



**NaviPlan Extended
Online/Offline
ILITs, CRTs, FLPs,
and Bequests
Participant Guide**

USA version 10.2

EISI, Winnipeg

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Creating a new ILIT

The screenshot shows the 'NaviPlan Extended - Edit Trust' dialog box. The dialog box is titled 'NaviPlan Extended - Edit Trust' and has a blue header bar. It contains several sections:

- Details:** Name* (ILIT), Trust Tax Rate (40%), Crummey Trust (checked).
- Death Benefit payable to Trust:** 100%
- Details:** Policy Type* (Term 20 Life), Insured* (David), Effective Date* (Jan 1 2009).
- Benefit Details:** Death Benefit* (\$2,000,000), Cash Surrender Value* (\$0), CSV Payable with Death Benefit (unchecked), Coverage Cease at Age (65), Coverage Cease on date* (Apr 22 2033).
- Premiums:** Premium Amount* (\$50), Premium Frequency* (Annually), Premium Payer* (David), Premiums Cease at Age (65), Premiums Cease on date* (Apr 22 2033), Premiums Waived at Disability (checked).
- Return Rates:** Interest (1.0000%), Dividends (1.0000%), Capital Gains (1.0000%), Tax Free (0%), Deferred Growth (2.0000%).

Buttons for 'OK' and 'Cancel' are located at the bottom right of the dialog box. A red arrow points from the 'Details Report Delete' icons in the background table to the dialog box title bar.

Figure 1: Goals section – Estate Planning – Scenarios category – Trusts page – Edit Trust dialog box – New ILIT

Creating a new CRT

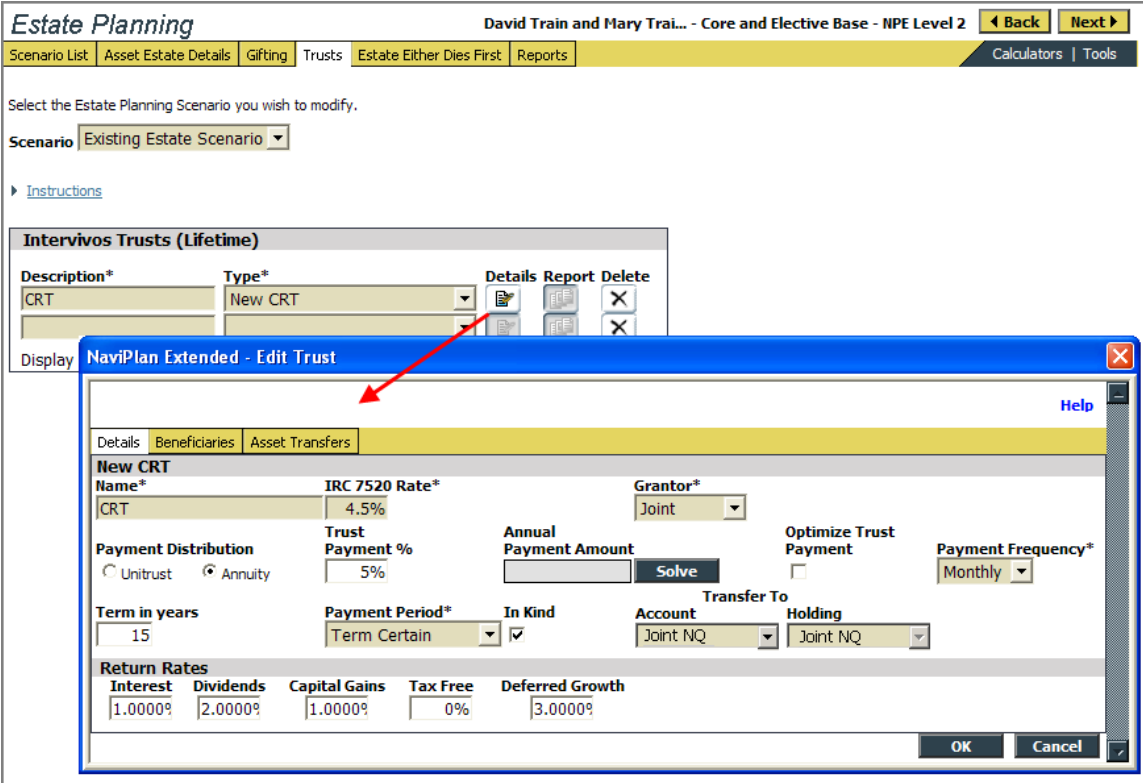


Figure 2: Goals section – Estate Planning – Scenarios category – Trusts page – Edit Trust dialog box – New CRT

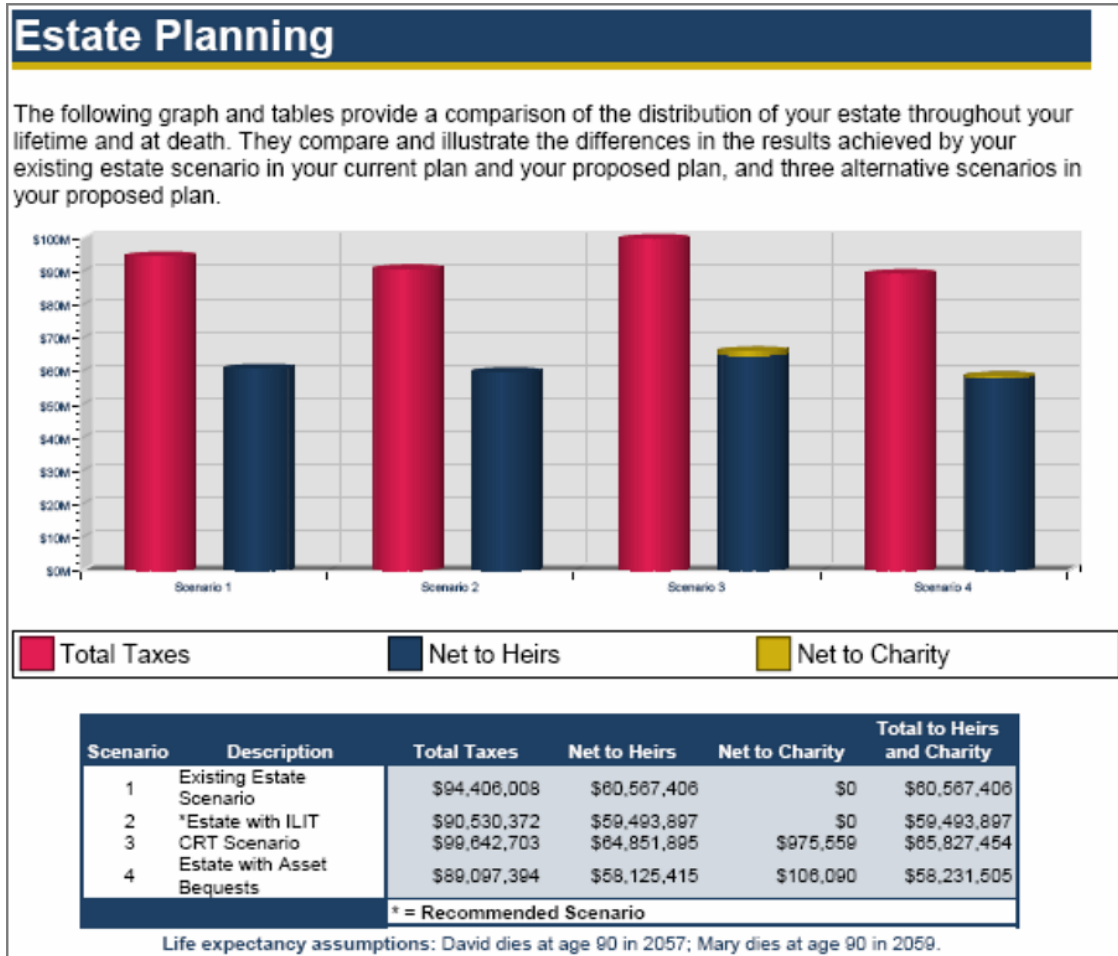
Estate distribution

- Estate needs are paid at death: estate fees, expenses, taxes, and liabilities
- NaviPlan liquidates assets, if applicable, to meet estate needs
- Bequests and testamentary transfers can then occur

Estate liquidation order

- Assets from trust with *Maximum Exclusion*
- Deceased's cash surpluses
- Insurance proceeds
- Deceased's non-qualified assets
- Non-qualified annuities
- Qualified assets
- Business and real estate assets
- Lifestyle assets

Viewing client reports



HANDS-ON EXERCISES

Exercises

The following exercises have been designed specifically for this module and assume that you are working with the original data in the Core and Elective Base plan. Before starting the exercises, duplicate the Core and Elective Base plan, rename the duplicate with a meaningful name (e.g., ILITs, CRTs, FLPs, and bequest training), and then use it to complete the exercises below.

To find the answers, see "Answers to ILITs, CRTs, FLPs, and bequests" on page 17.

Exercise 1: Create and interpret an irrevocable life insurance trust

- 1. To compare the effects of an ILIT on the Trains' estate with other scenarios, create a new Detailed scenario with the description Estate with ILIT, and be sure to include it in reports.
2. David's existing life insurance policy is a group policy that will expire at his retirement, therefore it is not a good candidate to transfer into an ILIT. Create a new ILIT using a new insurance policy. Enter the following details for David and Mary.

Hint: Select the New ILIT - New Insurance type.

Table with 2 columns and 2 rows. Row 1: Details (Trust Tax Rate, Crummey Trust, Death Benefit payable to Trust, Policy Type, Insured, Effective Date, Death Benefit, Cash Surrender Value, Coverage Cease on date, Premium, Premium Payer, Premiums Cease at Age, Interest, Dividends, Capital Gains, Deferred Growth). Row 2: Beneficiaries (Remainder Beneficiary, Income Beneficiary).

HANDS-ON EXERCISES

Exercise 2: Create and interpret a charitable remainder trust

- 1. To compare the effects of a CRT on the Trains’ estate with other scenarios, create a new **Detailed** scenario with the description **CRT scenario**, and ensure it will be included in reports.

While their second residence provides David and Mary with considerable enjoyment, they do not want to continue to maintain it in the future. For this reason, their second residence is a suitable asset to transfer to the Red Cross using a CRT.

- 2. Create a **CRT** for this scenario, and then enter the following details for David and Mary.

Details	
IRC 7520 Rate – 4.5%	Term – 20
Grantor – Joint	Payment Period – Term Certain
Payment Distribution – Annuity	In Kind – Cleared
Trust Payment – 5.0%	Interest – 5.0%
Payment Frequency – Monthly	
Beneficiaries	
Remainder Beneficiary – Red Cross 100%	Payment Beneficiary – blank
Asset Transfers	
Asset – Vacation Home	Transfer % – 100%
Transfer Date – Dec 31, current year	

- 3. What is the resulting *Annual Payment Amount*?

Hint: The *Solve* button is found on the *Details* tab.

- a) \$0–\$10,000
- b) \$10,001–\$25,000
- c) \$25,001–\$50,000
- d) Over \$50,000

- 4. What is the optimized trust payment?

Hint: Select the **Optimize Trust Payment** check box.

- a) \$0–\$10,000
- b) \$10,001–\$25,000
- c) \$25,001–\$50,000
- d) Over \$50,000

HANDS-ON EXERCISES

5. You feel the 5% payment is too low and the optimized payment is too high. What is the new amount with a *Trust Payment %* of 6%?

Hint: You must clear the *Optimize Trust Payment* check box first.

- a) \$0–\$10,000
- b) \$10,001–\$25,000
- c) \$25,001–\$50,000
- d) Over \$50,000

6. What is the value of *Remainder Interest* that will be considered a **charitable gift** if David dies in 10 years and Mary dies in 20 years?

Hint: Generate a **Single Trust** report.

- a) \$0–\$50,000
- b) \$50,001–\$100,000
- c) \$100,001–\$150,000
- d) Over \$150,000

7. With the charitable gift in the *CRT scenario*, the Trains' **Total Tax** will drop in the **year of transfer** as compared to the *Existing Estate Scenario*. By how much does the *Total Tax* amount drop?

Hint: In the **Cash Flow Assistant**, use the *Estate Planning Scenario* list to quickly change between scenarios.

- a) \$0–\$25,000
- b) \$25,001–\$50,000
- c) \$50,001–\$75,000
- d) Over \$75,000

Exercise 3: Create and interpret a family limited partnership

To find the answers, see “Answers to ILITs, CRTs, FLPs, and bequests” on page 17.

A family limited partnership may be an appropriate tool to help the Trains transfer their real estate asset to their son Michael as he learns how to manage real estate investments.

1. To compare the effects of an FLP on the Trains’ estate with other scenarios, create a new **Detailed** scenario with the description **Estate with FLP**, and ensure it will be included in reports.
2. David, Mary, and Michael will be the partners in the Train FLP. Create an **FLP** with all three family members as partners.
 - Transfer **100%** of the **500 Smith Street** asset to the trust at the end of the current year.
 - Your research suggests that an FLP like this would be entitled to a **20% Marketability Discount Rate** and a **20% Minority Interest Discount Rate**.
 - Currently, the 500 Smith Street asset provides approximately \$100,000 in income net of expenses. Enter a **\$100,000** annual income distribution beginning next year, and then enter a rate of return of **4% Interest**.
 - Enter (FLP) gifting strategies for both David and Mary to Michael using the *Maximum Annual Exclusion Gift* option to slowly transfer ownership. The start date is **January 1 of next year**.

Hint: Remember that the majority of David and Mary’s ownership is held as limited partners.

3. How much ownership do David and Mary still hold 10 years from now?

Hint: Generate a **Single Trust** report.

- a) 0%–20% each
- b) 21%–30% each
- c) 31%–40% each
- d) 41%–50% each

Exercise 4: Use the general and asset bequests

To find the answers, see “Answers to ILITs, CRTs, FLPs, and bequests” on page 17.

In David and Mary Train’s case, it seems inevitable that they will have considerable assets at death. They will certainly want to control how those assets are distributed.

1. As part of this exercise, you will be creating a new scenario, which will be included in reports. Since only four scenarios can be included in the reports, it is necessary to clear the *Reports* check box for one of the existing scenarios, **prior** to creating a new scenario. Using the *Estate Planning Comparison Summary* report, go back and clear the **Reports** check box for the scenario that produces the smallest *Total to Heirs and Charity* amount, assuming David dies in 10 years and Mary dies in 20 years.

Hint: This check box cannot be cleared for the *Existing Estate Scenario*.

2. To compare the effects of bequests on the Trains’ estate with other scenarios, create a new **Detailed** scenario with the description **Estate with asset bequests**, and then ensure it will be included in reports.
3. If the **CRT** does not adequately address the Trains’ desire to give to charity, another option would be to make a bequest to the Red Cross. Enter a **\$100,000 cash bequest** to occur at the event of the **1st to Die**.

Hint: Ensure you go to the **Estate Either Dies First** page.

4. David has been teaching their son Michael about stock trading. A **100%** bequest of David’s **Brokerage Account** to Michael at David’s death would be a great catalyst for Michael’s stock trading. Enter this into the new scenario.
5. The *Summary Asset Distribution* report provides an overview of how a client’s estate was dispersed. Generate this report for the **Estate with asset bequests** scenario assuming David dies in 10 years and Mary dies in 20 years. What is the value of David’s Brokerage Account bequeathed to Michael?
 - a) \$0–\$500,000
 - b) \$500,001–\$1,000,000
 - c) \$1,000,001–\$2,000,000
 - d) Over \$2,000,000

6. Which of the following reports can you use to analyze in detail a comparison of the flow of capital for **all** estate planning scenarios selected?
 - a) *Estate Planning Detailed Comparison*
 - b) *Estate Planning Tax Details Report*
 - c) *IRD Income Tax Details at First Death*
 - d) *Tax Option Comparison Summary*

7. Which of the following reports can you use to compare multiple scenarios?
 - a) *Estate Planning Flowchart*
 - b) *Estate Planning Comparison Summary*
 - c) *Estate Planning Detailed Comparison*
 - d) Both b) and c)

8. Using one of the estate planning comparison reports, propose the scenario with the highest *Total to Heirs and Charity* amount. Generate the report, assuming David dies in 10 years and Mary dies in 20 years. By examining various cash flow reports and using the *Cash Flow Assistant*, is this scenario affordable for the Trains?

Hint: Once a scenario is proposed, all reports and graphs incorporate the details of the estate scenario.

- a) Yes
- b) No

Conclusion

This module has enabled you to

- Create and analyze an irrevocable life insurance trust (ILIT)
- Create and analyze a charitable remainder trust (CRT)
- Create and analyze a family limited partnership (FLP)
- Use the general and asset bequest features

Answers to ILITs, CRTs, FLPs, and bequests

Exercise 1: Create and interpret an irrevocable life insurance trust

3. c) \$2,000,001–\$3,000,000. The *Single Trust* report indicates the *Remainder to Heirs* amount is between \$2,000,001–\$3,000,000.
4. a) \$0–\$250,000. David will have made between \$0–\$250,000 in *Gifts to Trusts* by the time he dies.

Exercise 2: Create and interpret a charitable remainder trust

3. a) \$0–\$10,000. The resulting *Annual Payment Amount* is between \$0–\$10,000.
4. b) \$10,001–\$25,000. The optimized trust payment is between \$10,001–\$25,000.
5. b) \$10,001–\$25,000. The new amount with a *Trust Payment %* of 6% is between \$10,001–\$25,000.
6. b) \$50,001–\$100,000. The value of *Remainder Interest* that will be considered a charitable gift if David dies in 10 years and Mary dies in 20 years is between \$50,001–\$100,000.
7. a) \$0–\$25,000. The *Total Tax* amount drops by \$0–\$25,000.

Exercise 3: Create and interpret a family limited partnership

3. c) 31%–40% each. David and Mary still each hold 31%–40% ownership 10 years from now.
4. d) Over \$40,000. David will receive over \$40,000 in income from the FLP 10 years from now.

Exercise 4: Use the general and asset bequests

5. a) \$0–\$500,000. The value of David's Brokerage Account bequeathed to Michael is between \$0–\$500,000.
6. a) The *Estate Planning Detailed Comparison* report can be used to analyze a detailed comparison of the flow of capital for all estate planning scenarios selected.
7. d) Both b) and c) can be used to compare multiple scenarios.
8. b) No, this scenario is not affordable for the Trains.

