NaviPlan Standard
Online/Offline
Estate Objectives and Testamentary Trusts
Self-Study Guide

USA version 11.0

EISI, Winnipeg

Disclaimer

This software is designed to allow a financial planner to demonstrate and evaluate various strategies in order to achieve a client's financial goals. It is licensed on the understanding that EISI is not engaged in rendering legal, accounting, or other professional advice and, if any such advice is required, the services of a competent professional person should be obtained.

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Estate objectives and testamentary trusts

The NaviPlan Standard Estate Objectives and Testamentary Trusts 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.

In Level 3 Plans, you can provide full estate planning for your clients. You can enter details regarding your clients current estate situation, and then provide multiple scenarios that might reduce estate taxes and increase distributions at death.

Learning objectives

This module will enable you to

- Describe estate planning assumptions
- Include past gifting and estate expense details
- Analyze a *Simple Will* scenario
- Create living and marital trusts
- Implement a recommended estate plan

Learning tools

This module includes some practice exercises. We recommend that you use the Nick and Lisa Brown (Brown, Nick and Lisa.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.

> **Hint:** In NaviPlan 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.

Describe estate planning assumptions

In NaviPlan, you can describe the various areas of your clients' current estate situation. You can set tax assumptions regarding the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), enter predictions regarding life expectancy, override state death taxes, determine estate fees, and enter trusts that have already been established.

View tax options

The EGTRRA is set to apply until 2010 and revert to 2001 tax legislation starting in 2011. In the *Tax Options* dialog box, NaviPlan allows you to select one of three different assumptions regarding this legislation.

To select a tax option

1. In the *Brown Base Details* plan, go to the **Plan Management** section – **Assumptions** category – **General** page.
2. At the bottom of the page, click the **Tax Options** button. The *Tax Options* dialog box opens.

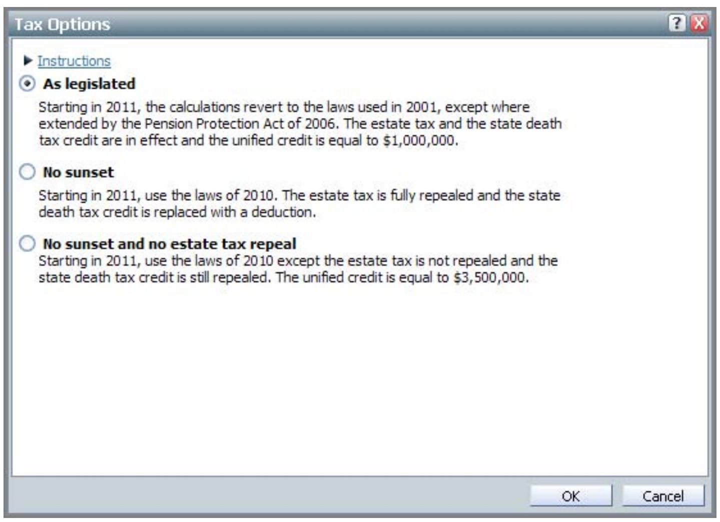


Figure 1: Plan Management section – Assumptions category – General page – Tax Options button – Tax Options dialog box

Note: *As legislated* is the default setting for the tax options.

If you select...	NaviPlan assumes that...
As legislated	The EGTRRA stays in effect until then end of 2010, and then the 2001 tax laws apply afterwards, except where extended by the Pension Protection Act of 2006. The estate tax and the state death tax credit are in effect and the amount exempt from federal estate tax is $1 million. At the start of 2011, the clients' Roth 401(k) and Roth 403(b) assets will be converted to 401(k) and 403(b) assets, respectively.
No sunset	Starting in 2011, the 2010 tax rules carry forward, including the estate tax repeal. The amount exempt from federal estate tax is $3.5 million.
No sunset and no estate tax repeal	Starting in 2011, the 2010 tax rules carry foward, except for the estate tax repeal.

3. Select **As legislated**, and then click **OK**. The *Tax Options* dialog box closes.

Enter estate planning objectives

In NaviPlan, estate planning objectives must be entered in a Level 3 Plan and the *Estate Planning* module must be selected on the *Plan Management* section – *Modules* category – *Modules* page. Level 2 Plans contain a simple will in client reports and Level 1 Plans have no estate planning capabilities.

The clients' objectives (the existing estate plan) should be entered on the *Goals* section – *Estate Planning* category – *Objectives* page. After you have defined your clients' objectives, you can create estate planning scenarios on the *Scenarios* page.

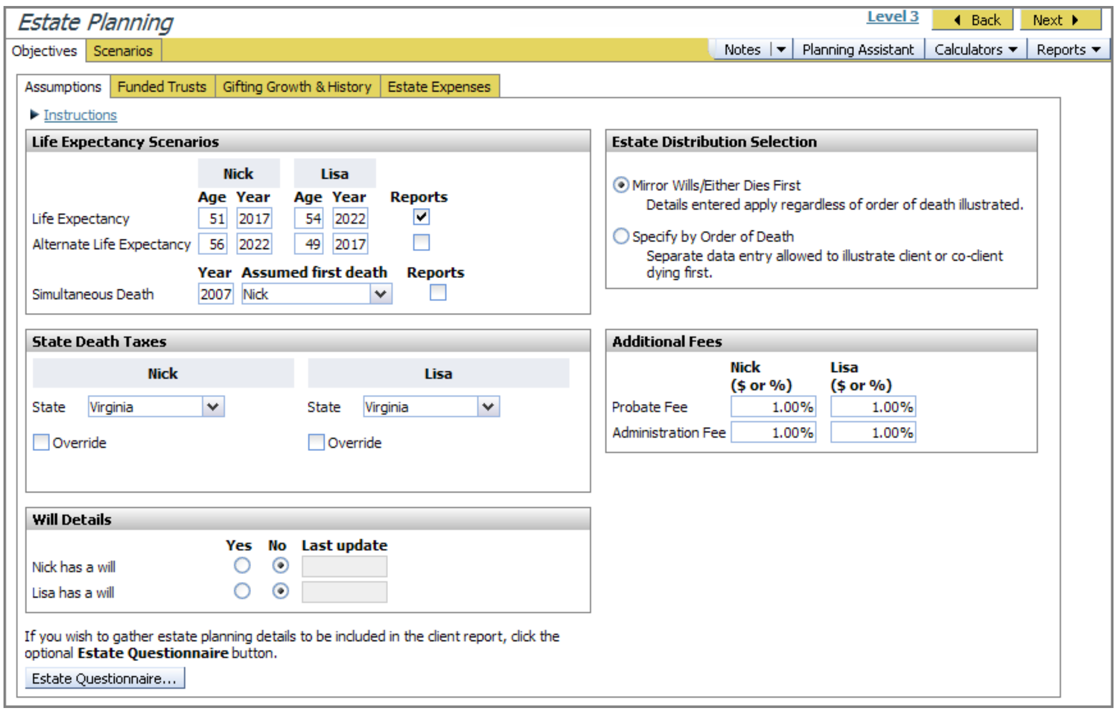


Figure 2: Goals section – Estate Planning category – Objectives page – Assumptions tab

On the *Objectives* page, four tabs are available to capture data relevant to the clients' estate:

Tab	Description
Assumptions	Set your clients' life expectancies, estate distribution, state death taxes, additional fees, and will details.
Funded Trusts	Add trusts that are already paying income into the plan.
Gifting Growth & History	Include past gifting information for use in tax calculations.
Estate Expenses	Create expenses to deduct from the estate.

To enter estate planning assumptions

1. Go to the **Assumptions** page. Under *Life Expectancy Scenarios*, three life expectancy scenarios are already entered for you.

Life expectancy scenario	Description
Life Expectancy	This scenario shows the default life expectancies defined by the plan. NaviPlan assumes that Nick will die 10 years from the current plan date, whereas Lisa will die 15 years from the plan date. The difference in life expectancy is helpful to demonstrate changes in net worth.
Alternate Life Expectancy	This scenario allows you to include alternative life expectancies in reports.
Simultaneous Death	This scenario assumes both clients die in the same year. The scenario ensures that trusts are funded appropriately for this situation.

2. In the *Life Expectancy Year* fields, enter **2030** for Nick and **2035** for Lisa.
3. Under *Estate Distribution Selection*, select **Mirror Wills/Either Dies First**. There are two estate distribution methods:

Estate distribution method	Description
Mirror Wills/Either Dies First	NaviPlan uses the same testamentary plans regardless of death order (*Mirror Wills*).
Specify by Order of Death	NaviPlan allows you to enter the clients' estate distribution details separately. Two *Estate Distibution* buttons are available for *Simple Will* and *Detailed* estate scenarios.

4. Under *State Death Taxes*, for Nick, select the **Override** check box. NaviPlan allows you to override the state death tax calculation for Nick. For example, some states impose inheritance taxes (e.g., Kentucky), whereas others do not. By default, NaviPlan uses the death tax calculation for the state of residence.
5. Under *Additional Fees*, ensure all fees are set to **1%**. You can specify estate fees as a percentage or dollar amount.
6. The *Will Details* section of the *Assumptions* tab and the *Estate Questionnaire* dialog box allow you to enter information for record-keeping purposes. Click the **Estate Questionnaire** button. The *Estate Questionnaire* dialog box opens.

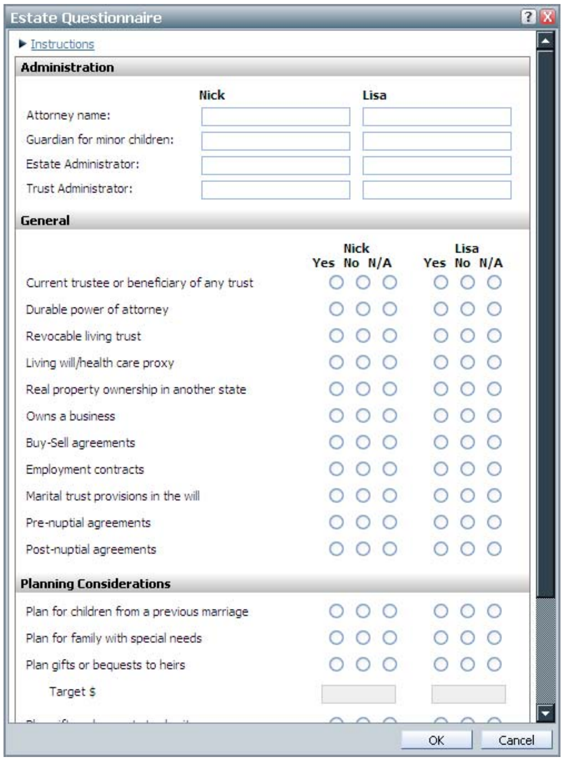


Figure 3: Goals section – Estate Planning Category – Objectives page – Estate Questionnaire button – Estate Questionnaire dialog box

7. Make selections where appropriate. The selections you make in this dialog box do not affect the plan analysis.
8. Click **OK**. The *Estate Questionnaire* dialog box closes.

To view funded trusts you can enter

1. Go to the **Funded Trusts** tab. On this tab, you can model trusts that have funding instruments in place and are already producing income for the client.
2. Client the **Add Trust** button. A list of trusts appears. Some examples of trusts you can enter include
   - an irrevocable life insurance trust that already owns the life insurance policy
   - a credit shelter trust funded at the death of the client’s first spouse
   - a trust funded by the client’s parents paying income and remainder distributions to the client

   The general procedure for entering trusts involves entering the current market value and basis of assets, defining returns earned by these assets, and specifying income and remainder beneficiaries. Additional information about trusts is covered in the *Gifting, ILITs, and Bequests* module.

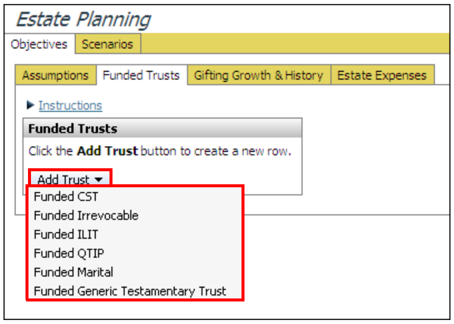


Figure 4: Goals section – Estate Planning category – Objectives page – Funded Trusts tab (showing a list of funded trusts)

3. Click outside the list of trusts. At this point, you are not entering a trust.

Include past gifting and estate expense details

Past gifts and additional estate expenses can have dramatic effects on the amount of the clients' final estate. Entering these details will help ensure greater accuracy when designing an estate plan you want to recommend.

Enter gifting growth and history

It is important to capture historical gifting information since historical gifts and taxes paid affect the calculation of the amount of applicable gift tax exclusion and applicable credit used. In addition, gift information is necessary for calculating the total value of assets bypassing the estate.

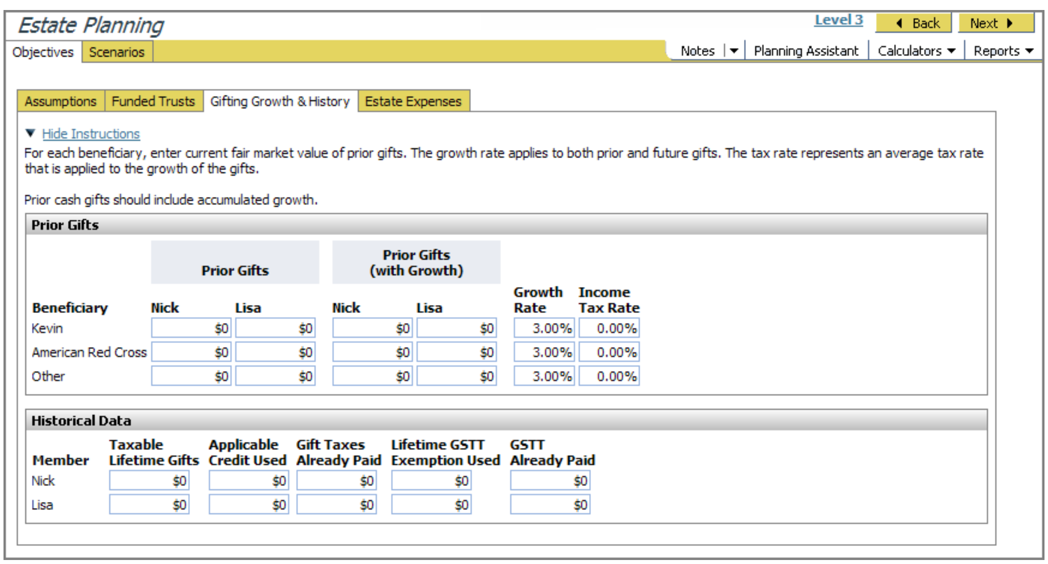


Figure 5: Goals section – Estate Planning category – Objectives page – Gifting Growth & History tab

To enter charitable gifts

1. Go to the **Gifting Growth & History** tab. Five years ago, Nick and Lisa each gifted $12,500 to the American Red Cross. The rate of return over this period was 8% and the tax rate was 25%. The return and tax rates are expected to continue at the same rate until the clients die. Today, the value of each contribution is $17,000.
2. For the *American Red Cross* beneficiary, under *Prior Gifts*, enter **$12,500** for both Nick and Lisa.
3. For the *American Red Cross* beneficiary, under *Prior Gifts (with growth)*, enter **$17,000** for both Nick and Lisa.
4. In the *Growth Rate* field, enter **8%**.
5. In the *Income Tax Rate* field, enter **25%**.

Enter estate expenses

On the *Estate Expenses* tab, you can enter your clients' expected estate expenses. Estate expenses include items such as burial expenses. These expenses may occur at the death of a particular individual or on a first or last to die basis. These items are deducted from the gross estate for estate tax purposes.

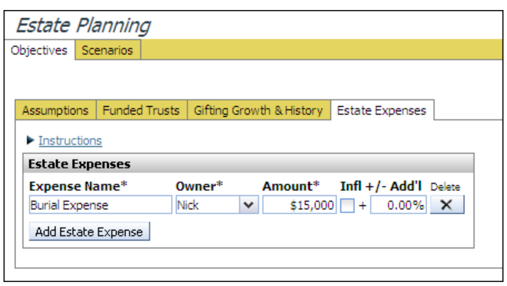


Figure 6: Goals section – Estate Planning category – Objectives page – Estate Expenses tab

To enter a burial expense

1. Go to the **Estate Expenses** tab.
2. Under *Estate Expenses*, click **Add Estate Expense**. A new data-entry row appears.
3. Enter **Nick's Burial**, **Nick**, and **$15,000** in the fields provided.
4. Select the **Infl** check box. The expense amount is indexed to inflation.

> **Hint:** Any additional expenses you have entered for the survivor income goal also appear on this page. NaviPlan does not double-count these expenses.

View the Estate Planning category – Scenarios page

Like other goals in the plan, you can create estate planning scenarios, and then recommend a scenario for client reports. You can compare two estate planning scenarios at the same time.

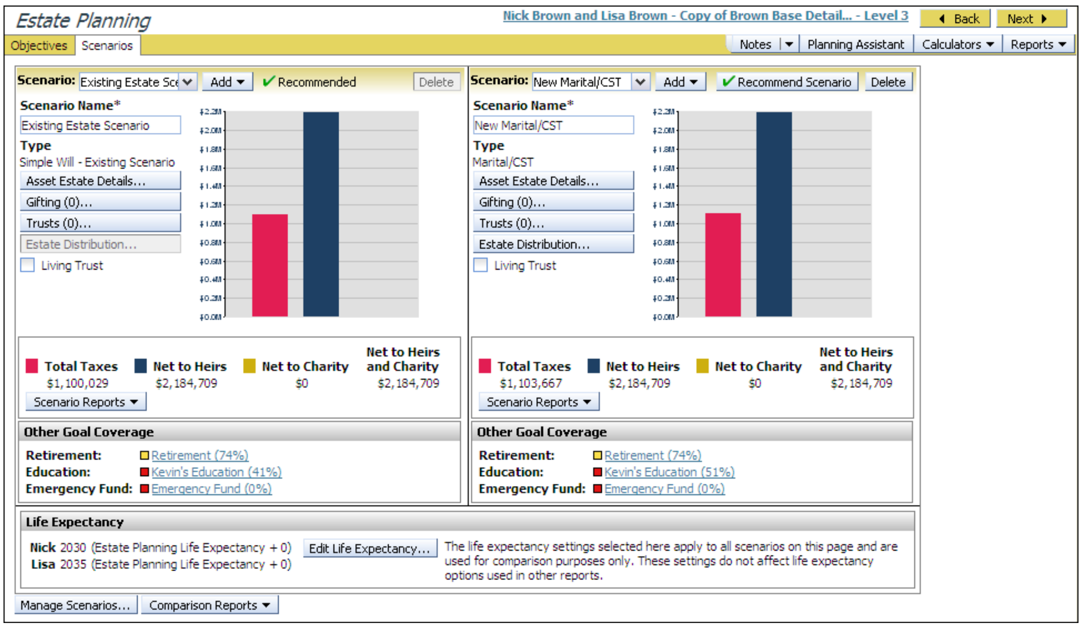


Figure 7: Goals section – Estate Planning category – Scenarios page

By default, NaviPlan displays the existing estate scenario on the left side of the NaviPlan window. This scenario shows an overview of the existing estate plan based on the clients' hypothetical life expectancies.

On the right side, from the *Scenario* list, you can select another What-if scenario to compare and edit.

Under *Other Goal Coverage*, NaviPlan shows the relative goal coverage for other the goals in the plan so you know how estate strategies affect them. For example, estate strategies like gifting during retirement may reduce the ability to meet the retirement goal because they add additional retirement needs to the plan.

Under *Life Expectancy*, the *Edit Life Expectancy* button allows you to quickly adjust the hypothetical life expectancy for the results above without changing the clients' assumptions on the *Objectives* tab.

At the bottom of the window, using the *Manage Scenarios* button, you can create, duplicate, compare, and include scenarios in reports.

Using the *Comparison Reports* button, you can quickly generate common reports to compare the two on-screen scenarios.

Analyze a Simple Will scenario

By default, NaviPlan assumes the existing estate scenario is based on a simple will, which means that no testamentary trusts or bequests are available and that assets transfer to the surviving spouse using the unlimited marital deduction upon the client's death. When you first create a Level 3 Plan, the existing estate scenario is also the recommended scenario since it is the only one available. Notice the green check mark next to the *Add* button.

If the clients currently have estate strategies in place, buttons are available to enter these strategies into the plan in the *Existing Estate* scenario.

Click this button...	To do this...
Asset Estate Details	Retitle assets entered in the plan.
Gifting	*Enter the clients' cash and asset gifts that are currently planned. The data entry is similar to entering expenses.
Trusts	*Create inter vivos trusts that the clients plan to fund.
Estate Distribution	*Enter bequests and testamentary trusts. This button is not accessible for the *Simple Will* scenario type. Two of these buttons appear when *Specify by Order of Death* is selected on the *Objectives* page – *Assumptions* tab; otherwise, only one button appears.

*More details on this button are available in the *Gifting, ILITs, and Bequests* module.

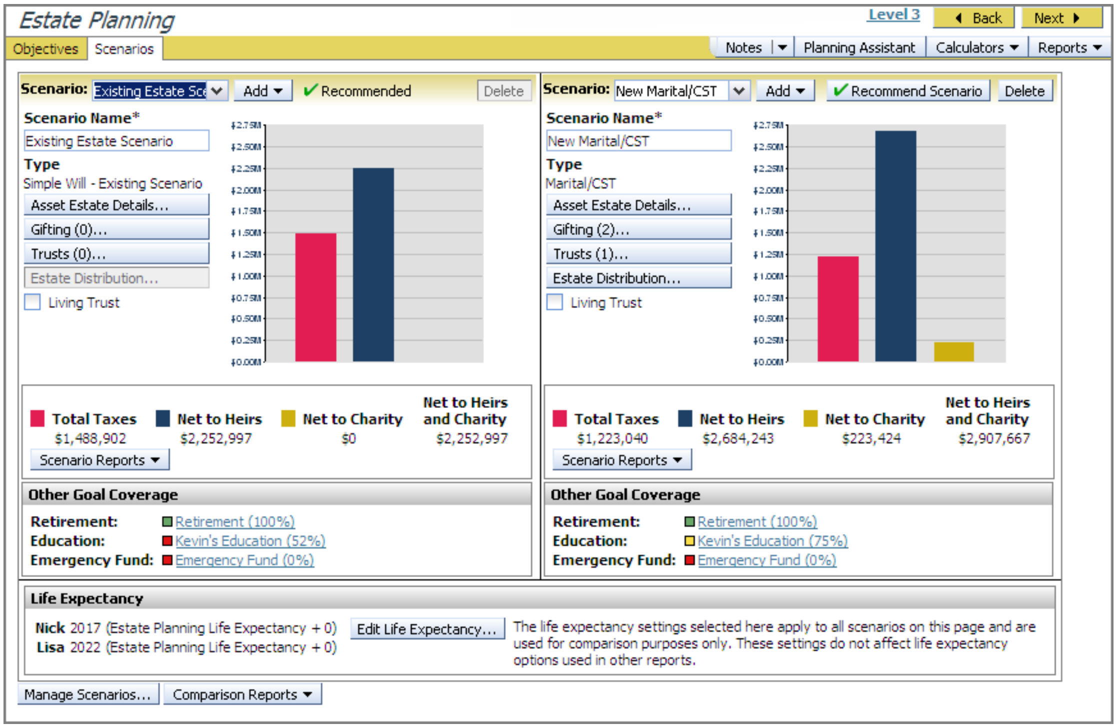


Figure 8: Goals section – Estate Planning category – Scenarios page

To view scenario reports

1. Go to the **Scenarios** page.
2. For the *Existing Estate* scenario, click the **Scenario Reports** button. A list of common estate planning reports appears.

> Use these reports to review that the clients' existing estate scenario is accurate so that it can be used as a starting point or comparison for creating recommended scenarios.

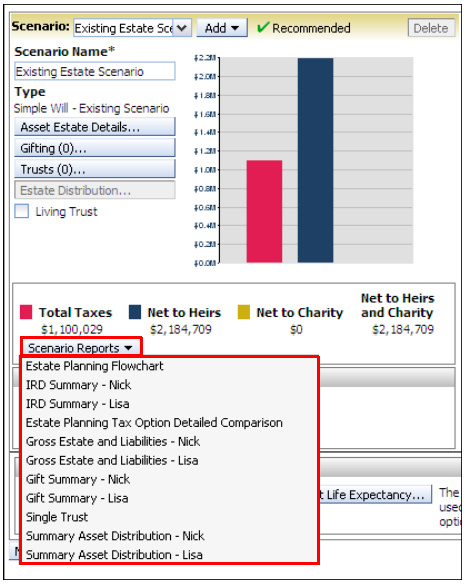


Figure 9: Goals section – Estate Planning category – Scenarios page – Scenario Reports button (showing list of estate planning reports)

3. Select **Estate Planning Flowchart**. The *Assign Settings* dialog box opens.

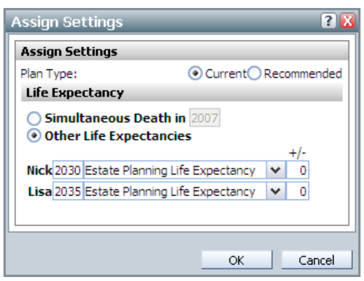


Figure 10: Goals section – Estate Planning category – Scenarios page – Scenario Reports button – Assign Settings dialog box

4. Under *Assign Settings*, select **Current**. Using this setting, NaviPlan displays results based on the current plan data. If you select *Recommended* instead, NaviPlan displays results based on strategies implemented into the *Recommended* scenarios of the plan.

   Under *Life Expectancy*, you can change the clients' life expectancy assumptions for the report.

5. Click **OK**. A dialog box opens containing the *Estate Planning Flowchart* report. The flowchart demonstrates the flow of capital throughout the clients' lifetime and the net results. Up to three columns of nodes can appear depending on the beneficiaries entered in the plan.

Node column	Description
Charities	This column shows the flow of capital to charities, if any have been entered in the plan. If no charities have been entered (such as in this case), the column does not appear.
Estate	This column shows the flow of capital through the clients' estates.
To Heirs	This column shows the flow of capital outside of the estate through trusts and gifts.

Hint: In the *Estate Planning Flowchart* dialog box, the flowchart is interactive. Double-clicking a node opens the related report, saving you from generating the report separately.

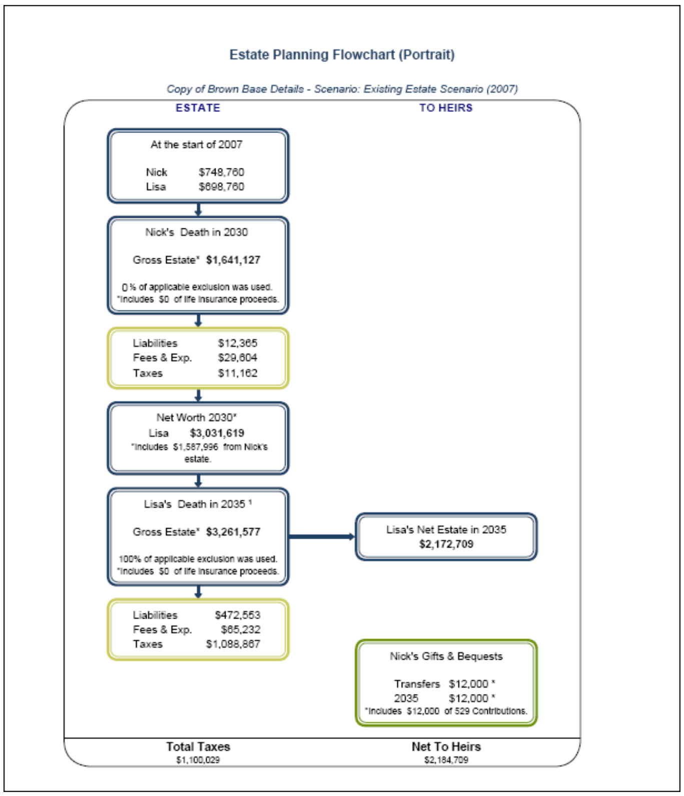


Figure 11: Goals section – Estate Planning category – Scenarios page – Scenarios Reports button – Estate Planning Flowchart report

6. Double-click the **At the start of 2007** node. The *Net Worth Detailed as of January* report opens showing the Brown family's net worth details at the start of 2007.
7. Close the report.

8. Notice how the *Nick's Death in 2030* node shows 0% for the applicable exclusion amount used. According to the *Simple Will* scenario type, upon Nick's death, his gross estate transfers to Lisa tax free using the unlimited marital deduction less any fees and liabilities outstanding.
9. Double-click the **Nick's Death in 2030** node. The *Gross Estate and Liabilities (Nick)* report opens. This report shows all assets, liabilities, and insurance included in Nick's estate.
10. Close the report.
11. Double-click the **Liabilities, Fees & Exp., and Taxes** node. The *Estate Tax Details* report opens showing how all fees and estate taxes are calculated throughout the entire estate. This is the most detailed estate report.
12. Close the report. The remaining three nodes in the *Estate* column provide similar details as the previous three, except that taxes and fees have a much greater effect on Lisa's gross estate.

    In the *To Heirs* column, the flowchart shows two nodes. The first node shows the net amount available to the net estate. The *Nick's Gifts & Bequests* node shows the combined value of gifts and bequests with growth that bypassed the estate.

    Hint: The growth amount is entered on the *Gifting Growth & History* tab.

13. Close the *Estate Planning Flowchart* dialog box.

Create living and marital trusts

In NaviPlan, you can model scenarios where living and marital trusts are included. By clicking the *Add* button on the *Scenarios* page, you can select one of three types of estate planning scenarios:

Scenario type	Description
New Simple Will	This scenario uses the same assumptions as the existing estate scenario.
New Marital/CST	NaviPlan automatically models marital and credit shelter trusts. No bequests are available in this scenario.
New Detailed	You can include all strategies, gifting, inter vivos and testamentary trusts, and bequests in this scenario.

If your clients already have trusts set up, you can change the scenario type of the existing estate scenario or create a new one, and then model the trusts by clicking the *Estate Distribution* button.

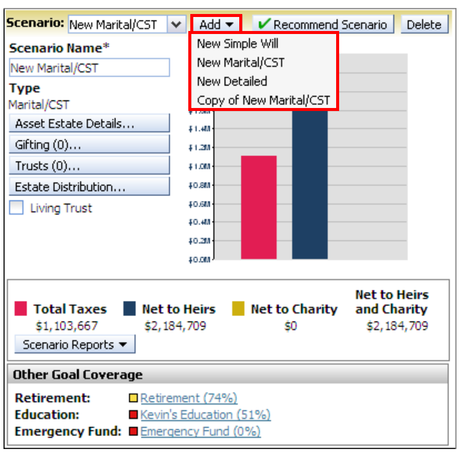


Figure 12: Goals section – Estate Planning category – Scenarios page (showing the Add button clicked)

Enter a Marital/CST scenario

The *Marital/CST* scenario type is an ideal type for para-planners who are concentrating on data entry only. NaviPlan makes some assumptions and controls all the funding details. If needed, the planner can change the scenario type to *Detailed*, which provides more flexibility for data entry and provides additional estate planning options.

To enter a Marital/CST scenario

1. On the *Scenarios* page, click the **Add** button, and then select **New Marital/CST**. NaviPlan creates and displays the new scenario.

2. For this scenario, click the **Estate Distribution** button. The *Estate Distribution* dialog box opens. NaviPlan shows one credit shelter trust and one marital trust. Upon scenario creation, NaviPlan established these trusts automatically with funding set to begin when either client dies. You can modify them and generate reports for these trusts.

Figure 13: Goals section – Estate Planning category – Scenarios page – Estate Distribution button – Estate Distribution dialog box

3. For the credit shelter trust, click the **Details** button. The *Trust Details* dialog box opens to the *Details* tab. The fields available in this scenario are also available in the *Detailed* scenario. However, in the *Marital/CST* scenario, some fields are not accessible.

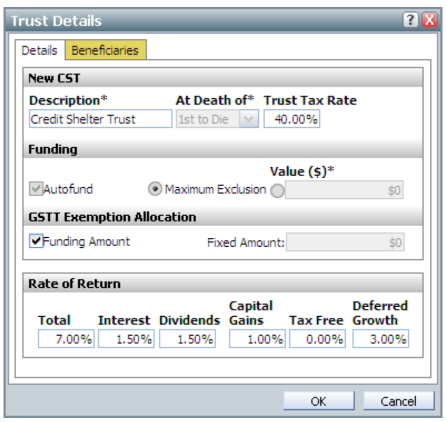


Figure 14: Goals section – Estate Planning category – Scenarios page – Estate Distribution button – Estate Distribution dialog box – Details button –Trust Details dialog box – Details tab (showing details for a credit shelter trust)

Under *New CST*, you can rename the trust, determine when to fund the trust, and set the trust tax rate. For this scenario, the *At Death of* field is not accessible.

Under *Funding*, you can control how NaviPlan funds the credit shelter trust. For this scenario, these fields are not accessible. The *Autofund* check box is automatically selected. When selected, this check box allows NaviPlan to determine which assets to use for funding while applying the following limitations:

- NaviPlan funds up to the maximum exclusion amount in the year of death.
- Only the decedent's non-qualified investment assets are used and are ordered by NaviPlan's default redemption order for deficit coverage.
- Joint assets cannot fund any testamentary trust because these assets are assumed to be joint with rights of survivorship. You can resolve this by splitting assets in the plan or by retitling ownership of these assets.

Under *GSTT Exemption Allocation*, you can allocate a fixed amount or fund up to the GSTT exemption amount. This is particularly useful if some of the beneficiaries are skip persons.

4. Under *Rate of Return*, enter the return rates on the trust assets as follows:

Return type	Rate of return
Interest	**1.5%**
Dividends	**1.5%**
Capital Gains	**1.0%**
Tax Free	**0.0%**
Deferred Growth	**3.0%**

5. Click **OK**. The *Trust Details* dialog box closes.
6. For the marital trust, click the **Details** button. Another *Trust Details* dialog opens to the *Details* tab. Notice that the dialog box for the marital trust contains almost the same details as the dialog box for the credit shelter trust. Under *Funding*, there are some key differences for marital trusts:
   - NaviPlan assumes the entire remainder of the decedent's available estate will fund the trust. You cannot change this assumption in the *Marital/CST* scenario.
   - For *Detailed* estate scenarios, you can set NaviPlan to fund the trust up to a specific dollar amount or you can select specific assets created in the plan that will fund the trust.

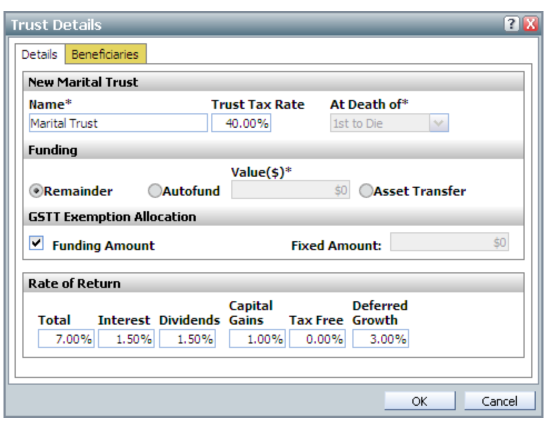


Figure 15: Goals section – Estate Planning category – Scenarios page – Estate Distribution button – Estate Distribution dialog box – Details button –Trust Details dialog box – Details tab (showing details for a marital trust)

7. Under *Rate of Return*, enter the return rates on the trust assets as follows:

Return type	Rate of return
Interest	**1.5%**
Dividends	**1.5%**
Capital Gains	**1.0%**
Tax Free	**0.0%**
Deferred Growth	**3.0%**

Assign trust beneficiaries

On the *Beneficiaries* tab of the *Trust Details* dialog box, you can enter the income and remainder beneficiaries of the trust and the corresponding percentages of the estate to be transferred to each beneficiary. This tab varies depending on the trust type. Usually, the remainder beneficiaries (e.g., children or charity) are set on the left side of the tab, and the income beneficiaries (e.g., the spouse) are set on the right.

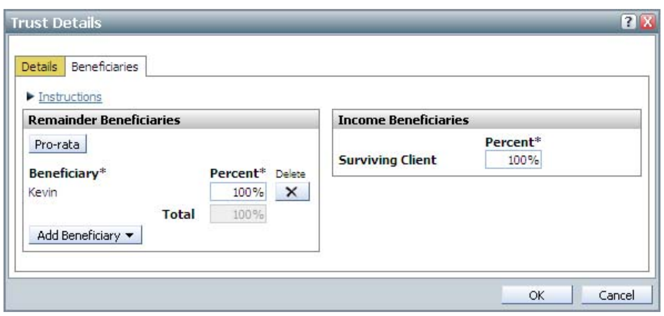


Figure 16: Goals section – Estate Planning category – Scenarios page – Estate Distribution button – Estate Distribution dialog box – Details button –Trust Details dialog box – Beneficiaries tab

To view trust beneficiary details

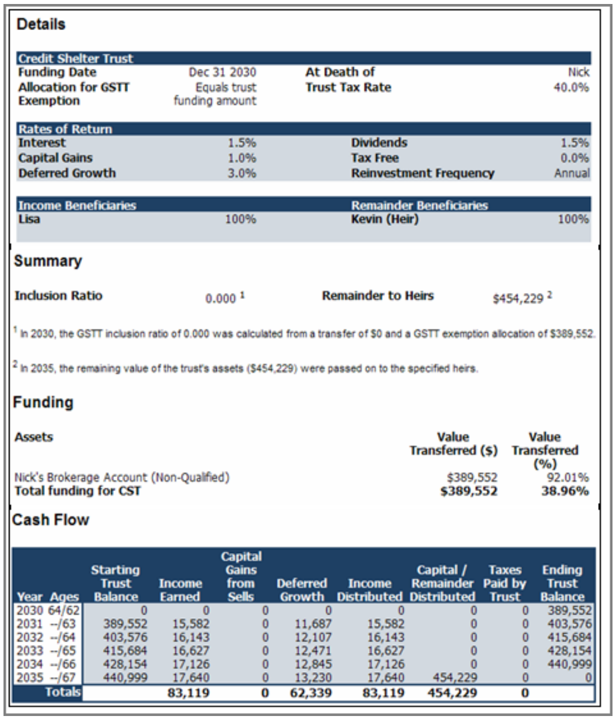
1. In the *Trust Details* dialog box for the marital trust, go to the **Beneficiaries** tab. NaviPlan shows the child, Kevin Brown, funded at 100% as the remainder beneficiary, whereas the surviving client is set to receive 100% of the trust income.

   In this example, only one remainder beneficiary is included. However, you could have multiple beneficiaries listed. You can assign individual percentages to each beneficiary or you can quickly assign an equal share to each beneficiary by clicking the *Pro-rata* button.

2. Click the **Add Beneficiary** button. A list of additional available beneficiaries appears. By selecting *Add All*, you can quickly add all remaining beneficiaries.
3. Click **OK**. The *Trust Details* dialog box closes.

Generate a single trust report for the CST

The single trust report for the CST defines the credit shelter trust and provides details about implementation, funding, cash flow, and taxes paid by trust reconciliation.



Details

Credit Shelter Trust			
Funding Date	Dec 31 2030	At Death of	Nick
Allocation for GSTT Exemption	Equals trust funding amount	Trust Tax Rate	40.0%

Rates of Return			
Interest	1.5%	Dividends	1.5%
Capital Gains	1.0%	Tax Free	0.0%
Deferred Growth	3.0%	Reinvestment Frequency	Annual

Income Beneficiaries		Remainder Beneficiaries	
Lisa	100%	Kevin (Heir)	100%

Summary

Inclusion Ratio	0.000 [1]	Remainder to Heirs	$454,229 [2]

[1] In 2030, the GSTT inclusion ratio of 0.000 was calculated from a transfer of $0 and a GSTT exemption allocation of $389,552.

[2] In 2035, the remaining value of the trust's assets ($454,229) were passed on to the specified heirs.

Funding

Assets	Value Transferred ($)	Value Transferred (%)
Nick's Brokerage Account (Non-Qualified)	$389,552	92.01%
Total funding for CST	**$389,552**	**38.96%**

Cash Flow

Year	Ages	Starting Trust Balance	Income Earned	Capital Gains from Sells	Deferred Growth	Income Distributed	Capital / Remainder Distributed	Taxes Paid by Trust	Ending Trust Balance
2030	64/62	0	0	0	0	0	0	0	389,552
2031	--/63	389,552	15,582	0	11,687	15,582	0	0	403,576
2032	--/64	403,576	16,143	0	12,107	16,143	0	0	415,684
2033	--/65	415,684	16,627	0	12,471	16,627	0	0	428,154
2034	--/66	428,154	17,126	0	12,845	17,126	0	0	440,999
2035	--/67	440,999	17,640	0	13,230	17,640	454,229	0	0
Totals			**83,119**	**0**	**62,339**	**83,119**	**454,229**	**0**	

Figure 17: Reports menu – Estate Planning – Trusts – Single Trust

To view a CST report

1. In the *Estate Distribution* dialog box, for the credit shelter trust, click the **Report** button. The *Assign Settings* dialog box opens.

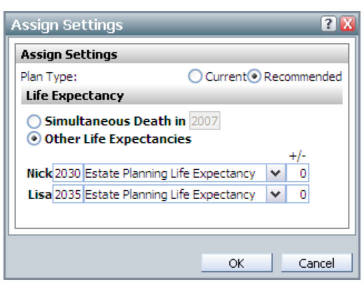


Figure 18: Goals section – Estate Planning category – Scenarios page – Estate Distribution button – Report button – Assign Settings dialog box

2. Under *Assign Settings*, select **Recommended**.

3. Click **OK**. The *Single Trust* report opens. The following sections are available in the report:

Report section	Description
<trust type>	This section provides educational information about what the trust is and how it works.
Details	This section provides a quick summary of the trust outcomes.
Funding	This section lists assets and the amounts used to fund the trust. In this example, notice that the trust is underfunded. The *Autofund* strategy did not allocate enough funds to the trust. When this situation occurs, you can either create a duplicate scenario using the *Detailed* scenario type and modify the scenario or you can retitle the assets in the plan.
Cash Flow	This section contains a table that shows the growth and distribution of the trust assets. In this example, notice that only six years are shown in the table since estate planning reports reflect the years from the first death to the second death. The expected year of death for Nick and Lisa are 2030 and 2035, respectively.

4. Close all open dialog boxes.

Manage estate planning scenarios

In the *Manage Scenarios* dialog box, you can manage several scenarios in an efficient manner. You can quickly enter the description for several scenarios, change the scenario type, implement a living trust, make duplicates, recommend a scenario, generate flowchart reports, and include scenarios in reports.

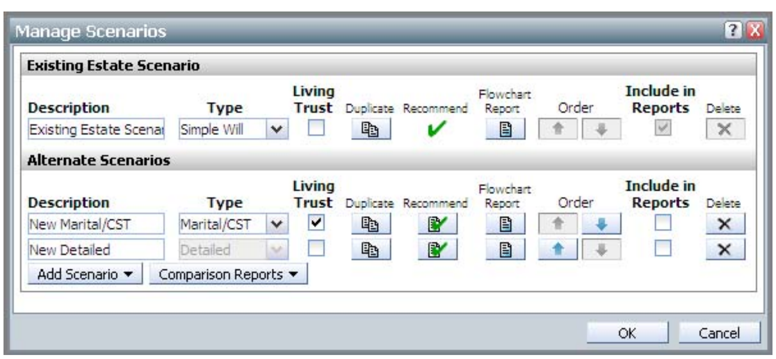


Figure 19: Goals section – Estate Planning category – Scenarios page – Manage Scenarios button – Manage Scenarios dialog box

To create the Detailed estate scenario

1. On the *Scenarios* page, click the **Manage Scenarios** button. The *Manage Scenarios* dialog box opens. The *Existing Estate* and *New Marital/CST* scenarios appear.
2. For the *New Marital/CST* scenario, click the **Duplicate** button. NaviPlan creates a copy of the scenario.

3. For the new scenario, from the *Type* list, select **Detailed**, and then rename the scenario to **Marital and Living Trusts**.
4. Select the **Living Trust** check box. When you indicate that a scenario contains a living trust, NaviPlan can reduce estate-related expenses and eliminate the probate paid.
5. Select the **Include in Reports** check boxes for all scenarios. NaviPlan ensures that all the listed scenarios are included in client reports.

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

6. Click **OK**. The *Manage Scenarios* dialog box closes.

View asset estate details

In the *Asset Estate Details* dialog box, NaviPlan lists investment and lifestyle assets that could be made available to the estate. You can retitle the assets (change ownership), determine whether fees are applicable, and set the asset availability for the estate. The changes you make here only apply to the scenario. When the scenario is marked as *Recommended*, NaviPlan automatically updates the details in the *Financial Picture* section of the plan.

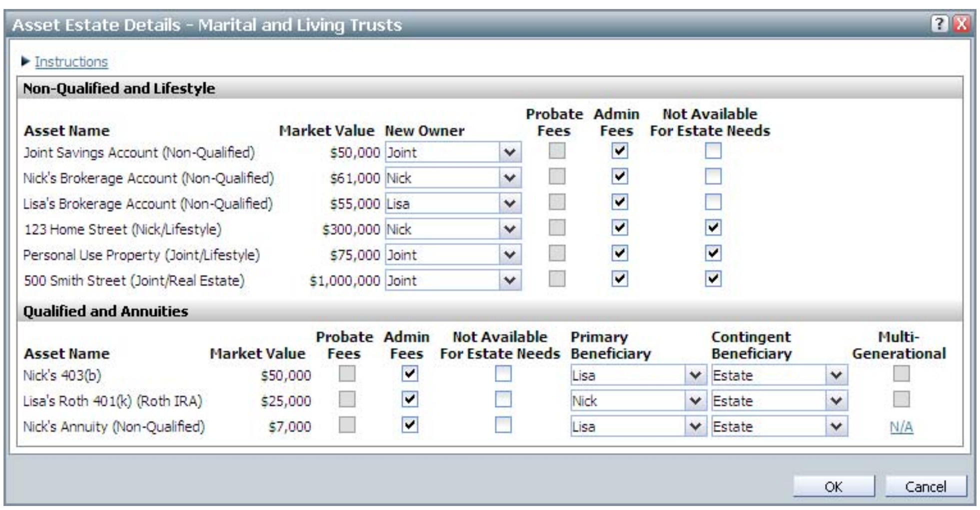


Figure 20: Goals section – Estate Planning category – Scenarios page – Asset Estate Details button – Asset Estate Details dialog box

To change the scenario's asset estate details

1. On the right side of the *Scenarios* page, from the *Scenario* list, select **Marital and Living Trusts**.
2. Click the **Asset Estate Details** button. The *Asset Estate Details* dialog box opens.

3. For the *500 Smith Street* real estate asset, change the owner to Nick.

> **Note:** When retitling a jointly owned asset to a singly owned asset, unmarried clients may incur gift taxes.

Notice how all the *Probate* fields are cleared. In living trusts, probate expenses aren't applicable. At death, NaviPlan pays estate fees, expenses, taxes, and liabilities from the owner's estate. NaviPlan may redeem assets to cover these costs prior to funding testamentary trusts and bequests. By default, NaviPlan excludes lifestyle and real estate property from deficit coverage since they are illiquid assets.

> **Hint:** For more information about asset redemption to cover estate deficits, in the Help, search for the phrase *"Estate Deficit Coverage"*.

4. Under *Qualified and Annuities*, for Nick's 403(b), expand the *Primary Beneficiary* list. When a child or *Other* is selected, the *Multi-Generational* check box is accessible. Selecting this check box ensures that IRD taxes will not apply.
5. Click outside the list, and then click **OK**. The *Asset Estate Details* dialog box closes.

Define the clients' estate distribution

In scenarios with the *Detailed* scenario type, using the *Estate Distribution* dialog box, you can add testamentary bequests and trusts. For testamentary trusts, you can include asset transfers. You can verify your data entry by generating a *Summary Asset Distribution* report.

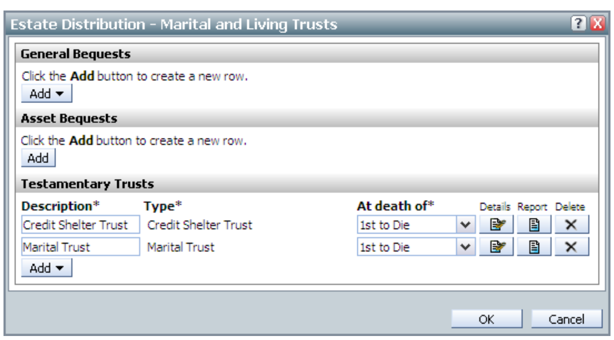


Figure 21: Goals section – Estate Planning category – Scenarios page – Estate Distribution dialog box (for the Detailed scenario type)

To define the clients' estate distribution

1. On the right side of the *Scenarios* page, click the **Estate Distribution** button for the *Marital and Living Trusts* scenario. The *Estate Distribution* dialog box opens where you can enter general and asset bequests in addition to multiple types of testamentary trusts.

For general bequests, NaviPlan determines which assets to use, whereas for asset bequests, NaviPlan allows you to designate specific assets to bequeath. More details on general and asset bequests are available in the *Gifting, ILITs, and Bequests* module.

2. Under *Testamentary Trusts*, click the **Add** button. A list of testamentary trusts appears. Notice that qualified terminable interest property and generic testamentary trusts are now available.
3. Click outside the list, and then for the credit shelter trust, click the **Details** button. The *Trust Details* dialog box opens to the *Details* tab. Notice that you now have control over funding options. You can select the maximum exclusion amount available to the client at death or enter a specific dollar amount.

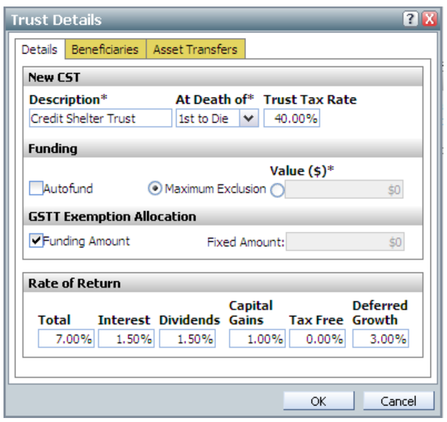


Figure 22: Goals section – Estate Planning category – Scenarios page – Estate Distribution dialog box (for the Detailed scenario type) – Estate Distribution button –Trust Details dialog box – Details (for the CST scenario)

4. Under *Funding*, clear the **Autofund** check box. The *Asset Transfers* tab appears.
5. Go to the **Asset Transfers** tab. On this tab, you can specify multiple assets and amounts to transfer to the trust.

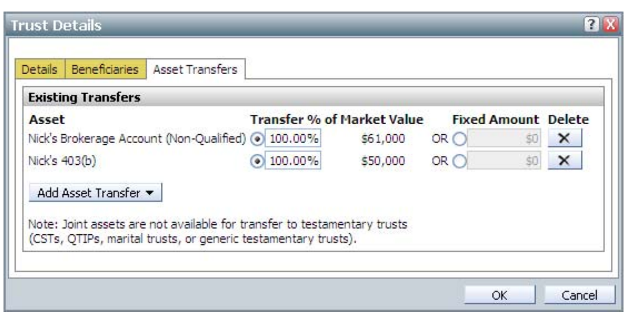


Figure 23: Goals section – Estate Planning category – Scenarios page – Estate Distribution dialog box (for the Detailed scenario type) – Estate Distribution button – Trust Details dialog box – Asset Transfers tab

6. Click the **Add Asset Transfer** button, and then select **Nick's Brokerage Account**. A new row appears. By default, NaviPlan assigns 100% of the asset. The amount shown is the current market value.

7. Click the **Add Asset Transfer** button again, and then select **Nick's 403(b)**.

> **Hint:** If you have additional assets that aren't available for selection on the *Asset Transfers* tab, you can retitle these assets in the *Asset Estate Details* dialog box. The retiling only occurs within the estate planning scenario selected, and will not affect the existing estate scenario or other ones created.

8. Click **OK**. The *Trust Details* dialog box closes.
9. Click **OK**. The *Estate Distribution* dialog box closes.
10. For the *Marital and Living Trust* scenario, click the **Scenario Reports** button, and then select **Summary Asset Distribution - Nick**. The *Assign Settings* dialog box opens.
11. Under *Assign Settings*, select **Recommended**, and then click **OK**. The *Summary Asset Distribution (Nick)* report opens. The report demonstrates how assets are used to cover Nick's estate needs. The trust transfers involved are also listed.

Summary Asset Distribution (Nick)

Copy of Brown Base Details #2 - Proposed - Scenario: Marital and Living Trusts (2007)

	$ Amount	% of Asset
Liquidity Needs - settled with...		
Nick's 403(b)	$47,410	19.18%
Total	**$47,410[1]**	
Transfer to Lisa		
123 Home Street (Nick/Lifestyle)[2]	$482,531	100.00%
Personal Use Property (Joint/Lifestyle)[2]	$10,950	100.00%
500 Smith Street (Joint/Real Estate)[2]	$1,141,664	100.00%
Total	**$1,635,145**	
Transfer to Testamentary Trusts		
Nick's 403(b)	$199,837	80.82%
Total	**$199,837**	
Total Distributions at Nick's Death	$1,882,392	

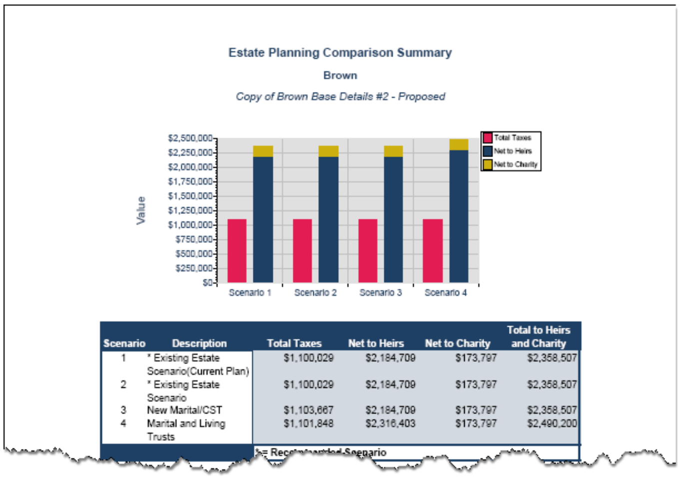
[1]Includes asset taxes.
[2]As[illegible]ot [illegible]ilable [illegible]e needs upon Nick's death.

Figure 24: Summary Asset Distribution (Nick) report

12. Close the report.

Implement a recommended estate plan

Once you have analyzed the results of the clients' existing estate plan and alternative scenarios, you can recommend a scenario to include in the recommended plan and in client reports.



Scenario	Description	Total Taxes	Net to Heirs	Net to Charity	Total to Heirs and Charity
1	* Existing Estate Scenario(Current Plan)	$1,100,029	$2,184,709	$173,797	$2,358,507
2	* Existing Estate Scenario	$1,100,029	$2,184,709	$173,797	$2,358,507
3	New Marital/CST	$1,103,667	$2,184,709	$173,797	$2,358,507
4	Marital and Living Trusts	$1,101,848	$2,316,403	$173,797	$2,490,200

Figure 25: Estate Planning Comparison Summary report

To recommend an estate plan

1. At the bottom of the *Scenarios* page, click the **Comparison Reports** button, and then select **Estate Planning Comparison Summary**. The *Assign Settings* dialog box opens.
2. Under *Assign Settings*, select **Recommended**, and then click **OK**. The *Estate Planning Comparison Summary* report opens. Using this report, you can compare the total tax and net distributions for all scenarios included in reports. Out of the four scenarios displayed, the *Marital and Living Trust* scenario provides the highest total amount to heirs. In this report, NaviPlan makes the following assumptions about each scenario:

Estate scenario	Assumptions
Existing Estate Scenario (Current Plan)	This scenario is based on the existing estate scenario, which includes an analysis of all other goals in the current plan.
Existing Estate Scenario (Existing Estate Scenario)	This scenario is based on the existing estate, which includes an analysis of all other recommended goal scenarios.
New Marital/CST	This scenario uses the *Marital/CST* scenario type and includes an analysis of all other recommended goal scenarios.
Living and Marital Trust	This scenario uses the *Detailed* scenario type and includes the values of all assets included in the estate after all other recommended goal scenarios have been implemented.

3. Close the report.
4. Click the **Recommend Scenario** button for the *Marital and Living Trust* scenario. This scenario is now implemented into the plan.

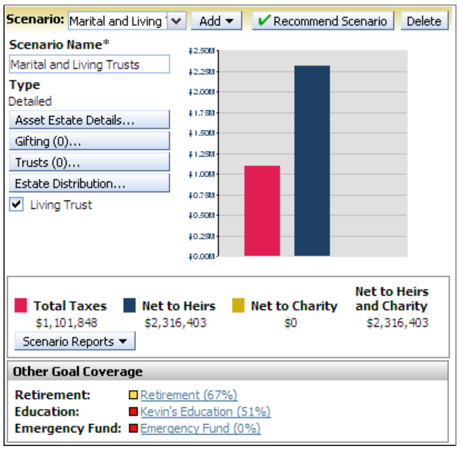


Figure 26: Goals section – Estate Planning category – Scenarios page (showing Recommend Scenario button)

5. From the *Reports* menu, select **Net Worth – Detailed – Net Worth Detailed: End of Year**. The *Assign Settings* dialog box opens.

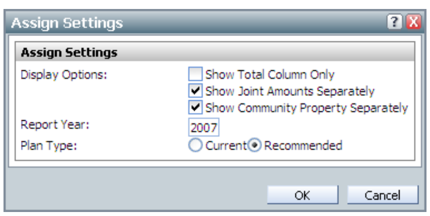


Figure 27: Assign Settings dialog box

6. Select **Recommended**, and then click **OK**. The *Estate Planning Net Worth* report opens. Notice that the real estate asset has been retitled in Nick's name.

HANDS-ON EXERCISES

Exercises

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

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

Exercise 1: Estate planning assumptions and gifting

This exercise will support these learning objectives:

- Describe estate planning assumptions
- Include past gifting and estate expense details

To find the answers, see “Answers to estate planning exercises” on page 33.

1. In general, a life expectancy set on the *Goals* section – *Estate Planning* category – *Objectives* page – *Assumptions* tab will apply to the clients’ entire plan. Is this statement true or false?

   Hint: The *Instructions* link provides useful details.

   a) True

   b) False

2. What is the default value for probate and administration fees?

   Hint: This is a key estate planning assumption.

   a) $10,000 per client

   b) 1% of the gross estate

   c) 10% of the gross estate

   d) $0

HANDS-ON EXERCISES

3. In general, which of the following trusts should not be entered on the *Funded Trusts* tab?
   a) A CST that was funded at the death of the client's ex-spouse and is producing income for the client.
   b) An ILIT established in the past that owns an insurance policy on the life of the client.
   c) A marital trust that will receive the client's brokerage account upon the death of the client sometime in the future.
   d) A QTIP that was funded at the death of the client's ex-spouse and is producing income for the client.

4. When you enter prior gift information on the *Gifting Growth & History* tab, why is it important to enter a value in the *Income Tax Rate* field?

   Hint: The *Screen Details* section of the Help provides field-specific information.

   a) This tax rate is used to calculate IRD taxes for any transfers applicable to each beneficiary.
   b) This tax rate is used to calculate federal estate taxes.
   c) This tax rate is used to calculate state death taxes.
   d) None of the above.

5. Which of the following estate expenses should not be entered on the *Goals* section – *Estate Planning* category – *Objectives* page – *Estate Expenses* tab?
   a) Funeral costs
   b) Memorial service
   c) Burial plot
   d) Administration fees

Exercise 2: Analyze a Simple Will scenario

To find the answers, see "Answers to estate planning exercises" on page 33.

1. Assume your client wants to know which assets are included in his or her gross estate if he or she were to die this year. Which of the following reports, accessible directly from the *Scenarios* page, would you use to answer his or her question?

   > **Hint:** You can select hypothetical life expectancies or specific deceased dates when you generate estate reports.

   a) *Estate Planning Tax Option Detailed Comparison*

   b) *Gross Estate and Liabilities - <client>*

   c) *Summary Asset Distribution - <client>*

   d) *Estate Planning Comparison Summary*

2. Which of the following can you show your clients using the *Estate Planning Flowchart* report?

   a) Their current net worth and projected gross estate at death

   b) The amount of the applicable exclusion used at their deaths

   c) The total liabilities, fees, and taxes paid at death

   d) The total value of all gifts and bequests to heirs or charities

   e) All of the above

3. Often, you will find that the applicable exclusion in a *Simple Will* scenario is not fully used because…

   a) ...a *Simple Will* scenario assumes that all assets are owned jointly with rights of survivorship.

   b) ...a *Simple Will* scenario assumes that all assets pass to the surviving spouse via the unlimited marital deduction.

   c) ...a *Simple Will* scenario assumes there is no applicable exclusion.

   d) None of the above

HANDS-ON EXERCISES

Exercise 3: Create living and marital trusts

To find the answers, see "Answers to estate planning exercises" on page 33.

1. You believe that funding a credit shelter and marital trust at Nick's death will be appropriate. Create a new estate planning scenario with a CST and marital trust using the *New Marital/CST* option.

   Hint: Be sure to assign return rates to the trusts.

2. Which of the following reports could you use to see the funding value for the CST?

   Hint: There are additional reports and graphs available from the *Reports* menu.

   a) *Estate Planning Flowchart*
   b) *Single Trust* (select *Credit Shelter Trust*)
   c) *Trust Funding and Distribution Summary*
   d) All of the above

3. If the CST is underfunded, which of the following strategies could you apply to a scenario to help increase the funding assets available for the CST?
   a) Make the scenario a *Detailed* scenario, and then manually transfer joint assets
   b) Retitle investment assets to be singly owned and available to fund the CST
   c) Use the *Autofund* feature
   d) None of the above

4. In general, you can remove assets from the probate process in the *Asset Estate Details* dialog box. What else can you do in this dialog box?
   a) Retitle assets within an estate planning scenario
   b) Specify whether or not an asset should be used to settle the owner's estate
   c) Model multigenerational transfers of qualified assets
   d) All of the above

5. You believe that you can improve upon the automatic *Marital/CST* scenario by using a *Detailed* scenario. Duplicate the *Marital/CST* scenario you created previously, rename it, change it to a *Detailed* scenario, and then apply any or all of the following strategies:

> **Hint:** Change to the *Detailed* type using the *Manage Scenarios* button.

- Retitle assets
- Manually transfer assets to the trust
- Add a living trust

Exercise 4: Implement a recommended estate plan

To complete questions 1 to 3, generate the *Estate Planning Flowchart* report.

1. Which of the following is NOT included in Nick's gross estate?

> **Hint:** Within the report, double-click the **Nick's Death in <year>** node for specific details.

a) The 500 Smith Street asset
b) Nick's 403(b) asset
c) Nick's life insurance
d) Nick's pension

2. How much of Nick's gross estate is transferred to Lisa via the unlimited marital deduction?

> **Hint:** Double-click the **Liabilities, Fees & Exp., and Taxes** node to access the *Estate Tax Details* report which provides a detailed analysis of the estate calculations.

3. What dollar amount of the *Net to Heirs* distribution comes from the credit shelter and marital trusts?

> **Hint:** Double-click the trust nodes or the **Nick's Gifts & Bequests** node to access this information.

HANDS-ON EXERCISES

4. Which of the estate planning scenarios results in the highest *Net to Heirs* amount for the new analysis?

> **Hint:** *Estate Planning Comparison* reports compare multiple scenarios within one report.

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5. Ensure that the scenario with the highest *Net to Heirs* amount is marked as the *Recommended* scenario.

> **Hint:** You can do this in the same dialog box where you manage the scenarios.

---

6. In general, marking a scenario as *Recommended* will have what effect on a plan?

> **Hint:** You can verify the results in the Browns' plan by examining the data entry in the *Financial Picture* section and cash flow reporting. Remember that estate planning life expectancies and the plan's life expectancies may differ.

a) Retitles assets in the *Financial Picture* section if the scenario retitles assets

b) Creates cash expenses if gifting strategies are included in the scenario

c) Creates income payments from trusts to the clients and beneficiaries

d) All of the above

Conclusion

This module has enabled you to

- Describe estate planning assumptions
- Include past gifting and estate expense details
- Analyze a *Simple Will* scenario
- Create living and marital trusts
- Implement a recommended estate plan

Answers to estate planning exercises

Exercise 1: Estate planning assumptions and gifting

1. b) False – The life expectancy set on the *Goals* section – *Estate Planning* category –*Objectives* page – *Assumptions* tab will **NOT** apply to the clients' entire plan.
2. b) 1% of the gross estate – The default value for probate and administration fees is 1% of the gross estate.
3. c) A marital trust that will receive the client's brokerage account upon the death of the client sometime in the future should not be entered on the *Funded Trusts* tab.
4. a) This tax rate is used to calculate IRD taxes for any transfers applicable to each beneficiary.
5. d) Administration fees should not be entered on the *Goals* section – *Estate Planning* category – *Objectives* page – *Estate Expenses* tab.

Exercise 2: Analyze a Simple Will scenario

1. b) *Gross Estate and Liabilities - <client>* – The *Gross Estate and Liabilities - <client>* report will show which assets are included in his or her gross estate.
2. e) All of the above – The *Estate Planning Flowchart* report can show all of the values listed.
3. b) …a *Simple Will* scenario assumes that all assets pass to the surviving spouse via the unlimited marital deduction.

Exercise 3: Create living and marital trusts

2. d) All of the above – All of the above reports could be used to see the funding value for the CST.
3. b) Retitle investment assets to be singly owned and available to fund the CST – If the CST is underfunded, you can retitle investment assets to be singly owned and available to increase the funding assets used for the CST.
4. d) All of the above.

Exercise 4: Implement a recommended estate plan

1. d) Nick's pension is NOT included in Nick's gross estate.
2. Answers will vary
3. Answers will vary
4. Answers will vary
6. d) All of the above – In general, marking a scenario as *Recommended* will do the following:
   - Retitles assets in the *Financial Picture* section if the scenario retitles assets
   - Creates cash expenses if gifting strategies are included in the scenario
   - Creates income payments from trusts to the clients and beneficiaries