only is the value of the gifts removed from the Burke's estate, the potential future growth of the gifts are removed as well.

Given their goal of supporting their friend's disabled grandchild, they could consider gifting assets into a Special Needs Trust either during life or at death. Such a Trust can provide support for the child while not disqualifying her from receiving government assistance.

Set up a Trusteed IRA

Lastly, since they both have IRA accounts and wish to leave a portion to their grandchildren, it is recommended that they set up a Trusteed IRA and name their grandchildren as the Trust's beneficiaries, especially if the grandchilden are in lower income tax brakets than their children. Such a Trust permits the grandchildren to receive Required Minimum Distributions for a 10-year time period, allowing for some tax deferral during that time. It may also be set up in a way that allows for distributions of principal for pre-specified expenses, such as purchasing a new house or paying for a wedding.



Adam & Samantha Seigel

Age & Marital Status
Adam (62) and Samantha (60), married for 35 years.

Family
Three children: Jaime (33), Jack (31), and Jillian (28); and one grandchild.

Occupation
Adam is a high school math teacher and Samantha is an accountant.

Long-Term Planning
They created a Will when their first child was born but have not reviewed it since.

Goals
Adam and Samantha would like to help pay for their grandchild's college education and wish to leave a large portion of their assets to their children upon their passing.

Planning Recommendations

Adam and Samantha are in their peak earning years and are at a crossroads when it comes to estate planning. Now that they have a grandchild, Maya, they need to determine if and how they want to consider Maya and any future grandchildren in their estate plan.

Purchase Term Life Insurance

It's recommended that Samantha buy a term life insurance policy to cover her projected earnings for the remaining five years of her career. Given that she is in her peak earning years, that she earns much more than her husband, and that they expect to need every bit of their savings to fund their lifestyle in retirement, it is important that Samantha covers her future earnings.

Tax Planning

Given that the value of their estate is well below the federal estate tax threshold, tax planning is a secondary recommendation. It's recommended that their estate plan is structured so that the surviving spouse has the option to disclaim (choose to not directly inherit) assets at the first spouse's death in order to fund a Trust and save on potential estate taxes. Such a structure provides great flexibility and may be a good option for estates that are below the estate tax threshold.

Update Beneficiary Designations

A large amount of Adam and Samantha's savings are in their respective retirement plans, so it's important that they revisit and update their 401(k) and 403(b) beneficiary designations as necessary.

Create a Trust for their Children

Adam and Samantha do not want their children to inherit a large sum outright at a young age. It's recommended they create and fund a Trust. This gives Adam and Samantha the flexibility to pass a portion of the inheritance outright, and keep a portion in Trust, with principal distributions from the Trust beginning at specific points in the future or for specific needs.



Michael Burke

Age & Marital Status
Michael (56), divorced

Family
One child: Mikey, Jr., graduated from college a few years ago and has since been working for his dad.

Occupation
Owner of a welding business. His business is structured as a sole proprietorship, has eight employees, and has no corporate retirement plan set-up.

Long-Term Planning
Michael has not updated his Will since he got divorced.

Goals
His primary goals are to save for retirement and provide for his son financially upon passing.

Planning Recommendations

Michael understands that any estate planning that he does at this point will focus on his retirement and finding an efficient way to pass his business interests to his son. He also plans to provide for his long-term girlfriend.

Adjust the Company's Corporate Structure

There are potential benefits of structuring his company as either an LLC or an S Corporation. While each has pros and cons, they could allow for additional planning options beyond the existing sole proprietorship structure and to pass the business to his son, Mikey Jr.

Set-up a Company Retirement Plan

Setting up a retirement plan, such as a cash balance plan, is a good way for a small business owner to save a large amount of money tax-deferred, even when started later in retirement.

Set-up a Trust for his Girlfriend

It is recommended that he set up a Trust for his girlfriend with a portion of his estate proceeds. The Trust could be set up so that she gets income while she is alive, and principal for reasons such as her health, education, maintenance, and support, but that a majority of the Trust corpus would be left to Mikey, Jr.



Marcy Burke

Age & Marital Status
Marcy (54), single

Family
No children

Occupation
She has worked at a local bank her whole life and serves on many not-for-profit boards.

Long-Term Planning
Her current Will leaves 20% of her assets to her siblings and 80% to several friends.

Goals
Marcy leads a modest lifestyle and wishes to leave a majority of her assets to a few friends and charities upon her passing.

Planning Recommendations

Marcy is aware of the amount of wealth that her parents have (and that they plan to keep it in the family) and as such, she has little interest in passing her money to family members. Rather, she wants to care for some friends and charities that have been near and dear to her.

Set-up a Revocable Trust

Based on the fact that Marcy plans to give money to people other than family members, and given her concern that certain family members may resent this, Marcy may want to consider setting up a Revocable Trust. One major benefit of a Revocable Trust (when compared to a Will) is that a Revocable Trust is generally more difficult to contest in court.

Update her Will/Trust Frequently

One potential issue with naming friends and charities instead of family members in an estate plan is that unlike family, some close friends and charitable organizations tend to change over time. Also, if her friends are her age, it is possible that some may be deceased by the time she passes away.

Charitable Gifts

In addition to one-time charitable gifts to specific organizations, it is recommended that Marcy considers the pros, cons, and general functionality of donor-advised funds.



Jack & Lisa Seigel

Age & Marital Status

Jack (31) is the son of Adam and Samantha, and is married to Lisa (30).

Family

Jack and Lisa have one child, Maya, and plan to have two or three children in total.

Occupation

Jack is an M&A attorney, and Lisa plans to stay at home with their child(ren) until they are in school.

Long-Term Planning

They have student loan debt, and no savings other than some equity in their home and $50,000 in a 401(k). Jack and Lisa have never had a Will or done any estate or financial planning.

Goals

They would like to name Guardians for their child(ren) and also need some advice on saving for retirement and paying down their debt.

Planning Recommendations

Jack and Lisa have had a few personal conversations regarding who they may want to act as the Guardian for their daughter, Maya, but have not thought about much more in regards to planning financially for their future.

Name a Guardian

Not surprisingly, Jack and Lisa need to think about who will be their daughter's guardian should something happen to them. It's recommended to not pick just one person, but to list alternates as well.

Life Insurance for Jack

Given that his salary is expected to be their only source of income for a number of years, it is important that they have life insurance for financial security. Even though the life insurance proceeds would be includable in Jack's estate, it is unlikely that they would owe estate taxes.

Save for Retirement

While their debt burden is large, it is in their best interest to focus on saving for retirement before they pay down meaningful amounts of debt. The interest rates of their debt are incredibly low, and may provide income tax benefits as well.

The Keys to a Successful Wealth Management Plan

Your complete financial situation is composed of many parts, including an estate plan, but it takes a comprehensive, integrated, and strategic wealth management plan to get all of your financial pieces in good order.

Key Disciplines

Financial Planning
Estate and Tax Planning
Investment Management
Asset Protection
Cash-Flow Modeling
Trust & Custody Services

Key Professionals

Estate Planning Attorney
Investment Manager
Accountant

Today's complex financial markets, tax laws, and your unique planning needs make it imperative that all of your advisors are acting in a coordinated manner in order to help you achieve your financial goals.

Key Steps

1. Create a wealth management plan
2. Coordinate with the professionals necessary to implement your plan
3. Track progress towards achieving your goals with consolidated reporting

Manning & Napier can help plan, coordinate, and consolidate your wealth management plan using these three simple steps.

Checklist for Preparing to Meet with Professionals

It is important to be prepared when you sit down with an estate planning professional. Use this helpful checklist to gather information that will help your attorney, investment manager, and/or accountant understand your current situation and gain a better perspective of your goals and wishes for your estate.

Information to Gather Before a Meeting

- [ ] Copies of current and prior estate planning documents. This includes, but is not limited to, Wills, Trusts, Partnership Agreements, Power of Attorney, Health Care Proxy, Living Wills and copies of beneficiary designation forms for life insurance, annuities, retirement plan assets, and IRAs
- [ ] List of current assets, including taxable investments, checking/savings, retirement assets, real estate, significant personal property, life insurance, and business interests. Include information on titling (solely owned, joint ownership, etc.)
- [ ] Family status (marital status, number of children and grandchildren, divorces)
- [ ] Information on potential future inheritances
- [ ] Any pending lawsuits or legal disputes
- [ ] Government benefits (for you and for those who will inherit funds)
- [ ] Country/state of residence
- [ ] Information on debts and notes payable and receivable
- [ ] Are you self-employed or member of a partnership (bring appropriate documents)
- [ ] Have you made any previous taxable gifts (provide a gift tax return)

Items to Consider Prior to the Meeting

- [ ] Asset transfer plan – who will receive the assets (children, grandchildren, other family, friends, charities, etc.)?
- [ ] Trust planning – should your heirs inherit assets outright or in Trust, who will be the Trustee(s)?
- [ ] Fiduciary appointments – who should be named as Executor, guardian, etc.?
- [ ] General retirement time frame and goals
- [ ] Long-term goals – willingness to gift while alive, planning for financial security versus tax savings
- [ ] Family dynamics – potential issues with beneficiaries

Five Simple Ways Assets Can be Transferred

1. Beneficiary Designation

Beneficiary designations are contracts that apply just to the specific accounts that they are assigned to and supersede directions in a Will or a Trust. Life insurance, annuities, and retirement accounts pass to whoever is named as the stated beneficiary on a beneficiary designation form. It is common to name both primary and secondary beneficiaries on these forms.

2. Joint Tenants with Rights of Survivorship

Joint Tenants with Rights of Survivorship (JTWROS) is a common form of joint ownership. Under this type of ownership, an asset will pass to the surviving owner(s) when one owner dies.

3. Trust

A Trust will only control assets that are held/titled in the Trust. As a legal document, it states how the assets are managed during the period of time that the terms of the Trust govern and it states who the assets pass to when the Trust terminates.

Trustee
Helps to manage the Trust and ensure all of the Trust's terms are followed.

Revocable Trust
One of two types of general trusts; the Trustee can change, amend, or dissolve the Trust.

Irrevocable Trust
One of two general types of trusts; these Trusts generally can't be amended and the Trustee must follow the terms as they are written.

4. Transfer on Death

Transfer on death (TOD) designations are an easy way to name an individual or individuals as beneficiaries of an investment or a personal account. With a TOD form, that particular account will pass to the stated beneficiary at death.

5. Will

A Will is the most common legal document used to pass assets from one person to another. It can act as a good catch all; defining where every probate asset in the estate is passed and how. Wills also contemplate guardianship, tax planning techniques, and can allow for "strings attached" criteria where the grantor of the asset can control the asset even once they are no longer around. Key terms relating to a will:

Probate Asset
An asset that does not pass based on other means, such as a beneficiary form.

Decedent
The person that has died; a Will documents who receives the decedent's assets and how they will receive them.

Executor/Executrix/Personal Representative
The person who manages the decedent's estate at their death. The decedent can name an Executor in their Will.

Intestacy
Dying without a Will. When a person dies intestate, the estate is administered according to state law and by a court appointed administrator. This may lead to extended court time and legal fees, which can leave surviving family members in a difficult situation.

Guardian
Caretaker of minor children, which can be named in a Will.



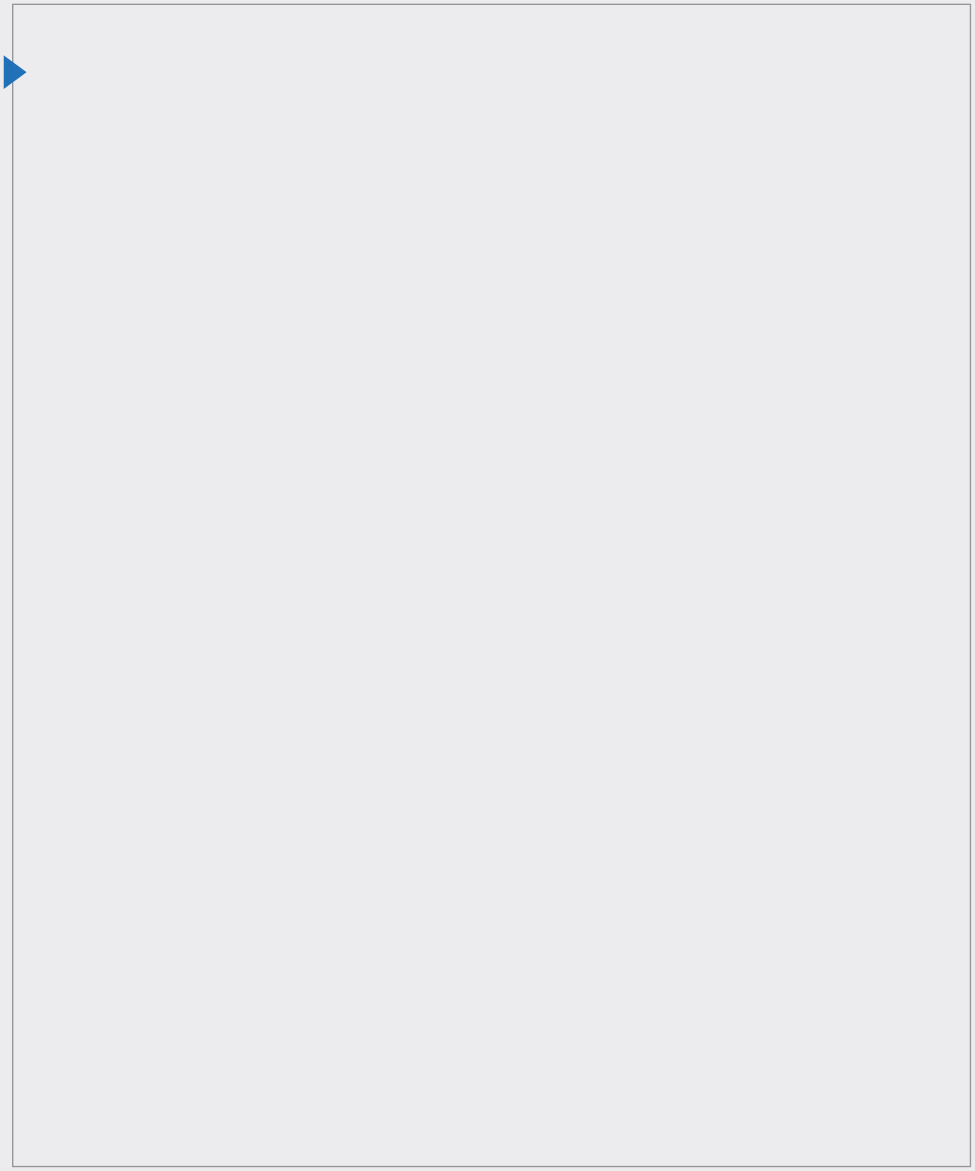
Manning & Napier Wealth Management

Manning & Napier's Wealth Management team can help you create a plan or Trust, coordinate with your attorney and/or tax professional, ensure your estate wishes are carried out, and help you track your progress toward achieving your goals with consolidated reporting.

Please visit us at:
www.manning-napier.com

- Wealth Planning
- Retirement Planning
- Business Planning
- Investment Management
- Charitable Giving
- Tax & Insurance Guidance
- Trust & Fiduciary Services
- Endowments & Foundations

Notes



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