



# **NaviPlan Standard Online/Offline**

## **Gifts, ILITs, and Bequests**

### **Self-Study Guide**

**USA version 11.2**

EISI, Winnipeg

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# Gifting, ILITs, and bequests

The NaviPlan Standard Gifting, ILITs, and bequests Self-Study Guide was created using NaviPlan Standard Offline with the Ibbotson Asset Allocation option. This option allows you to use actual Ibbotson return rates in NaviPlan's calculations.

The exercises in this module are based on a version of NaviPlan Standard Offline that includes the Ibbotson Asset Allocation option, which means that the asset allocation settings are set up for you. If your version of NaviPlan Standard Offline does not include the Ibbotson Asset Allocation option, you can modify the data.

## Learning objectives

This module will enable you to

- Implement common estate planning strategies in a recommended estate plan
  - Model cash and asset gifting strategies
  - Create and interpret an irrevocable life insurance trust
  - Define general and asset bequests
  - Identify the estate liquidation order and distribution for estate settlement
  - Evaluate relevant output pages in a client report to present estate planning alternatives

## Learning tools

This module includes some practice exercises. We recommend that you use the Jack and Suzie Greene (Greene, Jack, Suzie.nps) client file in the data folder of your installation of NaviPlan Standard Offline (the default path is C:\Program Files\EISI\Data, but you may have installed it elsewhere). It will be available when you run NaviPlan Standard Offline, as well as on the central server if you prefer to work in the online application.

**Note:** If you are using a version of NaviPlan Offline without the Ibbotson Asset Allocation option, or if you are using NaviPlan Online, there will be some differences between the guide and your version of NaviPlan.

**Hint:** In NaviPlan Standard Offline, to find the location of your data directory, go to the **User Preferences** menu – **System Settings** selection – **User Preferences - System Settings** dialog box – **File Locations** tab.

## Model cash and asset gifting strategies

For Level 3 Plans, in the *Goals* section – *Estate Planning* category, two pages are available: *Objectives* and *Scenarios*.

- The *Objectives* page contains four tabs where you can enter estate objectives, historical information, and estate expenses. This module covers the *Gifting Growth & History* tab. To learn about the other tabs, see the *Estate Objectives and Testamentary Trusts* module. To ensure that the true value of any gifting is represented in reports, define the growth and income tax rates for prior gifts on the *Gifting Growth & History* tab.
- On the *Scenarios* page, you can create different estate planning scenarios, and then present these alternative scenarios to your clients.

### Enter growth rate and tax rate information

On the *Gifting Growth & History* tab, for each beneficiary, enter current fair market value of prior gifts. The growth rate applies to both prior and future gifts. The tax rate represents an average tax rate that is applied to the growth of the gifts. Any prior cash gifts should include accumulated growth.

The screenshot shows the 'Estate Planning' software interface. At the top, there are navigation menus: 'Notes', 'Planning Assistant', 'Calculators', and 'Reports'. Below this, the 'Objectives' page is active, with the 'Scenarios' tab selected. The 'Gifting Growth & History' sub-tab is also selected. The main content area is divided into two sections: 'Prior Gifts' and 'Historical Data'.

**Prior Gifts Table:**

Beneficiary	Prior Gifts		Prior Gifts (with Growth)		Growth Rate	Income Tax Rate
	Jack	Suzie	Jack	Suzie		
American Red Cross	\$25,000	\$0	\$35,000	\$0	8.00%	25.00%
Christopher	\$0	\$0	\$0	\$0	3.00%	0.00%
Sarah	\$0	\$0	\$0	\$0	3.00%	0.00%
Raegan	\$0	\$0	\$0	\$0	3.00%	0.00%
Tyler	\$0	\$0	\$0	\$0	3.00%	0.00%
Other	\$0	\$0	\$0	\$0	3.00%	0.00%

**Historical Data Table:**

Member	Taxable Lifetime Gifts	Applicable Credit Used	Gift Taxes Already Paid	Lifetime GSTT Exemption Used	GSTT Already Paid
Jack	\$0	\$0	\$0	\$0	\$0
Suzie	\$0	\$0	\$0	\$0	\$0

Figure 1: Goals section – Estate Planning category – Objectives page – Gifting Growth & History tab

### Prior Gifts

- *Beneficiary* – Displays the beneficiaries as defined on the *Client Management* section – *Client Information* category – *Personal Information* page.
- *Prior Gifts*

- *<client>* – The total of the original value (without growth) of any cash gifts the client has already given to this beneficiary.
- *<co-client>* – The total of the original value (without growth) of any cash gifts the co-client has already given to this beneficiary.
- *Prior Gifts (with Growth)*
  - *<client>* – The total of any cash gifts the client has already given to this beneficiary at today's value. Going forward, gifts grow at the after-tax rate.
  - *<co-client>* – The total of any cash gifts the co-client has already given to this beneficiary at today's value. Going forward, gifts grow at the after-tax rate.
- *Growth Rate* – The rate of growth the prior and future gifts are expected to earn. This rate should be consistent with the overall return rates within the plan.
- *Income Tax Rate* – The rate of taxation applied to the growth rate for purposes of determining an after-tax growth rate. This tax rate is also used to calculate IRD taxes for any transfers applicable to that beneficiary.

#### To enter Jack's prior gift to the American Red Cross

1. For Jack's *American Red Cross* beneficiary, enter a **\$25,000** prior gift and a **\$35,000** prior gift with growth.
2. In the *Growth Rate* and *Income Tax Rate* fields, enter **8%** and **25%**, respectively.

#### Historical Data

Under *Historical Data*, you can enter the amount of taxable lifetime gifts the clients have previously given, as well as any gift taxes already paid.

Historical gifts and taxes paid affect the calculation of the amount of applicable gift exclusion and applicable credit used. Another reason to include past gift information is so that growth on prior and future gifts will show the total value of assets bypassing the estate.

For example, with an 8% rate of return and 25% tax rate, if \$25,000 was gifted 5 years ago to the American Red Cross, the total would be approximately \$35,000 by now, and \$1,250,000 at death.

**Note:** NaviPlan Standard will not verify whether the amounts entered in the following fields work in combination. For example, NaviPlan Standard will not check if the amounts entered in the *Applicable Credit Used* and *Gift Taxes Already Paid* fields are reasonable, given the amount entered in the *Taxable Lifetime Gifts* field. It is your responsibility to ensure that the amounts entered are accurate.

- *Member* – Displays the name of the client or co-client.
- *Taxable Lifetime Gifts* – The total amount of taxable gifts the family member has made, up to and including the end of the previous calendar year (for example, taxable gifts may result from gifts to siblings in excess of the annual gift exclusion, transfers of assets into irrevocable trusts, or the transfer of life insurance policies into irrevocable life insurance trusts (ILITs) and payment of the policy premiums).

- Taxable lifetime gifts include gift amounts that were part of the lifetime applicable gift exclusion. This information is required in order for NaviPlan Standard to properly apply the applicable gift exclusion.
- Only the gift amount should be entered here and not the gift or generation-skipping transfer taxes paid. The amount of taxes paid should be entered in the *Gift Taxes Already Paid* and *GSTT Already Paid* fields.
- *Applicable Credit Used* – The total amount of applicable credit already used by the client or co-client as a result of taxable lifetime transfers in excess of the annual gift exclusion. This amount reduces the amount of exclusion available for funding a credit shelter trust.
- *Gift Taxes Already Paid* – The total amount of gift taxes the family member has paid, up to and including the end of the previous calendar year. This amount is applied as a credit against the individual's gift taxes payable.
- *Lifetime GSTT Exemption Used* – The total amount of the lifetime generation-skipping transfer tax exemption that has been used, up to and including the end of the previous calendar year.
- *GSTT Already Paid* – The total amount of generation-skipping transfer tax already paid on gifts from the client or co-client. Only gifts in excess of the GSTT exemption amount are taxable.

## View the Scenarios page

In this module we will create a new estate scenario for each learning objective (gifting, ILIT, and bequests) to isolate the results and show effects of each on the base plan. After you have created the multiple estate scenarios, you can compare them, and then recommend or propose one.

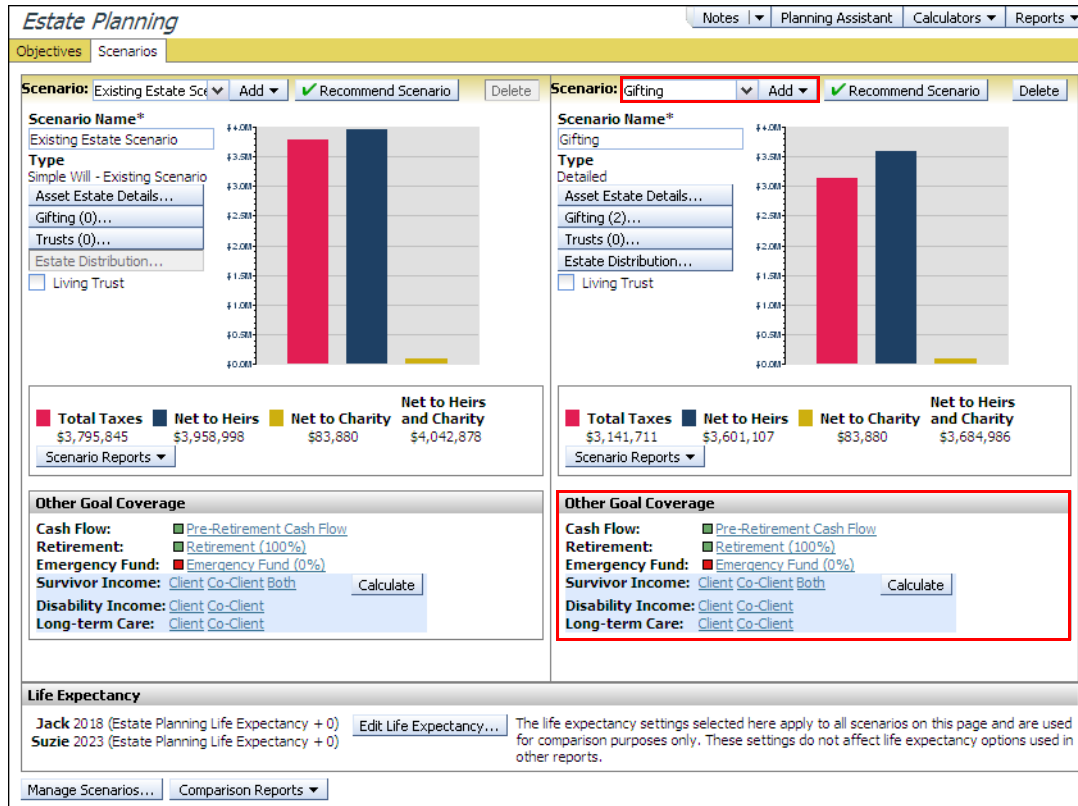


Figure 2: Goals section – Estate Planning category – Scenarios page

The left side of the *Goals* section – *Estate Planning* category – *Scenarios* page displays the default scenario titled *Existing Estate Scenario* that shows an overview of the existing estate plan based on hypothetical life expectancy. The scenario is based on a simple will where all assets pass to the surviving spouse through the UMD. The right side of the *Scenarios* page is used to create and edit What-if estate scenarios using the *Add* button.

- *Scenario* list – Use the list to select which scenario to display on each side of the page
- *Scenario Reports* – Select a report from the list to quickly generate the most common estate reports directly on this page
- *Other Goal Coverage* – Shows the relative goal coverage for other goals in the plan

The goal coverage for the *Current Plan* is displayed on the left side below the *Existing Estate* scenario (providing that there is one alternative scenario marked as *Recommended* on the right side) for each goal.

It is useful to know the goal coverage for other goals when working with estate scenarios, because estate strategies, like gifting during retirement, affect the clients' cash flow and could prevent some goals, such as retirement, from being covered.

- *Life Expectancy* – Use this to adjust the hypothetical life expectancy for the results above, without going back to the *Objectives* page.
- *Manage Scenarios* – Use this to create, duplicate, compare, and include scenarios in reports.
- *Comparison Reports* – Select a report from the list to quickly generate common reports comparing the two on-screen scenarios.

**Note:** The *Existing Estate Scenario* is marked with a check mark as *Recommended* because it is the default scenario. Once new scenarios are created, you can use the *Manage Scenarios* button to mark the actual recommended scenario (only one scenario can be marked as *Recommended*).

## Enter a gifting scenario

For clients with established gifting strategies, you can enter these strategies in the *Existing Estate Scenario*, and then model the gift(s) by clicking the *Gifting* button.

If you would like to recommend gifting to your clients as a planning strategy, you can create a new scenario (on the right side) to model the gift(s), which allows a basis for comparison.

**Note:** See the Estate Objectives and Testamentary Trusts training module for more details on the *Existing Estate Scenario*.

### To add a gifting scenario

1. Go to the **Goals** section – **Estate Planning** category – **Scenarios** page.
2. On the right side of the page, click the **Add** button. A list appears showing three options:
  - *New Simple Will* – Used for clients who do not have bequests or testamentary trusts. This scenario uses the same assumptions as the existing estate scenario.
  - *New Marital/CST* – Automatically establishes a CST and a marital trust for the client and co-client (providing the selected tax filing status is *Married filing jointly* or *Married filing separately*). Bequests are unavailable.
  - *New Detailed* – Allow detailed bequests, inter vivos trusts, and testamentary trusts. Bequests and testamentary trusts are then entered in the *Estate Distribution* dialog box. This scenario type is available for single clients.

**Note:** You can promote an estate planning scenario to the *Detailed* scenario type, but you cannot demote it.

3. Select **New Detailed** from the list.
4. In the *Scenario Name* field, rename the scenario to **Gifting**.
5. Click the **Gifting** button. The *Gifting - Gifting* dialog box opens.

Description*	Gifted By*	Gifted To*	Split Gift	Max. Annual Gift Exclusion	Annual Amount*	Start Date*	End Date*	Infl +/-	Add'l	Delete
Regular Cash Gift	Jack	Raegan	<input type="checkbox"/>	<input type="checkbox"/>	\$5,000	Jan 1 2008	Death	<input type="checkbox"/>	0.00%	X
Regular Cash Gift	Jack	Tyler	<input type="checkbox"/>	<input type="checkbox"/>	\$5,000	Jan 1 2008	Death	<input type="checkbox"/>	0.00%	X

Figure 3: Goals section – Estate Planning category – Scenarios page – Gifting button – Gifting - Gifting dialog box

The *Gifting - Gifting* dialog box contains three different categories of gifts that you can enter:

- *Regular Cash Gifts* – Annual cash gifts made over a number of years
- *Lump Sum Cash Gifts* – One-time cash gifts
- *Asset Gifts* – Gifts of specific assets for estate beneficiaries

Each gift category allows you to specify the following gifting options:

- *Split Gift* – Election to split the gift tax consequences between the client and co-client. Selected by default for community property assets and joint assets. If the client or co-client's tax filing status is not *Married filing jointly* or *Married filing separately*, split gifting is not available. Although the gift taxes are split between the client and co-client, only one client makes the gift.
- *Max. Annual Gift Exclusion* – Gifts the maximum annual exclusion amount that is allowed gift-tax free by law. If this option is selected, the *Annual Amount* field cannot be edited. The maximum annual exclusion amount does not apply to charitable beneficiaries. The gift increases yearly based on the plan's inflation rate in \$1,000 increments. Gifting amounts larger than the annual exclusion amount use the unified credit to offset any gift tax liability.

**Note:** NaviPlan does not monitor whether multiple gifts are entered with the maximum annual exclusion setting.

6. Under *Regular Cash Gifts*, click the **Add** button. A new data-entry row appears.
7. From the *Gifted By* list, select **Jack**.

8. From the *Gifted To* list, select **Raegan**.
9. In the *Annual Amount* field, enter **\$5,000**. By default, the gift will be made annually until Jack's death.
10. Repeat steps 6 to 9, but ensure the annual amount is gifted to Tyler.
11. Click **OK**. The *Gifting - Gifting* dialog box closes. On the *Scenarios* page, the *Gifting* button for the *Gifting* scenario appears as *Gifting (2)*, which indicates that two gifting strategies have been entered into the scenario.

**Note:** In NaviPlan, planned gifts are made regardless of the cash flow situation. If the clients have insufficient cash flow to make the gift, assets are redeemed to cover the cash flow deficit.

## Generate a scenario report

Using the *Scenario Reports* button, you can quickly access the most common estate reports used in NaviPlan.

### To generate a gift summary report

1. On the *Scenario* page, for the *Gifting* scenario, click the **Scenario Reports** button, and then select **Gift Summary (Jack)** from the report list. The *Assign Settings* dialog box opens. In this dialog box, you can specify the plan type and the clients' life expectancies.

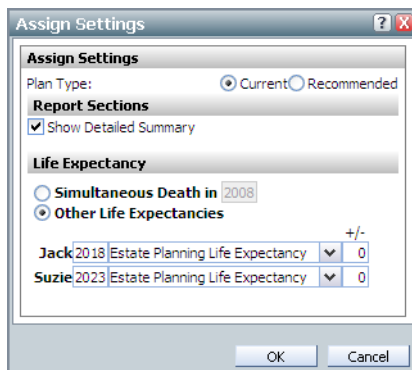


Figure 4: Assign Settings dialog box

Two *Plan Type* options are available:

- *Current* – NaviPlan analyzes the information in the current plan using the current scenario
  - *Recommended* – NaviPlan analyzes the plan using the *Recommended* scenarios for all goals in the plan
2. Select **Current**, select the **Show Detailed Summary** check box, and then click **OK**. The *Gift Summary (Jack)* report appears. The report provides a breakdown of cash and asset gifts to heirs and charities.

**Gift Summary (Jack)**  
Greene  
*Greenes' Base Details - Scenario: Gifting (2008)*

Year	Age(s)	Cash Gifts				Gifts to Heirs		Gifts to Charity			
		529 Plans	UTMAs/UGMAs	Other	Asset Gifts	Total Annual Gifts	Cumulative Gifts with Growth	Cash Gifts	Asset Gifts	Total Annual Gifts	Cumulative Gifts with Growth
Prior							\$0				\$35,000
2008	58/56	\$0	\$0	\$10,000	\$0	\$10,000	\$10,000	\$0	\$0	\$0	\$35,000
2009	59/57	\$0	\$0	\$10,000	\$0	\$10,000	\$20,300	\$0	\$0	\$0	\$37,100
2010	60/58	\$0	\$0	\$10,000	\$0	\$10,000	\$30,909	\$0	\$0	\$0	\$39,326
2011	61/59	\$0	\$0	\$10,000	\$0	\$10,000	\$41,836	\$0	\$0	\$0	\$41,686
2012	62/60	\$0	\$0	\$10,000	\$0	\$10,000	\$53,091	\$0	\$0	\$0	\$44,187
2013	63/61	\$0	\$0	\$10,000	\$0	\$10,000	\$64,684	\$0	\$0	\$0	\$46,838
2014	64/62	\$0	\$0	\$10,000	\$0	\$10,000	\$76,625	\$0	\$0	\$0	\$49,648
2015	65/63	\$0	\$0	\$10,000	\$0	\$10,000	\$88,923	\$0	\$0	\$0	\$52,627
2016	66/64	\$0	\$0	\$10,000	\$0	\$10,000	\$101,591	\$0	\$0	\$0	\$55,785
2017	67/65	\$0	\$0	\$10,000	\$0	\$10,000	\$114,639	\$0	\$0	\$0	\$59,132
<b>2018</b>	<b>68/66</b>	\$0	\$0	\$10,000	\$0	\$10,000	\$128,078	\$0	\$0	\$0	\$62,680
2019	--/67						\$131,920				\$66,440
2020	--/68						\$135,878				\$70,427
2021	--/69						\$139,954				\$74,652
2022	--/70						\$144,153				\$79,132
<b>2023</b>	<b>--/71</b>						\$148,477				\$83,880
<b>Total</b>		\$0	\$0	\$110,000	\$0	\$110,000	\$148,477	\$25,000	\$0	\$25,000	\$83,880

Figure 5: Gift Summary (Jack) report

3. Close the report.

## Recommend a scenario

In the *Manage Scenarios* dialog box, you can create, recommend, modify, and delete scenarios. The following changes can be made to a scenario in the *Manage Scenarios* dialog box:

- To change the name of a scenario, edit the appropriate field under *Description*.
- To change the type of estate planning scenario, select an option from the *Type* list. These selections are *Simple Will*, *Marital/CST*, and *Detailed*.
- To prevent probate from being assessed against all assets in the client's and co-client's gross estate, select **Living Trust**.
- To duplicate a scenario, click the associated **Duplicate** button. A new scenario is created with the same name, but it will start with *Copy of*.
- To make a scenario the recommended scenario, click the **Recommend** button.
- To change the order of the scenarios in the list, click the appropriate arrow buttons under *Order*.
- To include the scenario in reports, select the **Include in Reports** check box.  
**Note:** A maximum of four scenarios can be included in reports.
- To delete a scenario, click the associated **Delete** button.

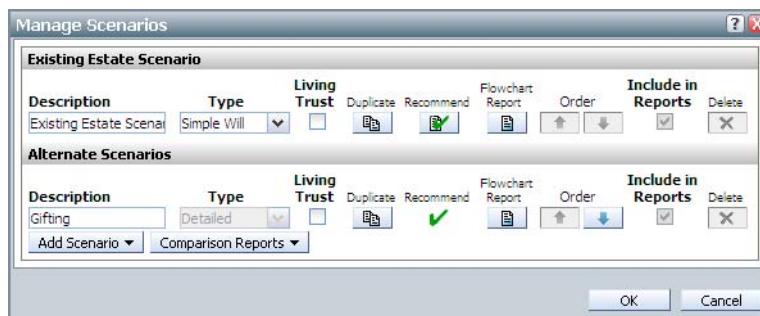


Figure 6: Goals section – Estate Planning category – Scenarios page – Manage Scenarios button – Manage Scenarios dialog box

### To recommend the Gifting scenario

1. On the *Scenarios* page, click the **Manage Scenarios** button. The *Manage Scenarios* dialog box opens.
2. For the *Gifting* scenario, click the **Recommend** button. NaviPlan marks the scenario as recommended. By default, NaviPlan includes the *Recommended* scenario in reports. For example, you can view the effects of gifting on cash flow in the recommended plan.
3. Click **OK**. The *Manage Scenarios* dialog box closes.

## Create and interpret an irrevocable life insurance trust

An irrevocable life insurance trust (ILIT) is a trust created during the client's lifetime, also known as a living trust. However, the inter vivos trust may receive a decedent's assets. A trust that is created under the terms of the decedent's will is a testamentary trust.

It is typically used to hold life insurance policies that reside outside of a client's estate, and has the benefit of having the payout of the policy not subjected to estate taxes.

Trusts that are already funded should be entered on the *Goals* section – *Estate Planning* category – *Objectives* page – *Funded Trusts* tab.

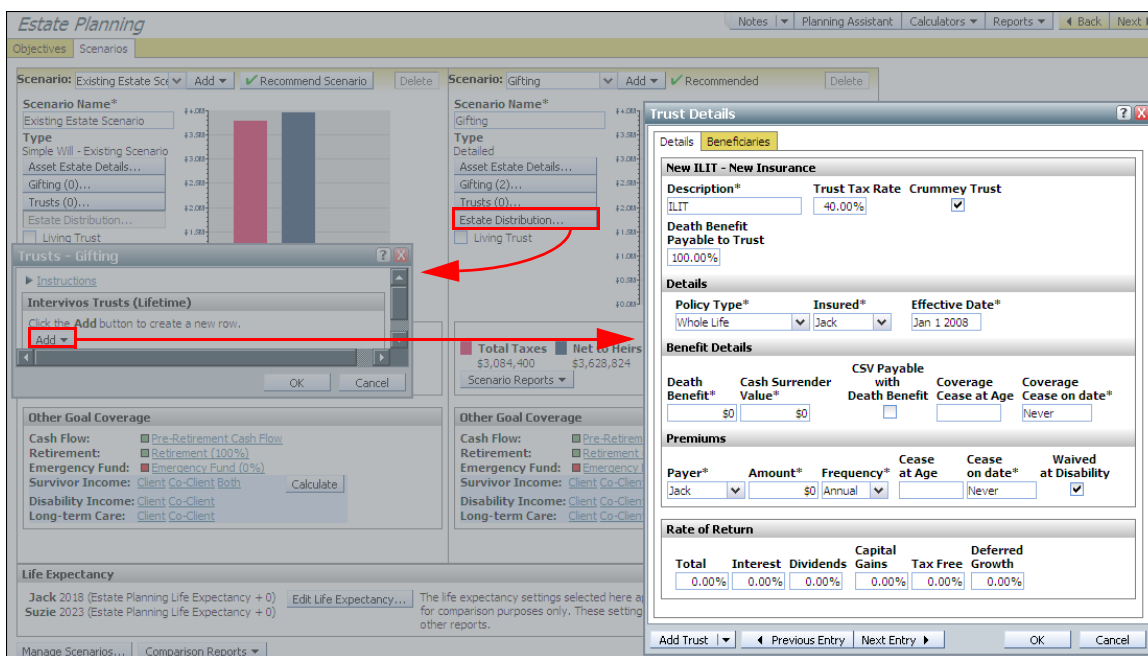


Figure 7: Goals section – Estate Planning category – Scenarios page – Trusts button – Trusts - <scenario type> dialog box – Add button – Trust Details dialog box – Details tab (showing New ILIT)

There are three types of trusts available from the *Trusts* dialog box in NaviPlan Standard:

- *Irrevocable Trust* – A trust that cannot be modified or terminated without the permission of the beneficiary. The grantor, having transferred assets into the trust, effectively removes all of his or her rights of ownership to the assets and the trust.
- *ILIT - Existing Insurance* – Allows you to transfer an existing policy (that is already entered in the plan) into a new ILIT. NaviPlan will obey the three-year rule and include the insurance proceeds in the clients' gross estate if you are reporting death within three years of the transfer of the policy. NaviPlan uses the gift tax credit if the client is required to exceed the annual gift tax exclusion to pay for the insurance premiums.
- *ILIT - New Insurance* – Allows you to set up a new insurance policy and create a new ILIT (not using existing insurance policies in the plan, but recommending a new policy).

**To enter an inter vivos trust in a new scenario**

1. On the *Scenarios* page, click the **Add** button, and then select **New Detailed**. NaviPlan creates a new detailed scenario.
2. Rename the scenario **ILIT**.
3. Click the **Trusts** button. The *Trusts - ILIT* dialog box opens.

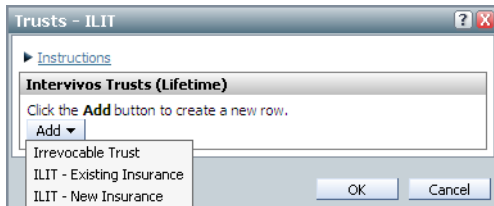


Figure 8: Goals section – Estate Planning category – Scenarios page – Trusts button – Trusts - ILIT dialog box

4. Under *Intervivos Trusts*, click the **Add** button. A list reveals three trust types: *Irrevocable Trust*, *ILIT - Existing Insurance*, and *ILIT - New Insurance*.
5. Select **ILIT - New Insurance**. The *Trust Details* dialog box opens to the *Details* tab. By default, NaviPlan creates an ILIT with a 40% trust tax rate that is marked as a *Crummey Trust*.

**Note:** When the *Crummey Trust* check box is selected, NaviPlan treats the premiums paid for the insurance policy as annual gifts to the beneficiaries.

**Trust Details**

Details **Beneficiaries**

**New ILIT - New Insurance**

Description\* Trust Tax Rate Crummey Trust  
 ILIT 40.00%

Death Benefit Payable to Trust  
 100.00%

**Details**

Policy Type\* Insured\* Effective Date\*  
 Term 20 Life Jack Jan 1 2008

**Benefit Details**

Death Benefit\* Cash Surrender Value\* CSV Payable with Death Benefit Coverage Cease at Age Coverage Cease on date\*  
 \$1,000,000 \$0  65 Jun 1 2015

**Premiums**

Payer\* Amount\* Frequency\* Cease at Age Cease on date\* Waived at Disability  
 Jack \$10,000 Annual 65 Jun 1 2015

**Rate of Return**

Total	Interest	Dividends	Capital Gains	Tax Free	Deferred Growth
7.00%	1.00%	2.00%	1.00%	0.00%	3.00%

Add Trust | Previous Entry | Next Entry | OK | Cancel

Figure 9: Goals section – Estate Planning category – Scenarios page – Trusts button – Trusts - ILIT dialog box – Add button – Trust Details dialog box – Details tab

6. Under *Details*, from the *Policy Type* list, select **Term 20 Life**.
7. Under *Benefit Details*, in the *Death Benefit* field, enter **\$1,000,000**.
8. Under *Premiums*, in the *Amount* field, enter **\$10,000**.
9. Under *Rate of Return*, enter the following details:
  - *Interest* – **1%**
  - *Dividends* – **2%**
  - *Capital Gains* – **1%**
  - *Tax Free* – **0%**
  - *Deferred Growth* – **3%**

When the proceeds of the death benefit are reinvested, the proceeds earn the total rate of return indicated in this dialog box.

10. Go to the **Beneficiaries** tab to select remainder and income beneficiaries.

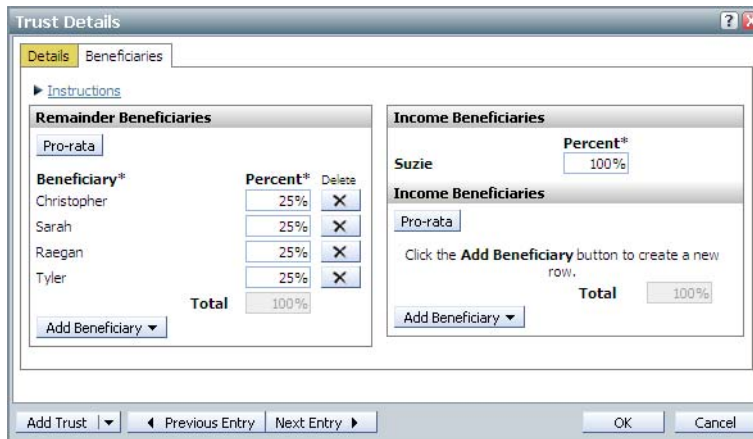


Figure 10: Goals section – Estate Planning category – Scenarios page – Trusts button – Trust - ILIT dialog box – Add button – Trust Details dialog box – Beneficiaries tab

11. Under *Remainder Beneficiaries*, click the **Add Beneficiary** button, and then select **Add All**. All beneficiaries are now included in the trust.
12. Delete the **Other** beneficiary. NaviPlan creates this beneficiary by default.
13. Click the **Pro-rata** button. NaviPlan ensures all listed beneficiaries receive an equal share of the trust distribution.
14. Under *Income Beneficiaries*, for Suzie, enter **100%**.
15. Click **OK**. The *Trust Details* dialog box closes and the new ILIT is listed in the *Trusts - ILIT* dialog box. Clicking *Details* reopens the *Trust Details* dialog box, and clicking *Report* allows you to generate the *Single Trust* report, which provides a summary of the trust data entry.
16. Click **OK**. The *Trusts - ILIT* dialog box closes. On the *Scenarios* page, the *Trusts* button for the ILIT scenario appears as *Trusts (1)*, which indicates that one trust strategy has been entered into the scenario.

## Generate the Single Trust report for a recommended ILIT scenario

The *Single Trust* report for the ILIT provides a description of the trust, a summary of the trust data entry, and the effects of the trust on cash flow.

1. On the *Scenario* page, click the **Manage Scenarios** button. The *Manage Scenarios* dialog box opens.

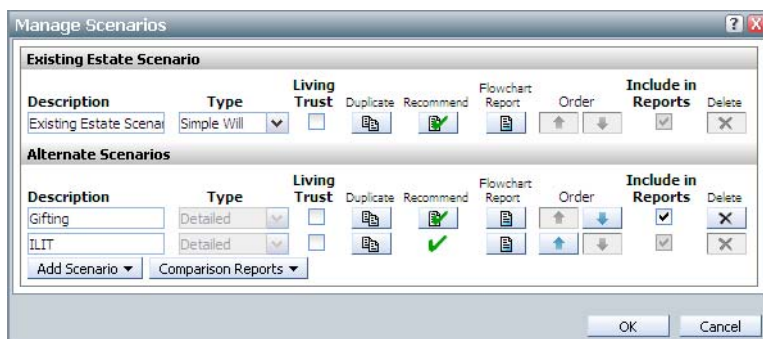


Figure 11: Goals section – Estate Planning category – Scenarios page – Manage Scenarios button – Manage Scenarios dialog box

2. For the *ILIT* scenario, click the **Recommend** button. NaviPlan marks the scenario as recommended and automatically includes the scenario in client reports.
3. For the *Gifting* scenario, select the **Include in Reports** check box.

**Hint:** Up to four scenarios can be included in client reports.

4. Click **OK**. The *Manage Scenarios* dialog box closes.
5. On the *Scenarios* page, for the *ILIT* scenario, click the **Scenario Reports** button, and then select **Single Trust**. The *Assign Settings* dialog box opens.

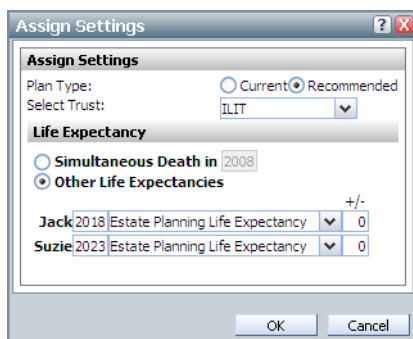


Figure 12: Assign Settings dialog box

6. Select the **Recommended** plan type. Since only one trust was entered, in the *Select Trust* list, *ILIT* is already selected.
7. Click **OK**. The *Single Trust* report appears.

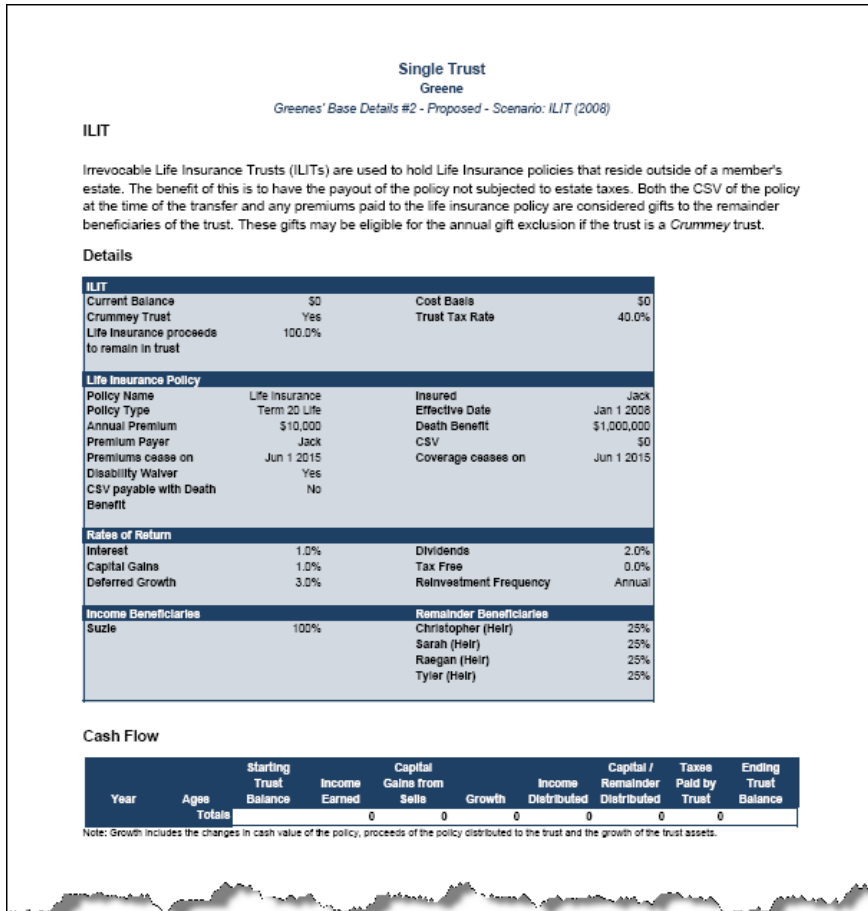


Figure 13: Single Trust report (showing details for the new ILIT)

- Close the report.

## Generate an Estate Planning Gift Taxes report

The *Gift Taxes* report can be used to keep track of all the gifting within a scenario, whether it is asset, cash, or other gifts. You can easily identify whether or not the gifts made in a year are within the annual gift exclusion limits.

Year	Cash Gifts	Asset Gifts	Present Interest Gifts to Trusts	Present Value of Future Interest Gifts to Trusts	Total Non-Charitable Gifts	Total Annual Exclusions	Taxable Gifts	GSTT Due (after exemption)	Gift Taxes before credit	Applicable Credit applied	Net GSTT and Gift Taxes
2008	0	0	10,000	0	10,000	10,000	0	0	0	0	0
2009	0	0	10,000	0	10,000	10,000	0	0	0	0	0
2010	0	0	10,000	0	10,000	10,000	0	0	0	0	0
2011	0	0	10,000	0	10,000	10,000	0	0	0	0	0
2012	0	0	10,000	0	10,000	10,000	0	0	0	0	0
2013	0	0	10,000	0	10,000	10,000	0	0	0	0	0
2014	0	0	10,000	0	10,000	10,000	0	0	0	0	0
2015	0	0	10,000	0	10,000	10,000	0	0	0	0	0
2016	0	0	0	0	0	0	0	0	0	0	0
2017	0	0	0	0	0	0	0	0	0	0	0
2018	0	0	0	0	0	0	0	0	0	0	0

Figure 14: Reports menu – Estate Planning – General – Detailed – Estate Planning Gift Taxes (Jack) – Gift Taxes (Jack) report

**Note:** The *Total Annual Exclusions* are adjusted automatically for inflation (in \$1,000 increments).

When the gifts exceed the annual exclusion amount, NaviPlan uses the applicable credit amount instead of making the client pay gift taxes.

## Generate an Estate Planning Comparison Summary report

This report compares all scenarios included in reports for total tax and net to heirs and charities.

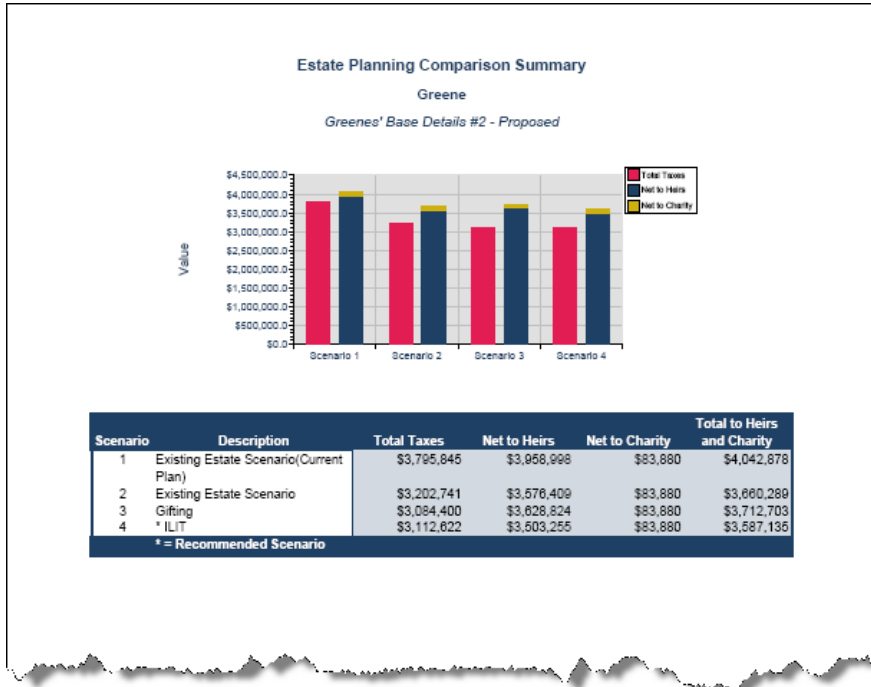


Figure 15: Reports menu – Estate Planning – General – Summary – Estate Planning Comparison Summary – Estate Planning Comparison Summary report

**Hint:** The estate planning comparison reports are also accessible by clicking the *Comparison Reports* button on the *Scenarios* page.

The report displays four different scenarios:

Scenario	Description
Existing Estate Scenario (Current Plan)	This is the <i>Current Plan</i> scenario with a simple will
Existing Estate Scenario	This is the <i>Existing Estate Scenario</i> based on the asset values that result when implementing all the other recommended goal scenarios (retirement, education, and major goal recommendations)
Gifting	This is the newly created scenario with gifting
* ILIT	This is the newly created scenario with an ILIT

The *ILIT* scenario is identified with an asterisk because it was marked as *Recommended* in the *Manage Scenarios* dialog box. Once you have completed creating a recommended scenario or multiple scenarios, refer to the *Manage Scenarios* dialog box to identify which is your final recommendation to the client.

## Enter bequests

In NaviPlan, you can enter one of three types of bequests:

- *General Bequests* – Allows you to establish cash or remainder bequests as a dollar or percentage value.
- *Asset Bequests* – Allows you to establish bequests of specific assets as a dollar or percentage value.
- *Testamentary Trusts* – Allows you to establish testamentary trusts for your clients. See the *Estate Objectives and Testamentary Trusts* module for details.

## Create general and asset bequests

Asset bequests are similar to general bequests, except that for asset bequests, assets are transferred instead.

### To create a general and asset bequest

1. On the *Scenarios* page, click the **Manage Scenarios** button. The *Manage Scenarios* dialog box opens.

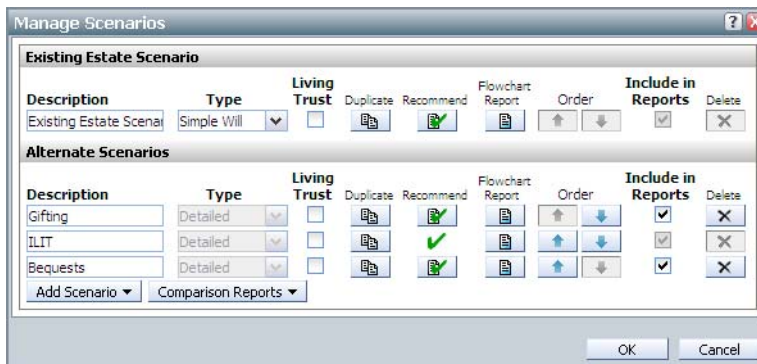


Figure 16: Goals section – Estate Planning category – Scenarios page – Manage Scenarios button – Manage Scenarios dialog box

2. Click the **Add Scenario** button, and then select **New Detailed**. Under *Alternate Scenarios*, NaviPlan creates a new scenario.
3. Rename the scenario **Bequests**.
4. Select the **Include in Reports** check box.

**Note:** The maximum number of scenarios are selected for inclusion in reports.

5. Click **OK**. The *Manage Scenarios* dialog box closes.
6. From the *Scenario* list, select **Bequests**.
7. Click the **Estate Distribution** button. The *Estate Distribution - <scenario type>* dialog box opens.

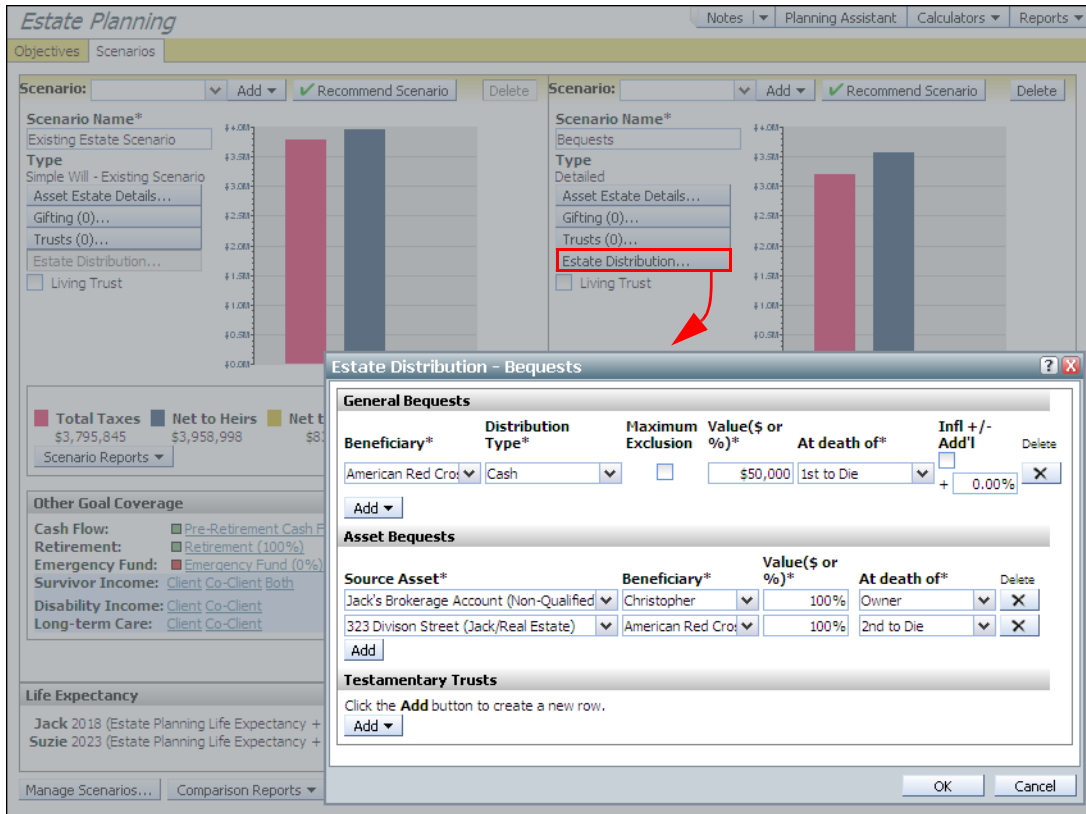


Figure 17: Goals section – Estate Planning category – Scenarios page – Estate Distribution button – Estate Distribution - Bequests dialog box (showing new bequests)

In the *Estate Distribution - Bequests* dialog box, you can define the distribution of the clients' estate and enter testamentary trusts.

8. Under *General Bequests*, click the **Add** button, and then select **Cash** from the list. A new data-entry row appears.

9. Enter the following bequest details:

- *Beneficiary* – **American Red Cross**
- *Distribution Type* – **Cash**
- *Value (\$ or %)* – **\$50,000**

**Note:** When the *Distribution Type* is *Cash*, you must enter a dollar value. If *Remainder* is selected, NaviPlan uses the specified value from individually owned non-qualified assets.

- *At death of* – **1st to Die**

10. Under *Asset Bequests*, click the **Add** button. A new data-entry row appears.

11. Enter the following bequest details:

- *Source Asset* – **Jack's Brokerage Account**
- *Beneficiary* – **Christopher**
- *Value (\$ or %)* – **100%**
- *At death of* – **Owner**

12. Click the **Add** button to add another data-entry row, and then enter the following details:

- *Source Asset* – **323 Division Street**
- *Beneficiary* – **American Red Cross**
- *Value (\$ or %)* – **100%**
- *At death of* – **2nd to Die**

**Note:** For jointly-owned assets, the asset passes to the survivor using the UMD, and can only be bequeathed when the surviving client dies.

13. Click **OK**. The *Estate Distribution - Bequests* dialog box closes.

## Generate the Estate Planning Payments to Beneficiaries Comparison report

This report clearly details the value of gifts and bequests to each beneficiary in each scenario. The values are shown for both the client and co-client.

Beneficiary	Existing Estate Scenario (Current Plan)	Existing Estate Scenario	Gifting	ILIT	Bequests
Other					
American Red Cross	83,880	83,880	83,880	83,880	1,460,516
Christopher					1,079,417
Sarah					
Raegan			74,239		
Tyler			74,239		
Jack's Net Estate					
Suzie's Net Estate	3,958,998	3,576,409	3,480,346	3,503,255	2,463,019
<b>Total</b>	<b>4,042,878</b>	<b>3,660,289</b>	<b>3,712,703</b>	<b>3,587,135</b>	<b>5,002,952</b>

Figure 18: Reports Menu – Estate Planning – General – Detailed – Estate Planning Payments to Beneficiaries Comparison – Estate Planning Payments to Beneficiaries Scenario Comparison report

### To generate the Estate Planning Payments to Beneficiaries Comparison report

1. Go to the **Reports** menu, and then select **Estate Planning – General – Detailed – Estate Planning Payments to Beneficiaries Comparison**. The *Assign Settings* dialog box opens.

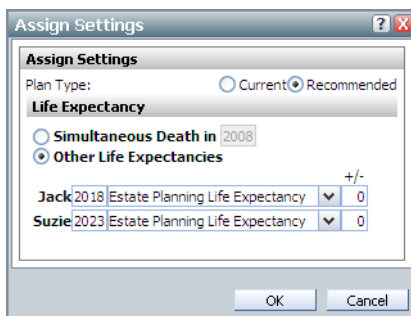


Figure 19: Assign Settings dialog box

2. Select the **Recommended** plan type, and then click **OK**. The report appears.

## Identify estate liquidation order and distribution for estate settlement

NaviPlan follows a predefined liquidation and estate distribution order to meet estate needs. You cannot modify the estate liquidation order.

### Estate liquidation order

NaviPlan uses the following liquidation order:

- *Assets from trusts* – Assets earmarked for generic testamentary and CSTs with *Max Exclusion* selected may be used to cover estate needs.
- *Cash surpluses* – Cash from insurance policies where the estate is the beneficiary.
- *Insurance proceeds* – Insurance proceeds where the co-client is the beneficiary.
- *Non-qualified assets* – Solely owned assets and the share of community property assets not bequeathed or transferred to trusts. This is followed by assets intended for trusts, then those intended for bequests.
- *Non-qualified annuity* – *Amount Certain* that pay at death or *Withdrawal as Needed* types of annuities.
- *Qualified assets* – All qualified assets. The liquidation may trigger IRD tax resulting in additional liquidation required to cover within an amount of \$10.
- *Real estate* – Solely owned, joint, then lifestyle real estate assets designated for testamentary trusts, then bequeathed lifestyle real estate assets.
- *Lifestyle* – All lifestyle assets. The assumption is that assets have been downsized.

For more information, search the Help for more details using the search term *estate distribution*.

### Estate distribution

Three main steps occur when distributing the clients' estate:

1. A variety of estate needs are paid at death using the client's cash flow in the year of death. These estate needs include estate fees, expenses, taxes and liabilities set to be paid at death from the estate.
2. Assets may need to be liquidated to meet these needs. You can exclude specific assets from the estate scenario by clicking the *Asset Estate Details* button on the *Scenarios* page. See the *Estate Objectives and Testamentary Trusts* module for details.
3. After the estate needs are settled, transfers to testamentary trusts and bequests can occur.

## Evaluate relevant output pages in a client report to assess estate planning alternatives

The *Financial Needs Analysis* client report provides comprehensive details for each estate planning scenario that has been marked for inclusion in reports.

To generate and view the **Financial Needs Analysis** client report

1. Go to the **Results** section – **Client Reports** category – **Client Report** page.

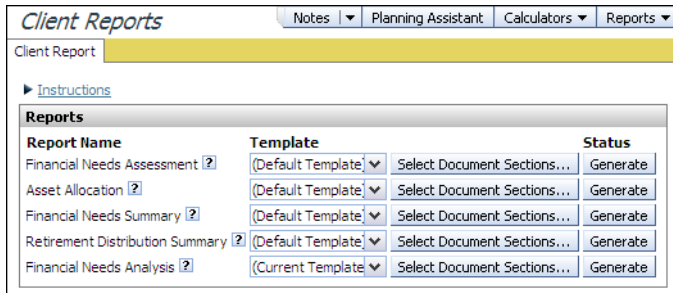


Figure 20: Results section – Client Reports category – Client Report page

2. For the *Financial Needs Analysis* client report, click the **Select Document Sections** button. The *Select Document Sections* dialog box opens.

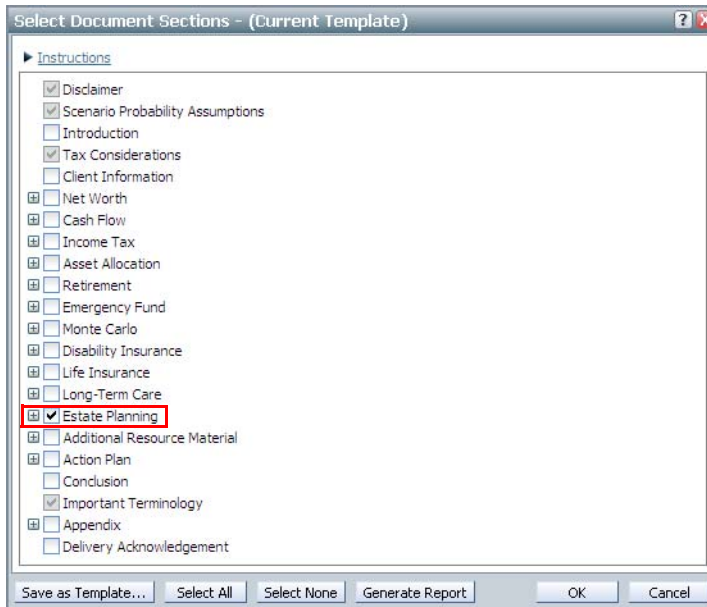


Figure 21: Results section – Client Reports category – Client Report page – Select Document Sections button – Select Document Sections dialog box

3. Click the **Select None** button. The check boxes for all report sections, except for mandatory sections are cleared.

4. Select the **Estate Planning** check box, and then click the **Generate Report** button. After a few minutes the *Financial Needs Analysis* client report opens.

**Note:** If you are using NaviPlan Standard Online, to view the report, on the *Results* section – *Client Reports* category – *Client Report* page, you must click the name of the report.

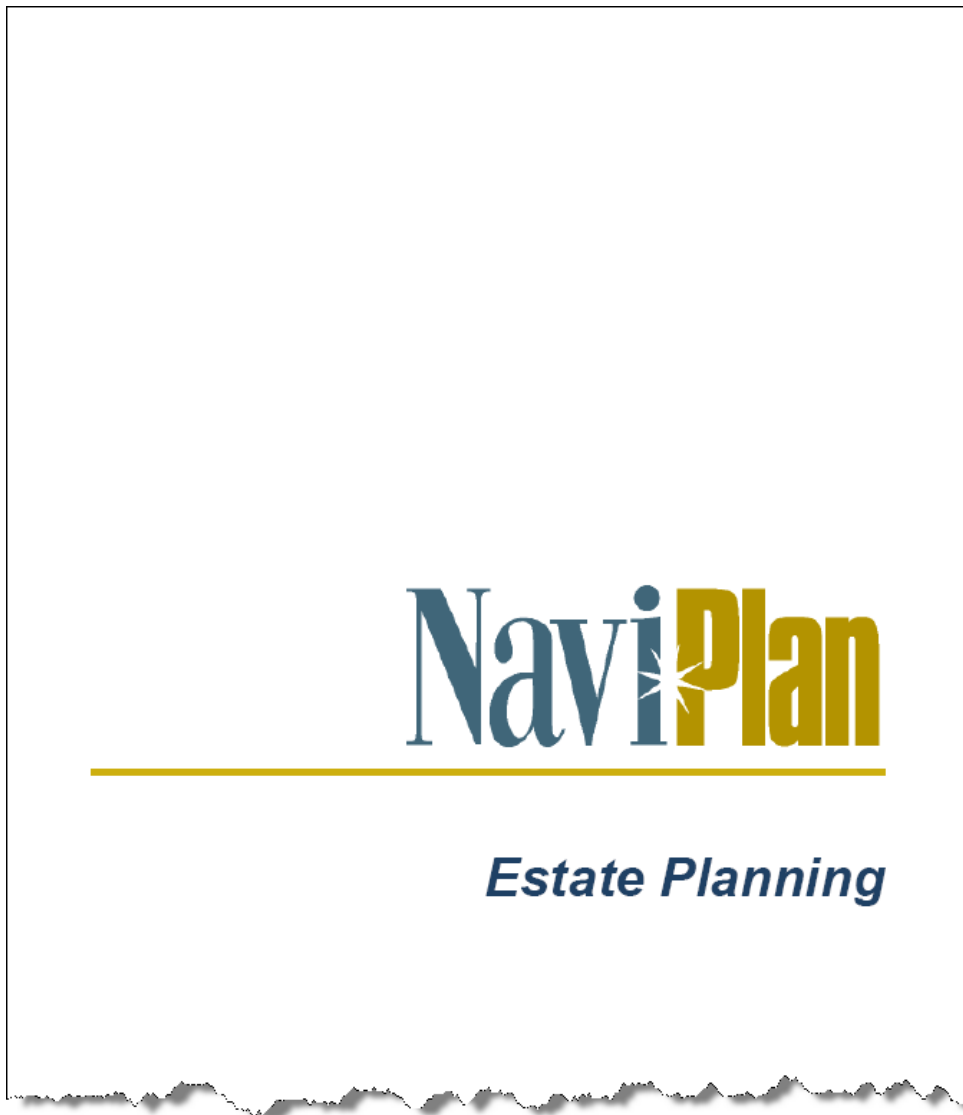


Figure 22: *Financial Needs Analysis* client report – *Estate Planning*

5. Go to the **Estate Planning - Summary** report section. This section allows you to quickly compare the estate planning scenarios you marked to include in reports:

- Existing Estate Scenario (Current Plan)
- Existing Estate Scenario
- Gifting
- Bequests
- ILIT

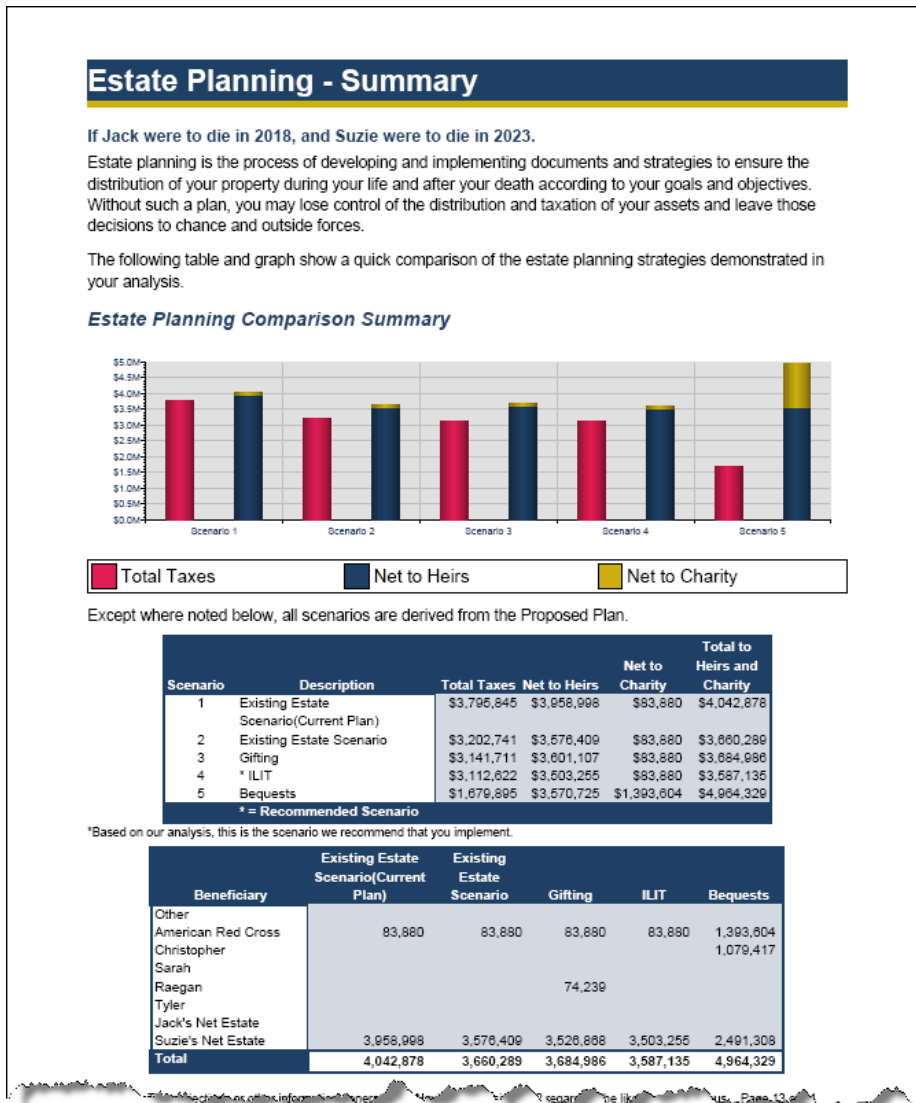


Figure 23: Financial Needs Analysis client report – Estate Planning - Summary

- Go to the **Flowchart - ILIT (Suggested)** report section. This section provides the estate planning flowchart for the *ILIT* scenario, which was marked as *Recommended* in the plan. In the *Jack's Charitable gifts & bequests* node, two values appear. The \$25,000 value is Jack's prior gift. The second value represents the total value of that gift after growth and taxes at Suzie's death.

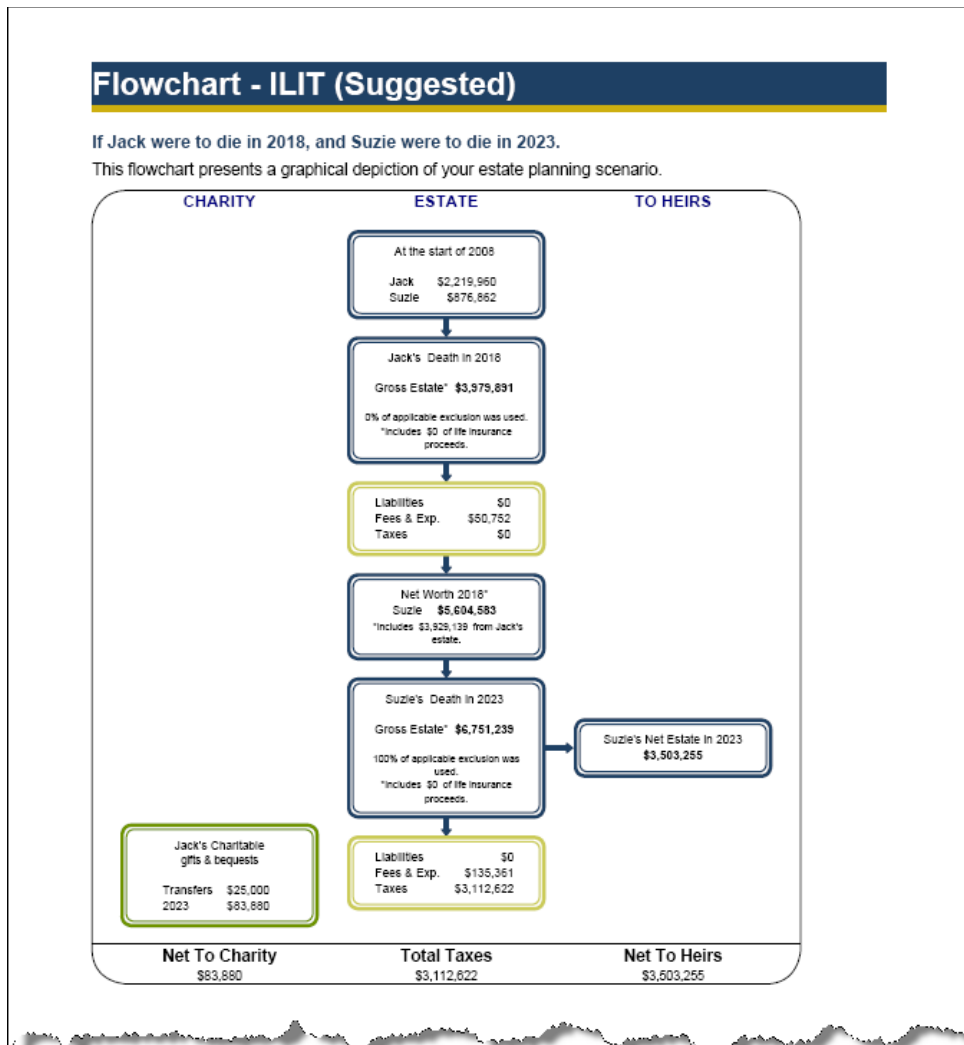


Figure 24: Financial Needs Analysis client report – Flowchart - ILIT (Suggested)

- Go to the **Estate Planning Scenario Detailed Comparison** report section. This section provides a detailed comparison of the cash flow for all estate planning scenarios included. Two tables are available for each scenario. The first table includes estate distribution and settlement details such as gross estate, fees, taxes paid, and gifts. The second table illustrates the net amounts to heirs and charities and the effects of gift taxes.

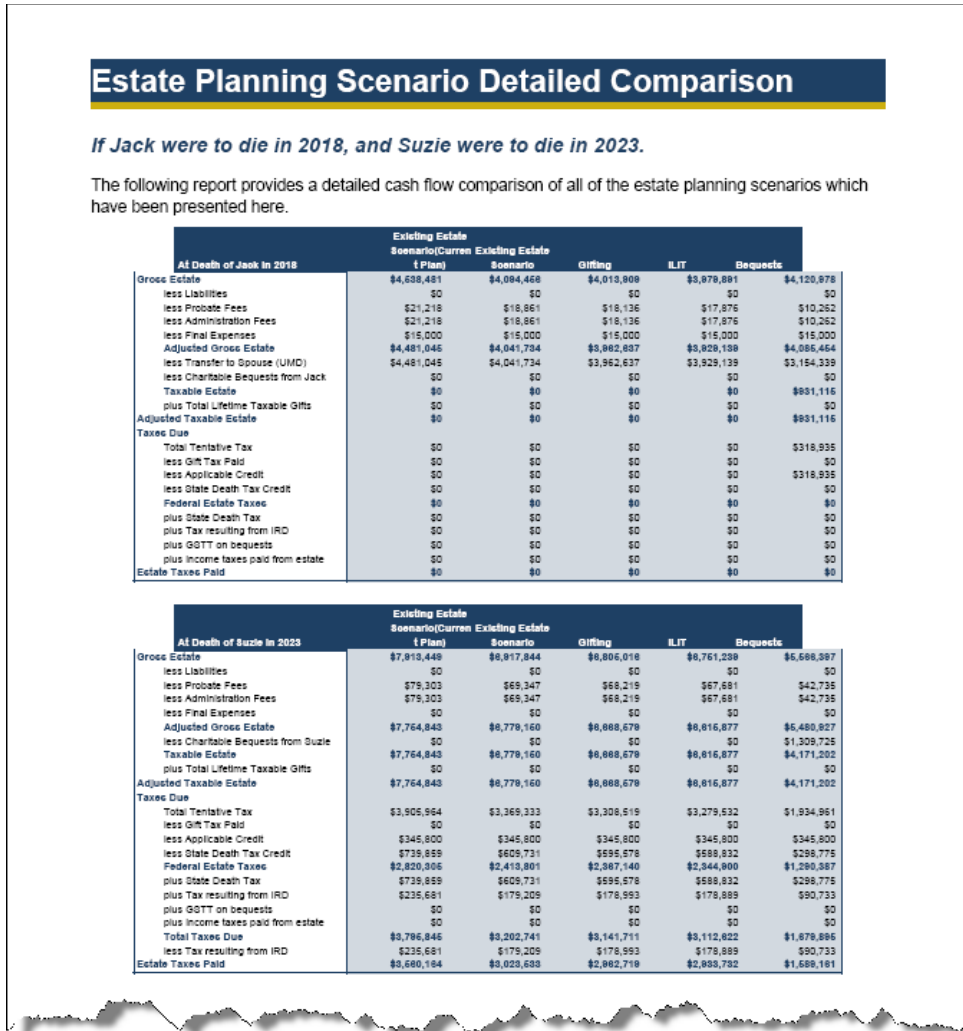


Figure 25: Financial Needs Analysis client report – Estate Planning Scenario Detailed Comparison

## Exercises

The exercises have been designed specifically for this module and assume that you are working with the original data in the *Greenes' Base Details* plan. Before starting the exercises, duplicate the **Greenes' Base Details** plan, rename the duplicate with a meaningful name (e.g., *Gifts, ILITs, & bequests training*), and use it to complete the following exercises.

**Hint:** All copies of plans are managed in the *Plan Management* section – *Plan List* category.

### Exercise 1: Model gifting strategies

To find the answers, see “Answers to gifting, ILITs, and bequests exercises” on page 33.

You feel that making annual cash gifts, which will reduce income taxes now and potentially estate taxes later, may be an appropriate strategy for the Greenes because they are projected to have cash surpluses in pre-retirement.

1. Include the following estate planning assumptions: gifts to all beneficiaries should have an **8% Growth Rate** and a **25% Income Tax Rate**.

**Hint:** Enter growth and tax rates on the *Estate Planning* category – *Objectives* page – *Gifts Growth & History* tab.

2. To compare the effects of gifting on the Greenes' estate, create a new *Detailed* scenario with the description *Gifts*. Ensure that it will be included in reports.

**Hint:** All estate scenarios are managed in the *Manage Scenarios* dialog box, accessible from the *Estate Planning* category – *Scenarios* page.

3. Enter a gifting strategy for Suzie that ensures that Raegan and Tyler will each receive the *Max. Annual Gift Exclusion* starting this year and ending at Suzie's death. To increase the benefits, select **Split Gift**.

**Hint:** Use the keyword *death*.

4. What is the gift amount for the current year for this scenario?

**Hint:** Generate the **Gift Summary** report.

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5. On the *Scenarios* page, with the *Existing Estate Scenario* on the left, and the *Gifting* scenario on the right, make note of the differences among the values for taxes, net to heirs, and charity. If you were to recommend the *Gifting* scenario, how would this help your clients' situation?

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## **Exercise 2: Create and interpret an irrevocable life insurance trust**

To find the answers, see “Answers to gifting, ILITs, and bequests exercises” on page 33.

After reviewing Jack’s and Suzie’s plan, you think they may benefit from an ILIT, in addition to the regular cash gifting strategy entered in the *Gifting* scenario.

1. To compare the effects of an ILIT on the Greenes’ estate plan of gifting versus gifting and an ILIT, create a copy of the *Gifting* scenario, and then rename it *Gifting & ILIT*. Ensure that it will be included in reports.

**Hint:** All estate scenarios are managed in the *Manage Scenarios* dialog box, accessible from the *Estate Planning* category – *Scenarios* page.

- Jack's existing life insurance policy, a group policy that will expire at retirement, is not a good candidate to transfer into an ILIT. Create a new ILIT using a new insurance policy. You feel the following details would be appropriate for Jack and Suzie.

**Hint:** Select the ILIT - New Insurance type.

**Details**

<i>Trust Tax Rate – 40%</i>	<i>Coverage Cease on date – Never</i>
<i>Crummey Trust – Selected</i>	<i>Premium Payer – Jack</i>
<i>Death Benefit payable to Trust – 100%</i>	<i>Premium – \$12,000 annually</i>
<i>Policy Type – Whole Life</i>	<i>Premiums Cease at Age – 65</i>
<i>Insured – Jack</i>	<i>Interest – 1.0%</i>
<i>Effective Date – June 1, current year</i>	<i>Dividends – 2.0%</i>
<i>Death Benefit – \$1,000,000</i>	<i>Capital Gains – 1.0%</i>
<i>Cash Surrender Value – \$0</i>	<i>Deferred Growth – 3.0%</i>

**Beneficiaries**

<i>Remainder Beneficiary – Pro-rata (Christopher, Sarah, Raegan, and Tyler)</i>	<i>Income Beneficiary – Suzie 100%</i>
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- Generate a **Single Trust** report (*Plan Type: Recommended*) assuming that Jack dies in 2020 and Suzie dies in 2025. How much money is left for the remainder beneficiaries of the ILIT?

**Hint:** The *Report* button in the *Trusts* dialog box provides quick access to the *Single Trust* report. Remember to click **OK** in the *Trusts* dialog box after closing the report, to save your data entry.

### Exercise 3: Evaluate relevant output pages in a client report

To find the answers, see “Answers to gifting, ILITs, and bequests exercises” on page 33.

1. Now that you have modeled estate planning strategies in two separate scenarios, you can make use of the additional reports and graphs to decide which scenario you feel best suits your clients’ needs and situation. What are the names of these reports and graphs, and where in NaviPlan can they be generated?

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2. Which of the estate planning scenarios in your plan results in the lowest *Total Taxes* amount and the highest *Net to Heirs* amount? If so, how does this compare to the clients’ *Existing Estate Scenario*?

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3. Mark the estate scenario you would like to present to Jack and Suzie Greene in your next meeting as *Recommended*. The proposed scenario will now appear in client reports.

## Conclusion

This module has enabled you to

- Implement common estate planning strategies in a recommended estate plan
  - Model cash and asset gifting strategies
  - Create and interpret an irrevocable life insurance trust
  - Define general and asset bequests
  - Identify the estate liquidation order and distribution for estate settlement
  - Evaluate relevant output pages in a client report to present estate planning alternatives

## Answers to gifting, ILITs, and bequests exercises

### Exercise 1: Model gifting strategies

4. Answers will vary.
5. Answers will vary.

### Exercise 2: Create and interpret an irrevocable life insurance trust

3. Answers will vary.

### Exercise 3: Evaluate relevant output pages in a client report

1. Answers could include the following:
  - *Estate Planning Flowchart*, generated by clicking the *Scenario Reports* button or from the *Reports* menu
  - *Estate Planning Comparison Summary*, generated by clicking the *Comparison Reports* button or from the *Reports* menu
  - *Projected Cash Flow*, accessible from the *Reports* menu (used to determine if the scenario is affordable for the clients)
2. Answers will vary.

