



NaviPlan Standard Online/Offline

Gifting, ILITs, and Bequests

Self-Study Guide

USA version 11.0

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

- Enter cash and asset gifting strategies
- Create and interpret an irrevocable life insurance trust
- Use the general asset bequest features

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.

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.

Estate Planning category

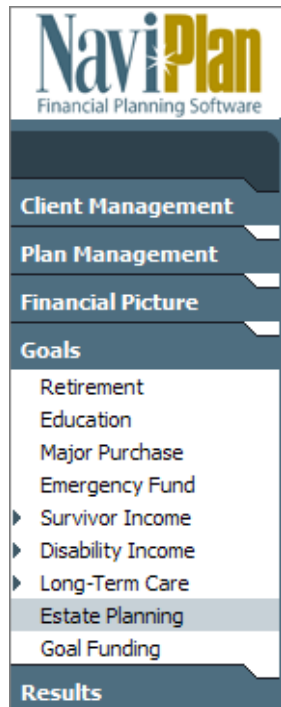


Figure 1: Navigation bar showing the Goals section – Estate Planning category

In the *Goals* section – *Estate Planning* category, you can access the *Objectives* and *Scenario* pages.

On the *Objectives* page you can enter information such as

- *Assumptions*
- *Funded Trusts*
- *Gifting Growth & History*
- *Estate Expenses*

On the *Scenarios* page, you can compare estate planning scenarios.

Different estate planning scenarios can be created to see the effect of different estate planning strategies. A default scenario titled *Existing Estate Scenario* is included, which assumes that a will exists and all assets pass to the surviving client. If the client has an existing estate plan, the details should be entered in this scenario.

There are three types of scenarios available in NaviPlan Standard:

- *Simple Will* – The *Simple Will* scenario is used for clients who do not have bequests or testamentary trusts.
- *Marital/CST* – The *Marital/CST* scenario 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*). There will not be an opportunity to enter cash or asset bequests.
- *Detailed* – Detailed scenarios allow the entry of detailed bequests and testamentary trusts for the scenario. Bequests and testamentary trusts are then entered in the *Estate Distribution* dialog box. This scenario type is available for single clients.

Enter cash and asset gifting strategies

The *Goals* section – *Estate Planning* category – *Objectives* page contains four tabs to 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 the reporting, define the growth and income tax rates for prior gifts on the *Gifting Growth & History* tab.

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.

Estate Planning Level 3 ◀ Back Next ▶

Objectives Scenarios Notes Planning Assistant Calculators Reports

Assumptions Funded Trusts **Gifting Growth & History** Estate Expenses

▼ Hide Instructions
 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.
 Prior cash gifts should include accumulated growth.

Beneficiary	Prior Gifts		Prior Gifts (with Growth)		Growth Rate	Income Tax Rate
	Nick	Lisa	Nick	Lisa		
Kevin	\$0	\$0	\$0	\$0	3.00%	0.00%
American Red Cross	\$0	\$0	\$0	\$0	3.00%	0.00%
Other	\$0	\$0	\$0	\$0	3.00%	0.00%

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

Figure 2: 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>* – Enter the total of the original value (without growth) of any cash gifts the client has already given to this beneficiary.
 - *<co-client>* – Enter 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>* – Enter 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>* – Enter 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* – Enter the rate of growth the gift is expected to earn. This rate should be consistent with the overall return rates within the plan.
- *Income Tax Rate* – Enter 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.

Historical Data

Under *Historical Data*, 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 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* – Enter 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* – Enter 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* – Enter 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* – Enter 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* – Enter 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 results and 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.

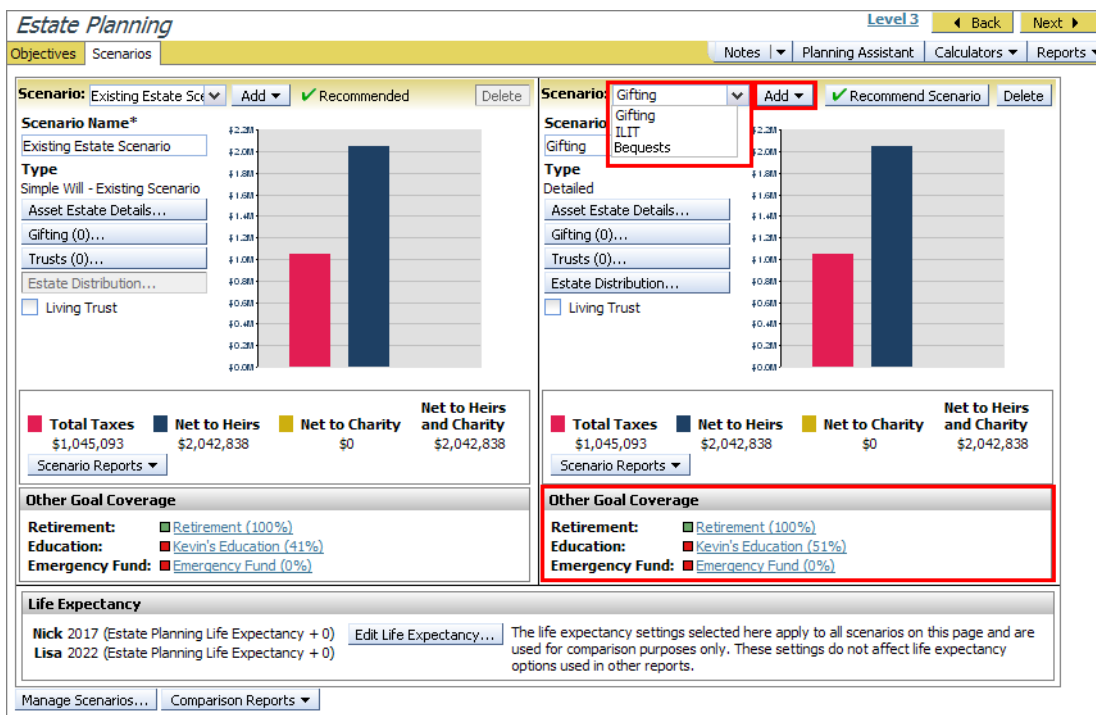


Figure 3: Goals section – Estate Planning category – Scenarios page

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 right side of the *Goals* section – *Estate Planning* category – *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.
- *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 alternate 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, may reduce the ability to meet the retirement goal because it adds additional retirement needs.
- *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 reporting.
- *Comparison Reports* – Select a report from the list to quickly generate common reports comparing the two on-screen scenarios.
- *Scenario Reports* – Select a report from the list to quickly generate the most common estate reports directly on this page.

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 existing gifting established, enter gifting 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 may 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* 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 and select **New detailed** from the list.
3. Under *Scenario Name**, rename the scenario to **Gifting**.
4. Click the **Gifting** button to open the *Gifting - Gifting* dialog box.
5. Enter the details of the gift, and then click **OK**.

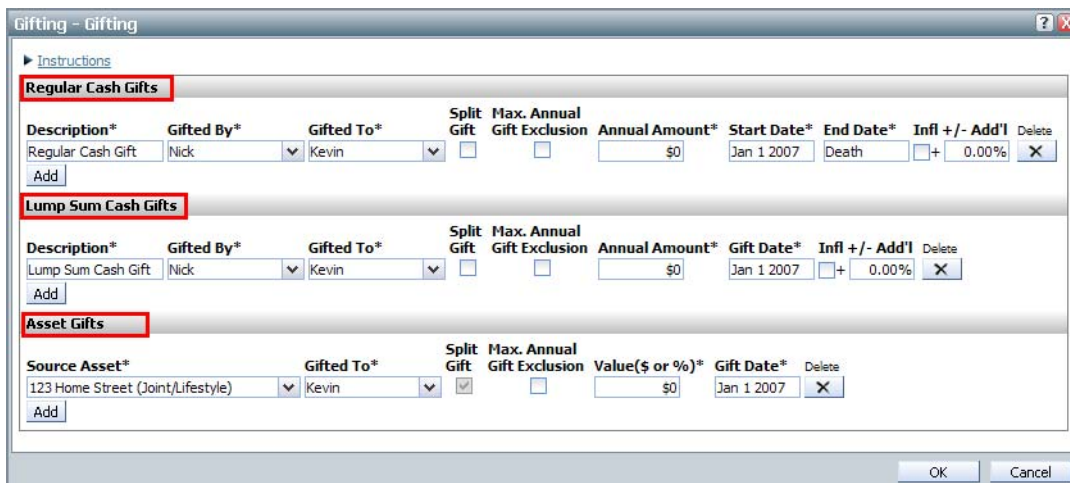


Figure 4: Goals section – Estate Planning category – Scenarios page – Gifting button – Gifting - Gifting dialog box

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

- *Regular Cash Gifts*
- *Lump Sum Cash Gifts*
- *Asset Gifts*

Each gift category contains the following common fields or buttons:

- *Description* – A unique name that identifies the gifting strategy (except *Asset Gifts*).
- *Gifted By* – The person funding the gift (except *Asset Gifts*).
- *Gifted To* – The recipient of the gift.
- *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.
- *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.
- *Annual Amount* – The dollar amount of the gift. Unavailable if *Max. Annual Gift Exclusion* is selected (except *Asset Gifts*).
- *Infl +/- Add'l* – Indexes the item to the default rate of inflation. The total rate can be adjusted using the *Add'l* field (except *Asset Gifts*).
- *Delete* – Removes the selected item. In some cases, the deleted item cannot be recovered and you have the choice to delete the item or to return to your previous task without deleting it.
- *Add* button – Adds a new blank data-entry row for the corresponding gift category.

Regular Cash Gifts details

Enter or edit the details of cash gifts to be made to any heirs or charities on a regular or periodic basis.

- *Start Date* – The date to begin the gifting strategy. Keywords such as *retirement* and *now* can be used. Modifiers can also be used (e.g., retirement +2).
- *End Date* – The date the gifting strategy ends. Keywords such as *death*, *retirement*, and *now* can be used. Modifiers can also be used (e.g., death -5; retirement +2).

Lump Sum Cash Gifts details

Enter or edit the details of cash gifts to be made to any heirs or charities on a one-time-only basis.

- *Gift Date* – The date the gift is made. Keywords such as *retirement* and *now* can be used. Modifiers can also be used (e.g., retirement +2). Lump-sum cash gifts cannot be made on death. If **death** is entered in the *Gift Date* field, an error message will appear. Lump-sum gifts upon death are considered bequests at death and can be entered in the *Estate Distribution* dialog box, under *General Bequests*.

Asset Gifts details

Enter or edit the details of an asset gift made to any heirs or charities.

- *Source Asset* – An asset already entered in the plan, to be gifted. Qualified assets are excluded.
- *Value (\$ or %)* – The dollar or percentage value of the gift. Ensure dollar values between 1 and 100 are entered with a dollar sign, or they are assumed to be percentages. Only the unallocated portion of each asset is available for asset gifts. This portion can be found in the *Goals* section – *Goal Funding* category. If there is not sufficient value in the asset at the time of the requested gift, when you return to this page, NaviPlan Standard will highlight the gift and indicate that the transferred value is \$0.

If less than 100% of the asset is gifted to a co-client, a receiver asset is created to capture the gift. The receiver asset is a duplicate of the source asset in all respects except the ownership of the receiver asset is the co-client selected in the *Gifted To* field. The receiver asset becomes part of the plan and strategies can be created for it.

- *Gift Date* – The date the gift is made. Keywords such as *retirement* and *now* can be used. Modifiers can also be used (e.g., retirement +2). If death is entered in the *Gift Date* field, an error message will appear. Asset gifts upon death are considered bequests at death and can be entered in the *Estate Distribution* dialog box, under *Asset Bequests*.

Note: If you select an asset to fund an estate planning trust that is designated for another trust, only the residual value of the asset in the year of death is eligible for transfer.

- *OK* – Saves any changes you made and closes the dialog box. If you are working in a tabbed dialog box and made changes on a separate tab, these changes are also saved.
- *Cancel* – Clears any changes you made and closes the dialog box.

Generate a gift summary report

1. Go to the **Goals** section – **Estate Planning** category – **Scenarios** page, and then click the **Scenario Reports** button under the scenario on the right.
2. Select **Gift Summary - <client>** from the *Scenario Reports* list. The *Assign Settings* dialog box opens.
3. Select **Recommended, Show Detailed Summary**, and then click **OK**. The *Gift Summary* report is displayed.

Gift Summary (Nick)							
Brown Base Details #2 - Proposed - Scenario: Gifting (2007)							
Year	Age(s)	Cash Gifts				Total Annual Gifts	Cumulative Gifts with Growth
		529 Plans	UTMAs/UGMAs	Other	Asset Gifts		
Prior							\$0
2007	41/39	\$1,200	\$0	\$500	\$0	\$1,700	\$1,700
2008	42/40	\$1,200	\$0	\$500	\$0	\$1,700	\$3,415
2009	43/41	\$1,200	\$0	\$500	\$0	\$1,700	\$5,145
2010	44/42	\$1,200	\$0	\$500	\$0	\$1,700	\$6,892
2011	45/43	\$1,200	\$0	\$500	\$0	\$1,700	\$8,655
2012	46/44	\$1,200	\$0	\$500	\$0	\$1,700	\$10,434
2013	47/45	\$1,200	\$0	\$500	\$0	\$1,700	\$12,231
2014	48/46	\$1,200	\$0	\$500	\$0	\$1,700	\$14,046
2015	49/47	\$1,200	\$0	\$500	\$0	\$1,700	\$15,880
2016	50/48	\$1,200	\$0	\$500	\$0	\$1,700	\$17,732
2017	51/49	\$0	\$0	\$500	\$0	\$500	\$18,404
2018	--/50						\$18,596
2019	--/51						\$18,794
2020	--/52						\$18,998
2021	--/53						\$19,208
2022	--/54						\$19,424
Total		\$12,000	\$0	\$5,500	\$0	\$17,500	\$19,424

Life expectancy assumptions: Nick dies at age 51 in 2017; Lisa dies at age 54 in 2022.

Figure 5: Goals section – Estate Planning category – Scenarios page – Scenario Reports button – Gift Summary - <client> – Gift Summary <client> report

The figure above shows Nick’s \$12,000 payment into the 529 plan spread over 10 years, and a hypothetical \$500 per year gifted from Nick to Kevin. The \$500 annual gift ends on Nick’s death in 2017.

- *Year* – The year in which the values in the other columns apply.
- *Age(s)* – The age(s) of the client/co-client at each year shown.
- *Gifts to Heirs*
 - *Cash Gifts* – The total dollar value of all the cash gifts that were given to the heirs by the client or co-client.
 - *Asset Gifts* – The total value of all gifts of assets made to the heirs in the selected year by the client or co-client.
 - *Total Annual Gifts* – The total cash and asset gifts given to the heirs in the specified year.
 - *Cumulative Gifts with Growth* – The sum of the total gifts made that year and in previous years, taking into account any growth in those gifts.

Manage scenarios

The *Manage Scenarios* dialog box is used to activate, deactivate, create, and delete scenarios.

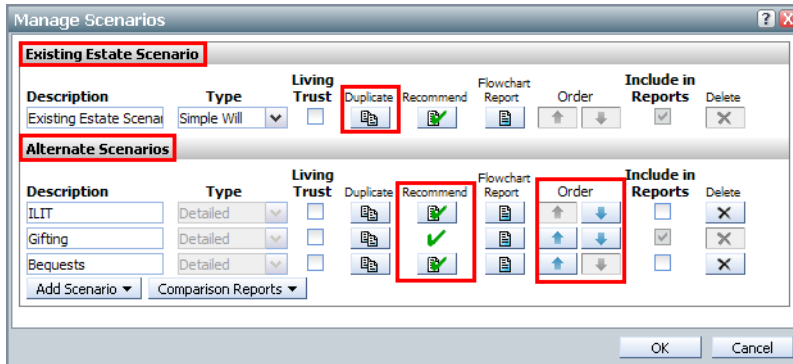


Figure 6: Goals section – Estate Planning category – Scenarios page – Manage Scenarios button – Manage Scenarios dialog box

To use the Scenario Manager

1. Go to the **Goals** section – **Estate Planning** category – **Scenarios** page, and then click the **Manage Scenarios** button. The *Manage Scenarios* dialog box opens.
2. To add a new scenario, click **Add Scenario**, and then select either **New Simple Will**, **New Marital/CST**, or **New Detailed** from the list. The new scenario appears under *Alternate Scenarios*.
3. Click **OK**.

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 **Recommend** beside the scenario description.
- To move the scenario up and down 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.

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.

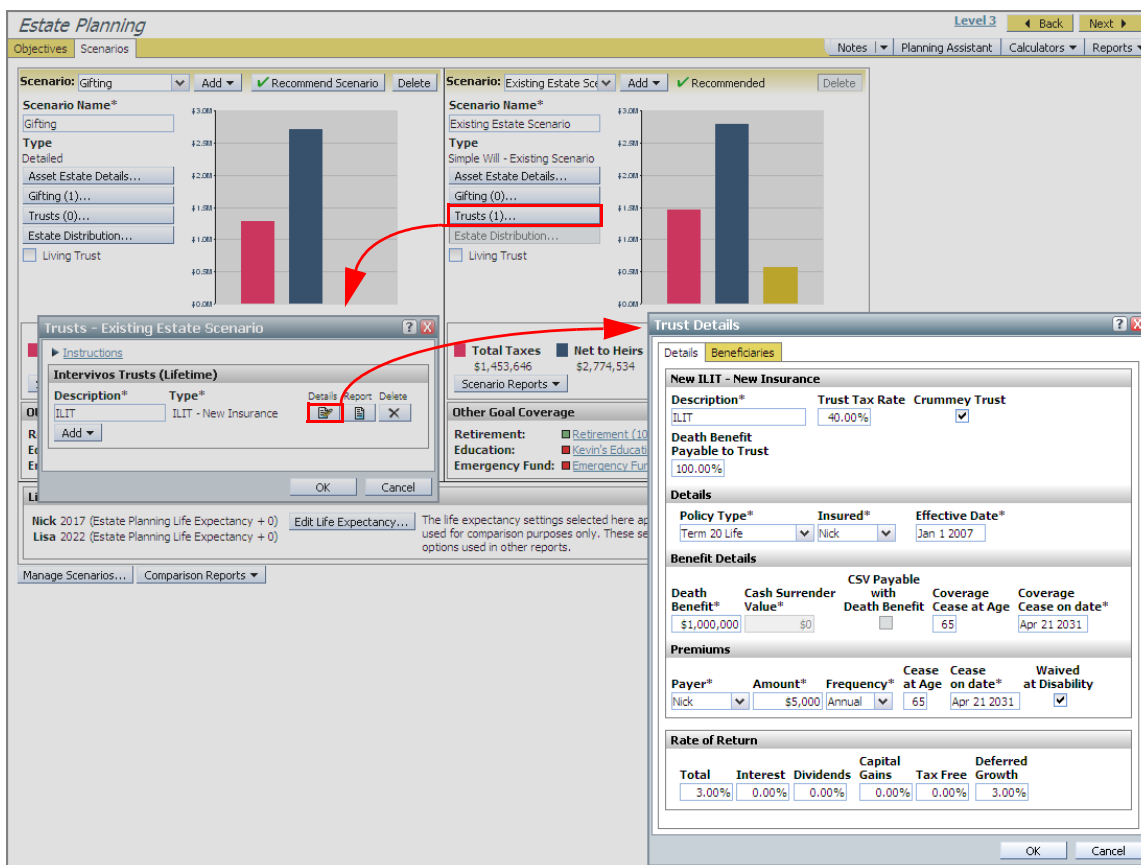


Figure 7: Goals section – Estate Planning category – Scenarios page – Trusts button – Trusts - <scenario type> dialog box – Trust Details dialog box (showing New ILIT)

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.
- *New 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 client's gross estate if you are reporting death within three years of the transfer of the policy.

- *New 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 a trust

1. Go to the **Goals** section – **Estate Planning** category – **Scenarios** page, and then click the **Trusts** button. The *Trusts - <scenario type>* dialog box opens.
2. Click the **Add** button. A list reveals three trust types: *Irrevocable Trust*, *ILIT - Existing Insurance*, and *ILIT - New Insurance*.
3. Select a trust type. The *Trust Details* dialog box opens.
4. Enter the details of the trust.
5. Go to the **Beneficiaries** tab to select remainder and income beneficiaries.
6. Go to the **Asset Transfers** tab to transfer assets to the trust, if applicable. If you are entering an irrevocable trust, go to the **Future Values** tab to demonstrate the effect a loan taken against an insurance policy has on the future values of a policy.
7. Click **OK**. The *Trust Details* dialog box closes.
8. Click **OK**. The *Trusts - <scenario type>* dialog box closes.

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.

Gift Taxes (Nick)											
Estate Planning #2 - Proposed - Scenario: ILIT (2007)											
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
2007	1,200	0	5,000	0	6,200	6,200	0	0	0	0	0
2008	1,200	0	5,000	0	6,200	6,200	0	0	0	0	0
2009	1,200	0	5,000	0	6,200	6,200	0	0	0	0	0
2010	1,200	0	5,000	0	6,200	6,200	0	0	0	0	0
2011	1,200	0	5,000	0	6,200	6,200	0	0	0	0	0
2012	1,200	0	5,000	0	6,200	6,200	0	0	0	0	0
2013	1,200	0	5,000	0	6,200	6,200	0	0	0	0	0
2014	1,200	0	5,000	0	6,200	6,200	0	0	0	0	0
2015	1,200	0	5,000	0	6,200	6,200	0	0	0	0	0
2016	1,200	0	5,000	0	6,200	6,200	0	0	0	0	0
2017	0	0	5,000	0	5,000	5,000	0	0	0	0	0

Life expectancy assumptions: Nick dies at age 51 in 2017; Lisa dies at age 54 in 2022. * includes \$12,000 of 529 contributions

Figure 8: Reports menu – Estate Planning – General – Detailed – Estate Planning Gift Taxes (Nick) – Gift Taxes (Nick) report

Note: The *Total Annual Exclusion* is adjusted automatically for inflation (in \$1,000 increments). Taxable gifts can be triggered and NaviPlan will use part of the *Applicable Credit* 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.

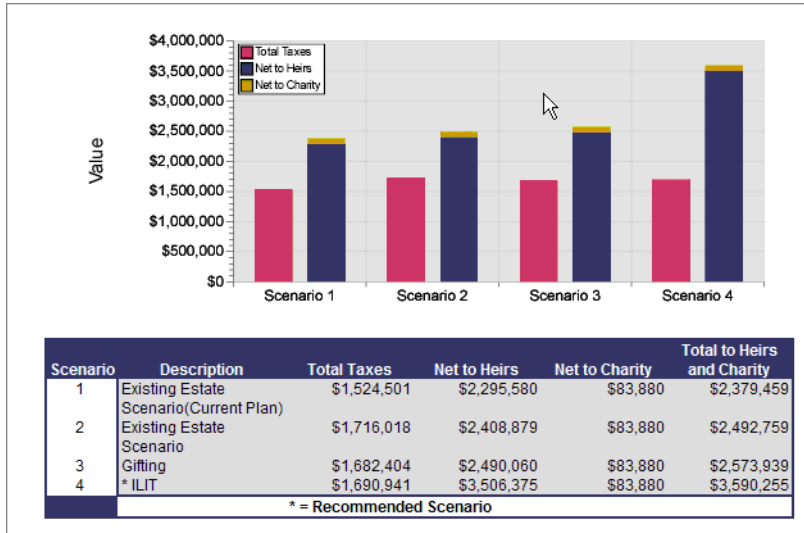


Figure 9: Reports menu – Estate Planning – General – Summary – Estate Planning Comparison Summary – Estate Planning Comparison Summary report

The report displays four different scenarios:

Scenario	Description
<i>Existing Estate Scenario (Current Plan)</i>	This is the current plan scenario with a simple will.
<i>Existing Estate Scenario</i>	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).
<i>Gifting</i>	This is the newly created scenario with gifting.
<i>*ILIT</i>	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.

Use the general asset bequest features

General bequests are assets which are transferred to an heir through a will. The owner of an asset bequeathed to a beneficiary maintains control of the asset until his or her death. At that time, it is passed on to the beneficiary.

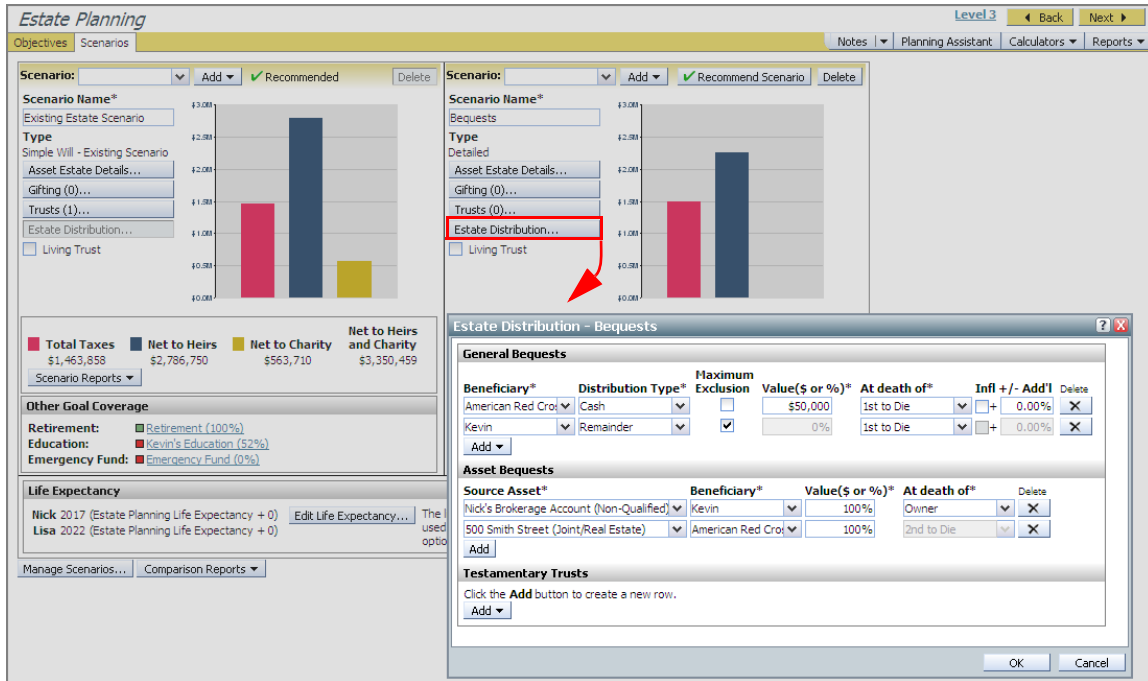


Figure 10: Goals section – Estate Planning category – Scenarios page – Estate Distribution button – Estate Distribution - Bequests dialog box (showing new bequests)

Use the *Estate Distribution Bequests* dialog box to define the distribution of the estate in terms of a dollar or percentage amount, to define bequests of specific assets on the client or co-client's death, and to define the details of any testamentary trusts applicable to the particular scenario.

There are three types of basic 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.

Understand how NaviPlan distributes estate assets

When setting up bequests, it is important to understand how NaviPlan distributes the clients' estate in general.

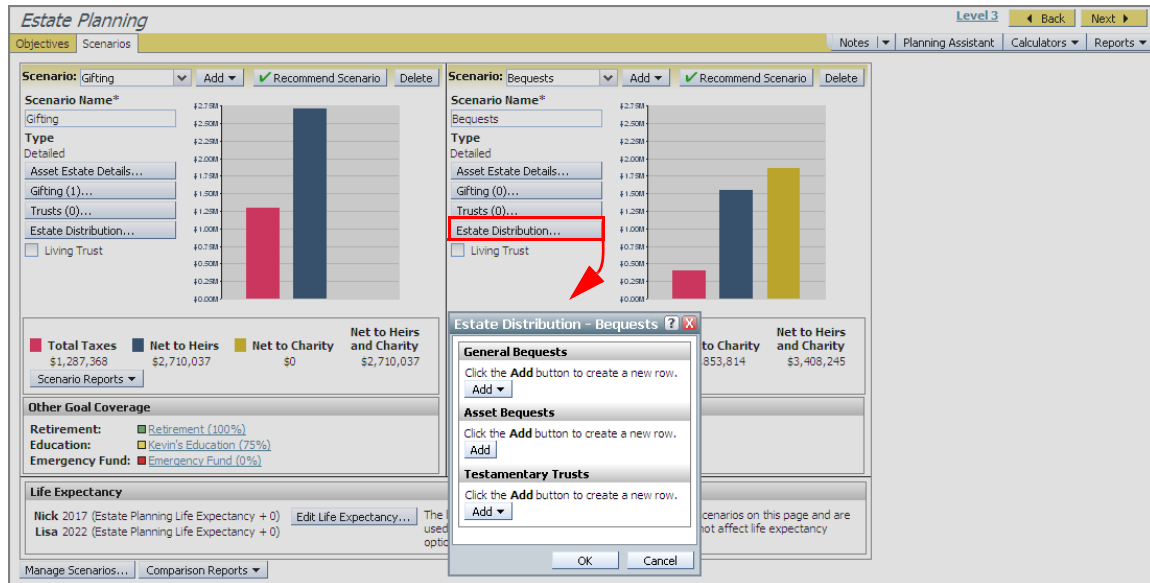


Figure 11: Goals section – Estate Planning category – Scenarios page – Estate Distribution button – Estate Distribution - Bequests dialog box

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 this on *Asset Estate Details* dialog box 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.

Understand how NaviPlan liquidates estate assets

NaviPlan uses a default asset liquidation order to cover these estate needs, if applicable.

Note: This estate liquidation order is not editable.

Estate liquidation order

Generally, the order is as follows:

- *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 \$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*.

Create general and asset bequests

Now that we have a basic understanding of NaviPlan's estate distribution and liquidation orders, we can create some bequests.

To create a general bequest

1. Go to the **Goals** section – **Estate Planning** category – **Scenarios** page, and then click the **Estate Distribution** button. The *Estate Distribution - <scenario type>* dialog box opens.
2. Under *General Bequests*, click the **Add** button, and then select either **Cash** or **Remainder** from the list. A new data-entry row appears.
3. Enter the remaining information for the bequest, and then click **OK**.

Figure 12: Goals section – Estate Planning category – Scenarios page – Estate Distribution button – Estate Distribution - Gifting dialog box

- *Beneficiary* – Family members and beneficiaries as defined on the *Client Management* section – *Personal Info* category – *Beneficiaries* page.
- *Distribution Type*
 - *Cash* – Surpluses or cash accounts fund the bequest. If no cash or surpluses exist, an asset must be liquidated to satisfy the bequest. Cash distributions cannot be specified as a percentage.
 - *Remainder* – Residual assets are distributed intact at their residual values to satisfy the distribution. Once estate fees, liabilities, and taxes have been settled, solely owned non-qualified assets and cash remaining in the estate form the remainder. Lifestyle assets, real estate assets, business assets, joint assets and qualified assets do not form part of the remainder. Remainder distributions can be specified as a percentage or a dollar amount. Dollar amounts are distributed first, followed by percentages to their respective beneficiaries.
- *Maximum Exclusion* – If selected, the value of the distribution is equal to the bequeathing client's remaining applicable exclusion amount at the time of death. This option can only be selected once per client, regardless of the applicable section on the page. If selected, *Value (\$ or %)* is disabled. This option is not available when the beneficiary type is *Charity*.

- *Value (\$ or %)* – Value of the bequest. Cash bequests can only be specified as dollars. Remainder bequests can be specified as a percentage or dollars.
- *At death of* – This allows for modeling reverse orders of death when the *Mirror Wills* option is selected in the *Estate Planning* section – *Objectives* page – *Assumptions* tab. This field is disabled for individual plans.

Note: When the distribution is set to *Specify order of death* in the Estate planning setup, the selections will be <client> and <co-client> because the option to specify order of death is covered in the <client> or <co-client> dies first tabs. When the distribution is set to *Mirror Wills* in the Estate planning setup, the selections will be <client>, <co-client>, first to die, and 2nd to die to allow for reverse ordering of death scenarios.

- *Infl +/- Add'l* – Indexes the item to the default rate of inflation. The total rate can be adjusted using the *Add'l* field.
- *Delete* – Removes the selected item.

To create an asset bequest

1. Go to the **Goals** section – **Estate Planning** category – **Scenarios** page, and then click the **Estate Distribution** button. The *Estate Distribution - <scenario>* dialog box opens.
2. Under *Asset Bequests*, click the **Add** button. A new data-entry row appears.
3. Enter the remaining information for the bequest, and then click **OK**.

The asset bequest is very similar to the general bequest, with the exception of the following fields:

- *Source Asset* – All non-qualified, and lifestyle assets owned by client or co-client. Joint assets are included for purposes of specifying the bequest of the joint asset on the second death.
- *Owner* – Available for all assets except joint assets.
- *2nd to die* – The asset first passes to the surviving client. On the death of the surviving client, the asset passes to the named beneficiary. This option is only available when a beneficiary other than *Surviving Client* is chosen.

Generate estate planning reports

There are numerous reports and graphs available to analyze estate planning scenarios. For the purposes of this guide, let's look at the following three:

- *Estate Planning Payments to Beneficiaries Comparison* report
- *Estate Planning Detailed Comparison* report
- *Estate Planning Taxes, Heirs, and Charity* graph

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.

Estate Planning Payments to Beneficiaries Scenario Comparison				
Estate Planning #2 - Proposed (2007)				
Beneficiary	Existing Estate Scenario	Gifting	ILIT	Bequests
Kevin	12,000	133,316	1,139,419	205,823
American Red Cross	83,880	83,880	83,880	1,937,693
Nick's Net Estate				
Lisa's Net Estate	2,396,879	2,356,743	2,366,956	1,524,866
Total	2,492,759	2,573,939	3,590,255	3,668,382

Figure 13: 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.
2. Select the **Recommended** plan type.
3. Under *Life Expectancy*, select **Other Life Expectancies**, and then select **Estate Planning Life Expectancy** for both *Nick* and *Lisa*.
4. Click **OK**. The report is displayed.

Generate the Estate Planning Detailed Comparison report

Use this report for a more detailed comparison of the scenarios. The report compares the flow of capital for all of the estate planning scenarios included.

- **Top** – Provides details on distribution and settlement of each clients' estate including gross estate, fees and taxes paid, and gifts
- **Bottom** – Summarizes various estate and gift taxes, net amounts to heirs, and charities

Estate Planning Detailed Comparison

Brown Base Details #2 - Proposed (2007)

Existing Estate Scenario	
At Death of Nick in 2017	
Gross Estate	\$1,292,209
less Liabilities	\$63,734
less Probate Fees	\$0
less Administration Fees	\$610
less Final Expenses	\$0
Adjusted Gross Estate	\$1,227,865
less Transfer to Spouse (UMD)	\$1,227,865
less Charitable Bequests from Nick	\$0
Taxable Estate	\$0
plus Total Lifetime Taxable Gifts	\$0
Adjusted Taxable Estate	\$0
Taxes Due	
Total Tentative Tax	\$0
less Gift Tax Paid	\$0
less Applicable Credit	\$0
less State Death Tax Credit	\$0
Federal Estate Taxes	\$0
plus State Death Tax	\$0
plus Tax resulting from IRD	\$0
plus GSTT on bequests	\$0
plus Income taxes paid from estate	\$0
Estate Taxes Paid	\$0

Existing Estate Scenario	
At Death of Lisa in 2022	
Gross Estate	\$3,246,260 ¹
less Liabilities	\$95,580
less Probate Fees	\$2,716
less Administration Fees	\$26,759
less Final Expenses	\$0
Adjusted Gross Estate	\$3,121,204
less Charitable Bequests from Lisa	\$0
Taxable Estate	\$3,121,204
plus Total Lifetime Taxable Gifts	\$0
Adjusted Taxable Estate	\$3,121,204
Taxes Due	
Total Tentative Tax	\$1,357,462
less Gift Tax Paid	\$0
less Applicable Credit	\$345,800
less State Death Tax Credit	\$192,836
Federal Estate Taxes	\$818,827
plus State Death Tax	\$192,836
plus Tax resulting from IRD	\$0
plus GSTT on bequests	\$0
plus Income taxes paid from estate	\$58,331
Total Taxes Due	\$1,069,993
less Income taxes paid from estate	\$58,331
Estate Taxes Paid	\$1,011,662

Existing Estate Scenario	
Total Taxes	
Total Taxes Due at Nick's death	\$0
Total Taxes Due at Lisa's death	\$1,069,993
Gift Taxes-Nick	\$0
Gift Taxes-Lisa	\$0
Taxes paid by Trust	\$0
Total Taxes	\$1,069,993

Existing Estate Scenario	
Net to Heirs (incl. growth)	
Nick's Bequests to Heirs	\$0
Nick's Lifetime Gifts to Heirs	\$12,000
Nick's Net Estate to Heirs	\$0
Lisa's Bequests to Heirs	\$0
Lisa's Lifetime Gifts to Heirs	\$0
Lisa's Net Estate to Heirs	\$2,051,211
Credit Shelter Trust	\$0
Marital Trusts	\$0
Testamentary Trusts	\$0
Payments from Trusts to Heirs	\$0
Total Net to Heirs	\$2,063,211

Figure 14: Reports Menu – Estate Planning – General – Detailed – Estate Planning Detailed Comparison – Estate Planning Detailed Comparison report

Generate the Estate Planning Taxes, Heirs, & Charity graph

This graph is similar to the *Estate Planning Payments to Beneficiaries* report, but shows the overall net to heirs and charity, and provides total tax information in a visual format.

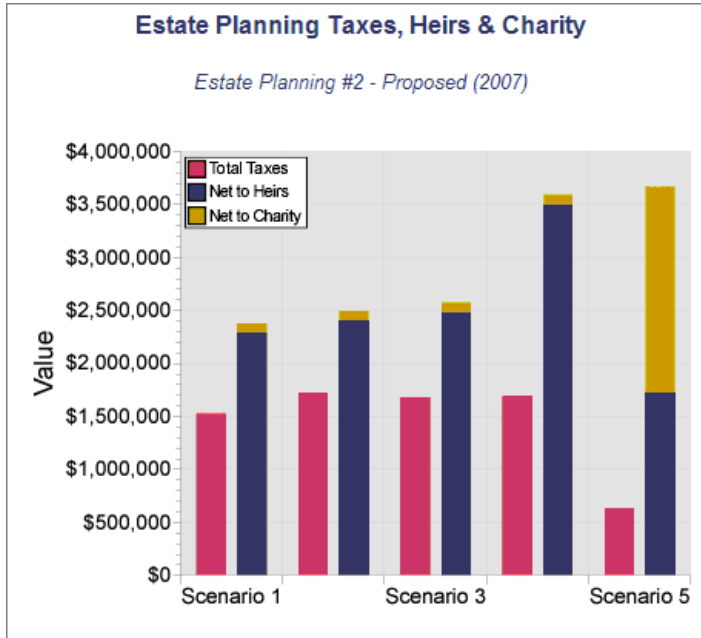


Figure 15: Reports – Estate Planning – General – Summary – Taxes, Heirs and Charity – Taxes, Heirs & Charity graph

Include estate planning scenarios in client reports

In client reports, such as the *Financial Needs Summary* and the *Comprehensive Analysis*, each estate planning scenario is compared side by side in detail

Note: More information on client reports can be found in the *Client Reports* module.

Note: Remember to return to the *Manage Scenarios* dialog box to mark the scenario you want to present as *Recommended* prior to generating client reports.

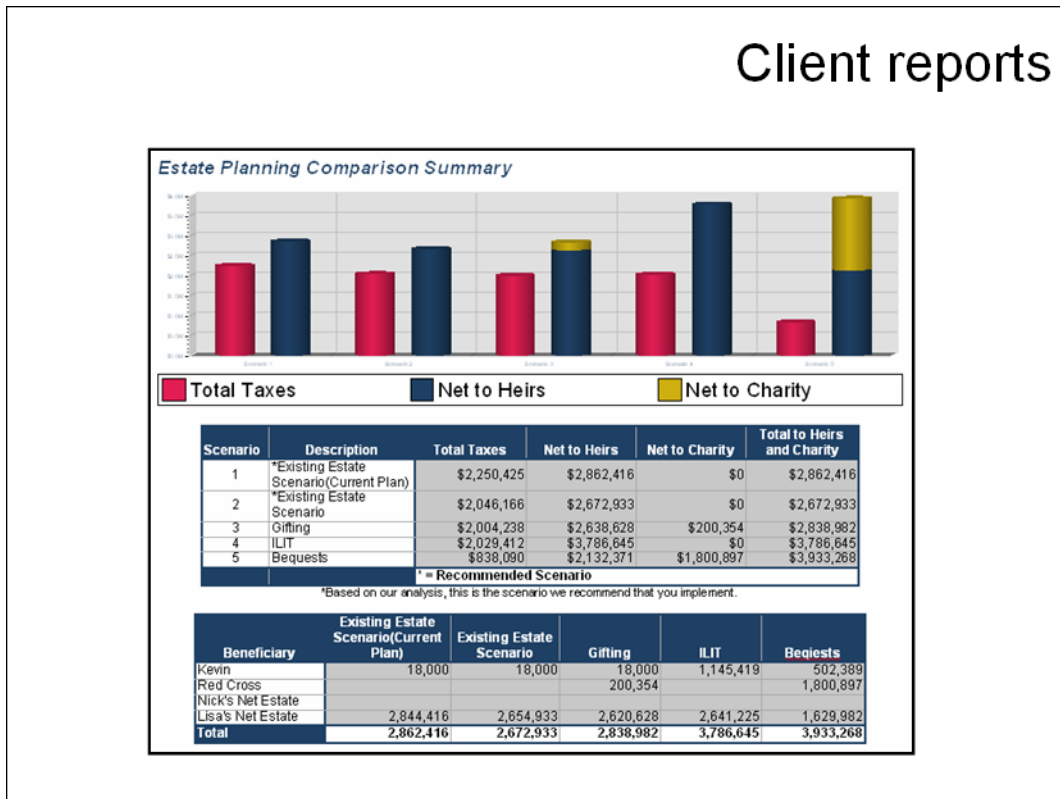


Figure 16: Sample client report

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., *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: Enter cash and asset gifting strategies

To find the answers, see “Answers to gifting, ILITs, and bequests exercises” on page 27.

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 Browns because they are projected to have cash surpluses.

1. Include the following estate planning assumptions: Gifts to all beneficiaries should have an **8% Growth Rate** and a **25% Income Tax Rate**.
2. To compare the effects of gifting on the Browns’ estate, create a new detailed scenario with the description *Gifts Scenario*, and then ensure it will be included in the reports.
3. Enter a gifting strategy by Lisa that ensures Kevin will receive the *Max. Annual Gift Exclusion* for the duration of Lisa’s life. 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: Look for a *Gift Summary* report (*Plan Type: Recommended*).

- a) \$0–\$10,000
- b) \$10,001–\$15,000
- c) \$15,001–\$20,000
- d) Over \$20,000

Exercise 2: Irrevocable life insurance trust

To find the answers, see “Answers to gifting, ILITs, and bequests exercises” on page 27.

After reviewing Nick and Lisa’s plan, you think an ILIT may benefit them. In this exercise you will practice entering and analyzing the effects of an irrevocable life insurance trust on Nick and Lisa’s estate.

1. To compare the effects of an ILIT on the Browns’ estate to their other scenarios, create a new *Detailed* scenario with the description *Estate with ILIT*, and ensure it will be included in the reports.

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

2. Nick’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 Nick and Lisa.

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

Details

<i>Trust Tax Rate</i> – 40%	<i>Coverage Cease on date</i> – Dec. 31, 2999
<i>Crummey Trust</i> – Selected	<i>Premium</i> – \$12,000 annually
<i>Death Benefit Payable to Trust</i> – 100%	<i>Premium Payer</i> – Nick
<i>Policy Type</i> – Whole Life	<i>Premiums Cease at Age</i> – 65
<i>Insured</i> – Nick	<i>Interest</i> – 1.0%
<i>Effective Date</i> – June 1, current year	<i>Dividends</i> – 2.0%
<i>Death Benefit</i> – \$2,000,000	<i>Capital Gains</i> – 1.0%
<i>Cash Surrender Value</i> – \$0	<i>Deferred Growth</i> – 3.0%

Beneficiaries

<i>Remainder Beneficiary</i> – Kevin 100%	<i>Income Beneficiary</i> – Lisa 100%
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3. Generate a *Single Trust* report (*Plan Type: Recommended*) assuming Nick dies in 2017 and Lisa dies in 2022. This report provides the *Remainder to Heirs* amount. What is this amount?

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

- a) \$0–\$1,000,000
 b) \$1,000,001–\$2,000,000
 c) \$2,000,001–\$3,000,000
 d) Over \$3,000,000
4. Go to the **Reports** menu, and then select **Estate Planning – General – Detailed** to generate a *Gift History (Nick)* report. Select the **Estate with ILIT** scenario and **Recommended** as the *Plan Type*. Use the same life expectancy assumptions you used in the previous question, and then select **2017** as the *Report Year*. What is the amount of *Gifts to Trusts* that Nick will have made by the time he dies?
- a) \$0–\$25,000
 b) \$25,001–\$50,000
 c) \$50,001–\$75,000
 d) Over \$75,000

Exercise 3: Use the general and asset bequests features

To find the answers, see “Answers to gifting, ILITs, and bequests exercises” on page 27.

1. To compare the effects of bequests on the Browns’ estate to their other scenarios, create a new *Detailed* scenario with the description *Estate with asset bequests*, and ensure it will be included in the reports.
2. The Browns have expressed a desire to give to charity, and as such a bequest to the American Red Cross may be appropriate. Enter a \$100,000 cash bequest to occur when the first client dies.

Hint: Click the **Estate Distribution** button for the scenario.

3. Nick has been teaching his son Kevin about stock trading. A 100% bequest of Nick’s brokerage account to Kevin at Nick’s death would be a great catalyst for Kevin’s stock trading. Enter this into the *Estate with asset bequests* scenario.

4. The *Summary Asset Distribution* report provides an overview of how a client's estate was dispersed. Generate this report for the *Estate with asset bequests* scenario for Nick, using the *Recommended Plan Type* and assuming that Nick dies in 2017 and Lisa dies in 2022. What is the value of *Nick's Brokerage Account* bequeathed to Kevin?
- a) \$0–\$500,000
 - b) \$500,001–\$1,000,000
 - c) \$1,000,001–\$2,000,000
 - d) Over \$2,000,000
5. Which of the following reports can you use to compare adjusted gross estate values, estate tax details, and net to heirs for all estate planning scenarios selected?

Hint: Click the **Comparison Reports** button to quickly access comparison-type reports.

- a) *Estate Planning Detailed Comparison*
 - b) *Estate Planning Tax Details*
 - c) *IRD Income Tax Details at First Death*
 - d) *Tax Option Comparison Summary*
6. Which of the estate planning scenarios in your plan results in the highest *Net to Heirs* amount?

Hint: Use the *Estate Planning Comparison Summary* report to compare multiple scenarios within one report.

7. Recommend the estate scenario with the highest *Net to Heirs* amount, and then use the *Projected Cash Flow* report to determine if the scenario is affordable for the Browns. Be sure you look at every year for cash flow deficits until the year of last death. Is this scenario affordable for the Browns?

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

Conclusion

This module has enabled you to

- Enter cash and asset gifting strategies
- Create and interpret an irrevocable life insurance trust
- Use the general asset bequest features

Answers to gifting, ILITs, and bequests exercises

Exercise 1: Enter cash and asset gifting strategies

4. d) The gift amount for the current year is over \$20,000.

Exercise 2: Irrevocable life insurance trust

3. c) The *Remainder to Heirs* amount is between \$2,000,001 and \$3,000,000.
4. d) The *Gifts to Trusts* amount is over \$75,000.

Exercise 3: Use the general and asset bequest features

4. a) The value of *Nick's Brokerage Account* is between \$0 and \$500,000.
5. a) The *Estate Planning Detailed Comparison* report can be used to compare adjusted gross estate values, estate tax details, and net to heirs for all estate planning scenarios selected.
6. The *Estate with ILIT* scenario results in the highest *Net to Heirs* amount.
7. No, this scenario is not affordable for the Browns. Sizeable deficits appear in some years.

