



Profiles Professional Desktop

Estate Planning Self-Study Guide

Version 8.0

EISI, Winnipeg

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Estate planning

Profiles Professional has two estate planning modules: basic, which is always included with Profiles Professional, and advanced, which can be purchased separately. This self-study guide examines the basic estate planning module. There are five key estate tools within the basic estate planning module that can be used to model different estate planning techniques. This self-study guide covers all five estate tools:

- Gifting during life
- Wills
- Revocable living trusts
- Credit shelter trusts
- Irrevocable life insurance trusts (ILITs)

Learning objectives

This module will enable you to

- Define estate assumptions
- Enter gifting during life
- Model wills and revocable living trusts
- Model credit shelter trusts
- Model irrevocable life insurance trusts

Learning tools

This module includes some practice exercises using one of the sample clients provided in the application. If you want to keep this sample client case intact, open the *Sample 5 - Comprehensive (Taylor - non-tax).fpx* client case, and then save it with a new case name.

To open and save the client case, follow these steps:

1. Start Profiles Professional.
2. Click **Open Existing Case**, and then click **Open Sample Case**. The *Open Sample Case* screen opens.
3. Click the **Open** link beside *Sample 5 - Comprehensive (Taylor- non-tax).fpx*. A *Data Conversion* dialog box may appear to warn you that the planning preferences in this case differ from the global planning preferences. Click **Close**.
4. Click the **File** menu – **Save As**. The *Save Client Data As* dialog box opens.
5. Save the case with a unique name, for example, *Taylor – Estate Planning Self-Study Case*.

Please keep in mind that the case used for this self-study guide does not have the *Tax-Sensitive* option selected.

Define estate assumptions

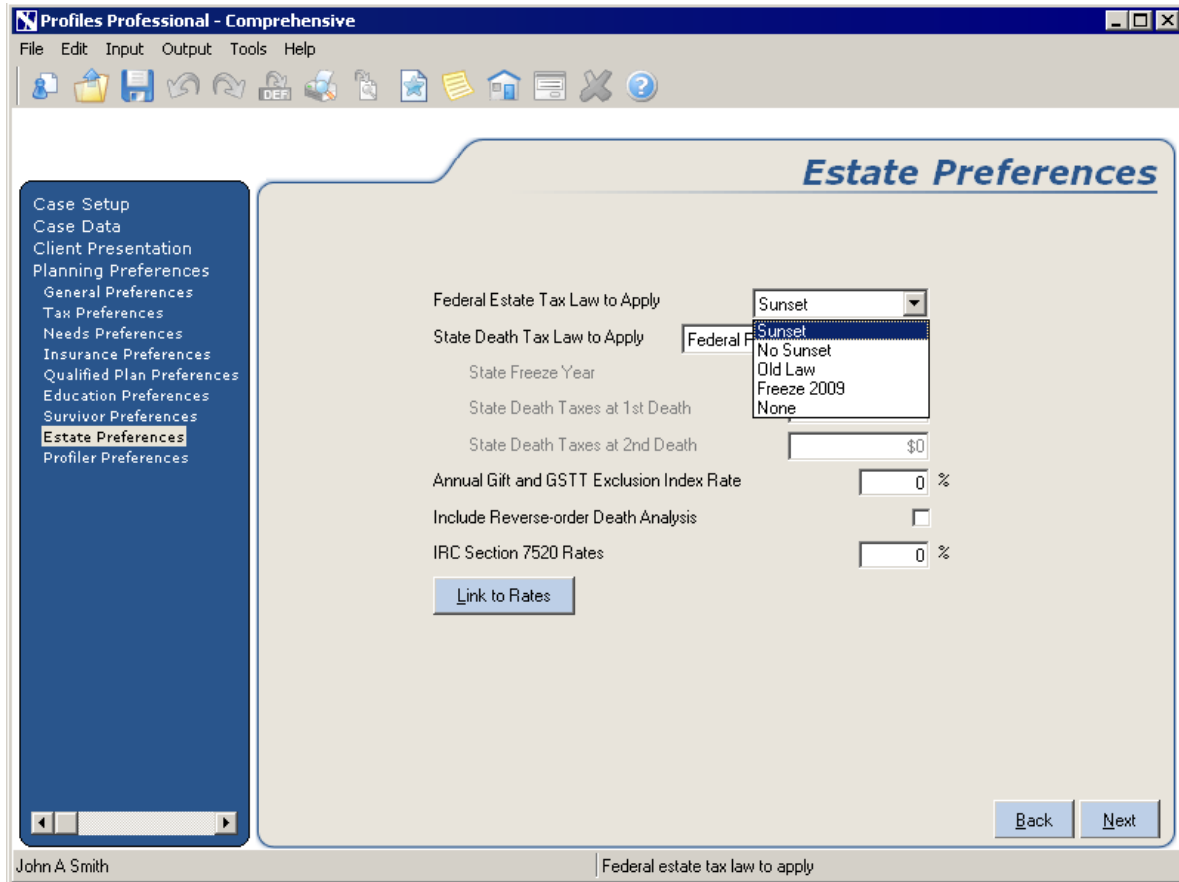


Figure 1: Planning Preferences – Estate Preferences

In Profiles Professional, estate planning assumptions are set on the *Estate Preferences* screen. Before entering estate details, it's a good idea to define assumptions for estate calculations.

The *Federal Estate Tax Law to Apply* field designates how the federal estate tax law applies to this case. The following options are available:

- *Sunset* – The Economic Growth and Tax Relief Reconciliation Act (EGTRRA) works as it was legislated. There is no estate tax for deaths occurring in 2010, and in 2011 the estate tax laws revert back to their 2001 status.
- *No Sunset* – EGTRRA 2001 remains in effect indefinitely, and the estate tax is permanently repealed in 2010
- *Old Law* – EGTRRA is ignored completely. The estate laws that were in effect in 2001 are used.
- *Freeze 2009* – EGTRRA rates for 2009 become law in 2010 and beyond.
- *None* – No estate tax laws apply to the case.

The *State Death Tax Law to Apply* field designates how state death taxes are calculated in this case. The following options are available:

- *Federal Pick-up* – State death tax is set to equal the maximum federal credit for state death taxes paid in effect prior to 2001.
- *State Freeze* – State's death tax is equal to the maximum federal credits in a given year (you must specify the year).
- *User Entered* – You can enter the appropriate numbers in the *State Death Taxes at 1st Death* and *State Death Taxes at 2nd Death* fields.

If you think gift and GSTT exclusions will increase over time, enter a rate in the *Annual Gift and GSTT Exclusion Index Rate* field.

Normally Client A is assumed to die first for estate planning reports. If you select the *Include Reverse-order Death Analysis* check box AND set the hypothetical life expectancies to the same year, additional reports for *Client B Dies First* will be accessible.

There are a few assumptions on other screens that you should verify before entering estate data.

- On the *Case Setup – Assumptions* screen, make sure the client marital status has been entered correctly. Since estate planning tools, like credit shelter trusts, are only available to married couples, it is important to have the correct marital status.
- On the *Qualified Account Entry* screens (opened from the *Assets* screen), make sure the correct beneficiary is selected for qualified accounts, because, in addition to calculating the required minimum distributions, this selection determines the disposition of the taxable estate.
- On the *Investment Account Entry* screens (opened from the *Assets* screen), make sure the correct person is selected in the *Disposition at Death* field which is similar to the *Beneficiary* field for qualified accounts. The *Disposition at Death* field is not accessible for jointly owned assets because Profiles Professional assumes joint ownership is with the surviving spouse and automatically transfers the asset to the survivor. If the *Account Held in Living Trust* check box is selected, the account is included in a living trust to avoid probate fees.

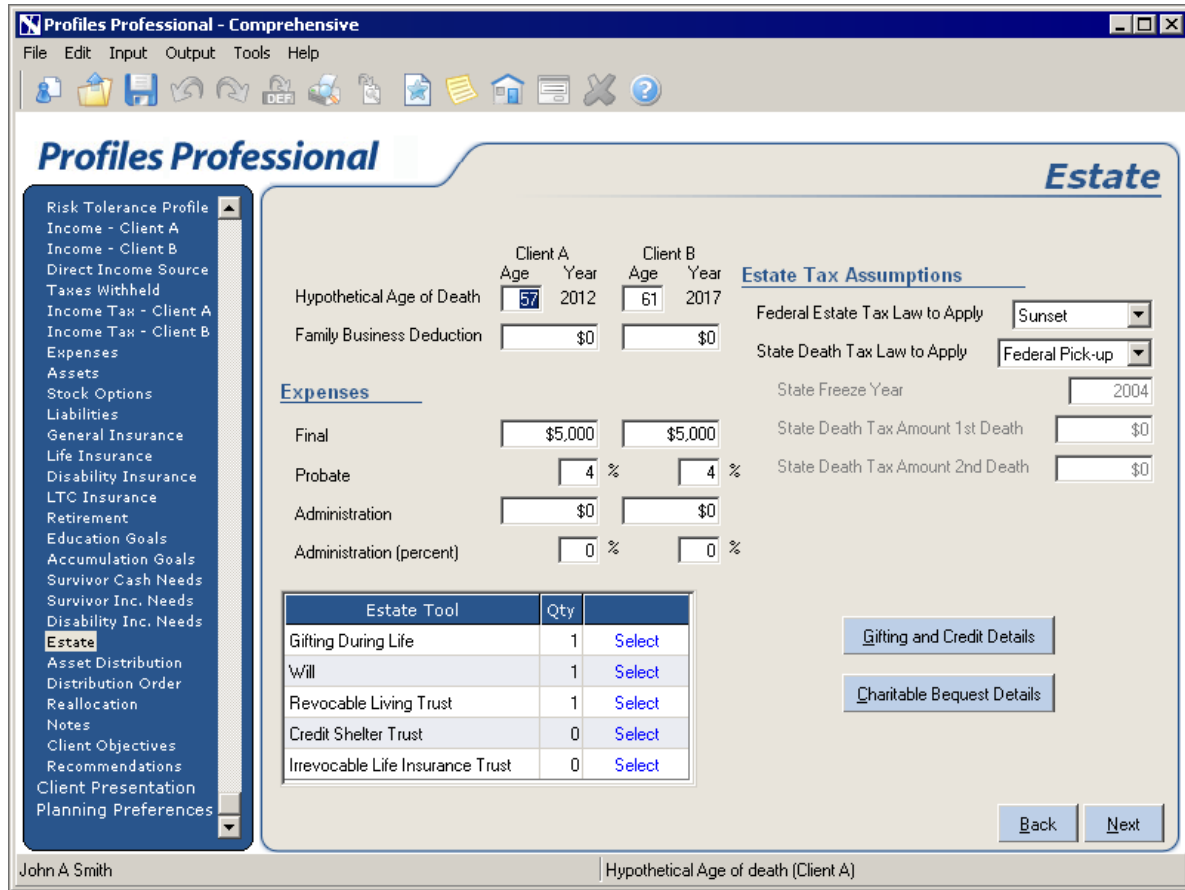


Figure 2: Case Data – Estate

On the *Estate* screen, you will define some of the estate assumptions and access the estate planning tools. The estate planning reports calculate the results for your clients based on the *Hypothetical Age of Death* values. The default for client A is five years from the current date, and the default for client B is ten years from the current date.

If the *Family Business Deduction* is applicable to your clients, enter the allowable qualified family-owned business interest (QFOBI) deduction at Client A's death. This value is limited to the amount for which your clients qualify under IRA section 2057 and should not exceed \$675,000. In addition, this amount will be affected by the federal estate tax law applied to this case (you must select *Old Law* from the *Federal Tax Law to Apply* list because JGTRRA disallowed the business deduction).

Estate tax assumptions on this screen default to the values set on the *Estate Preferences* screen.

Under *Expenses*, you can enter amounts and/or percentages for all final expenses including funeral expenses, probate costs, and administration costs for the estate.

Clicking the *Gifting and Credit Details* button opens another screen where you can enter prior gifts that apply to your client.

Gifts and Credit Details		
	Client A	Client B
Taxable gifts made prior to January 1st 1977	<input type="text" value=""/>	<input type="text" value="\$0"/>
Taxable gifts made after December 31st 1976	<input type="text" value="\$0"/>	<input type="text" value="\$0"/>
Total gift taxes already paid on above gifts	<input type="text" value="\$0"/>	<input type="text" value="\$0"/>
Portion of gift taxes that were paid in the three years prior to the plan date	<input type="text" value="\$0"/>	<input type="text" value="\$0"/>
Ownership of life insurance policies transferred and retained interests relinquished within three years of death	<input type="text" value="\$0"/>	<input type="text" value="\$0"/>
Federal gift tax credit already used	<input type="text" value="\$0"/>	<input type="text" value="\$0"/>
Generation-skipping transfer tax exemption already used	<input type="text" value="\$0"/>	<input type="text" value="\$0"/>
Other estate tax credits	<input type="text" value="\$0"/>	<input type="text" value="\$0"/>

Taxable gifts made prior to 01 January 1977 (Client A)

Figure 3: Case Data – Estate – Gifts and Credit Details button

For example, if the client has made prior taxable gifts after Dec. 31, 1976, enter this amount on the second line. Remember to enter only the taxable portion of the gift. Enter gift taxes that have already been paid as *Total gift taxes already paid on above gifts* or, if some of the lifetime gift tax-credit amount has been used, Profiles Professional calculates the credit amount based on the gift amount you enter.

Clicking the *Charitable Bequest Details* button opens another screen where you can enter any cash bequests that will be made at death, or in a first or second-to-die scenario. For example, if Client A wants to bequest \$50,000 to charity when he dies, but wishes to bequest \$200,000 to charity in total, you would enter \$50,000 on the line entitled *Client A Dies* and enter \$150,000 on the line entitled *Second-to-Die*.

You've now completed the first learning objective, defining estate assumptions.

This study guide uses a partially completed client file so that you can focus on estate planning and not be concerned with entering other information.

Let's review the Taylor family details:

- John and Jamie Taylor are ages 52 and 51 respectively.
- They have one son, Cameron, who is 16 years old.
- They plan to do some gifting to their son over the next three years.
- They have a revocable living trust in place.
- Their current net worth is over \$3.5 million. Perhaps a CST might be a good idea?

Before adding suggestions to the clients' current plan, it's a good idea to save the original case and then make changes or suggestions to a copy of that case. To begin, you will review their existing strategies.

Enter gifting during life

With the basic estate module, you can include gifts during life in an analysis.

Gifting During Life Current Estate Plan

Gift Number: 1 of 1

Gift Name: Include in Analysis?

Gift Details

Donor: Gift Splitting Begin Year:

Gift equals annual exclusion Amount: Duration:

Source:

Assets Available to Transfer	Amount Available at Plan Date	% of Gift	Dollar Value	Transfer Expense	Total Withdrawn	
Qualcomm	\$33,450	50.00	\$6,000	\$0	\$6,000	Delete
Coca-Cola	\$29,780	50.00	\$6,000	\$0	\$6,000	Delete
						Delete

Beneficiary Information

Beneficiary:

Gift source: _____

Figure 4: Case Data – Estate – Edit link – Estate Details – Gifting During Life, Select link

Clicking the arrow on the right side of the “spin” bar allows you to enter multiple gifts.

The *Include in Analysis?* check box controls whether or not this estate tool is included in the analysis. This feature is a simple way to create What-if scenarios. You can generate output reports, after either selecting or clearing this check box, and then decide which option works best for your clients.

The *Donor* field controls who the donor is. The default value is *Both Client A and Client B*. If the default value has been changed, the field is colored.

You can select the *Gift Splitting* check box to split the gift and reduce gift taxes, or to increase the maximum annual gift amount.

To use the annual gift exclusion, ensure that the *Gift equals annual exclusion* check box is selected. Clear it to enter a specific dollar amount. The annual exclusion is \$12,000 for 2007. You can increase the exclusion rate going forward on the *Planning Preferences – Estate Preferences* screen by entering a rate in the *Annual Gift and GSTT Exclusion Index Rate* field.

The *Begin Year* and *Duration* fields indicate when the gift begins and for how long it continues.

There are two options in the *Source* list for funding cash gifts.

- If you select *Fund from Cash Flow*, the gift is funded from available cash. If that amount is insufficient, assets are liquidated according to the liquidation order.
- If you select *Fund from Assets*, you can choose to redeem specific assets for the gift.

NOTE: Make sure that the account with the holding(s) you select has the *Manage Holdings Independently* option selected on the account entry screen. Otherwise, the holding may be restricted due to reallocation and rebalancing strategies, even though it appears in the list.

Under *Beneficiary Information*, you can choose the beneficiary or add new beneficiaries, if necessary, by clicking the *Add Beneficiary* button. Beneficiaries do not necessarily need to be dependents; they can also be charities. Gifting to trusts is not an option in Profiles Professional.

On the *Beneficiaries* screen, it is important to enter the rate of return for gifts because it helps to show the true value of assets removed from the estate. For example, if \$12,000 was gifted today at 6% per year for 25 years, it would amount to \$50,000 if left in the estate. If you entered the *Rate of Return* value, the output pages would show \$50,000 as the amount to beneficiaries.

After entering these estate details, you can now look at some results by clicking *Client Presentation*, and then selecting *Estate*.

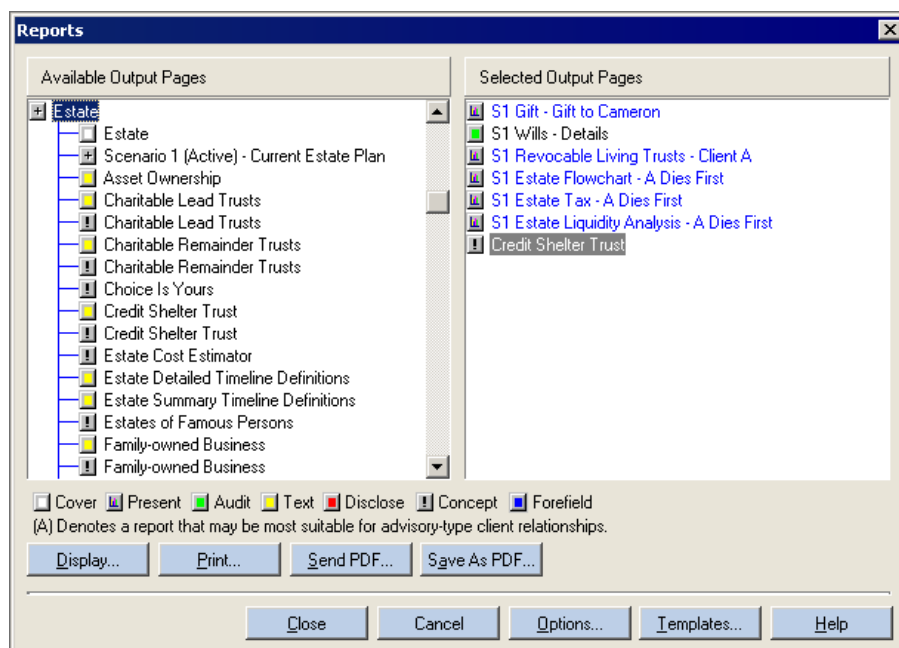


Figure 5: Client Presentation

There are many generic estate text pages and concept pages that provide useful educational information for clients new to estate planning. For example, you can use the *Credit Shelter Trust*

concept page to show your clients that with a \$3,500,000 estate, they could save \$675,000 in federal estate taxes by using a credit shelter trust.

Under *Scenario 1 (Active) - Current Estate Plan*, you can access specific presentation and audit pages related to your clients' case. Notice that most of the reports include a presentation page and an audit page. Use whichever is most appropriate for the clients. You can add output pages by either clicking the pages on the left, or by dragging them to the column on the right. For more information about generating output pages, see the Organizing Output Self-Study Guide.

The *S1 Gifts to Beneficiaries - Client A/B* reports provide an overall look at gifting to a single beneficiary from cash gifts or trusts.

S1 Gifting During Life provides a report for each gifting strategy. Let's take a closer look at this report now.

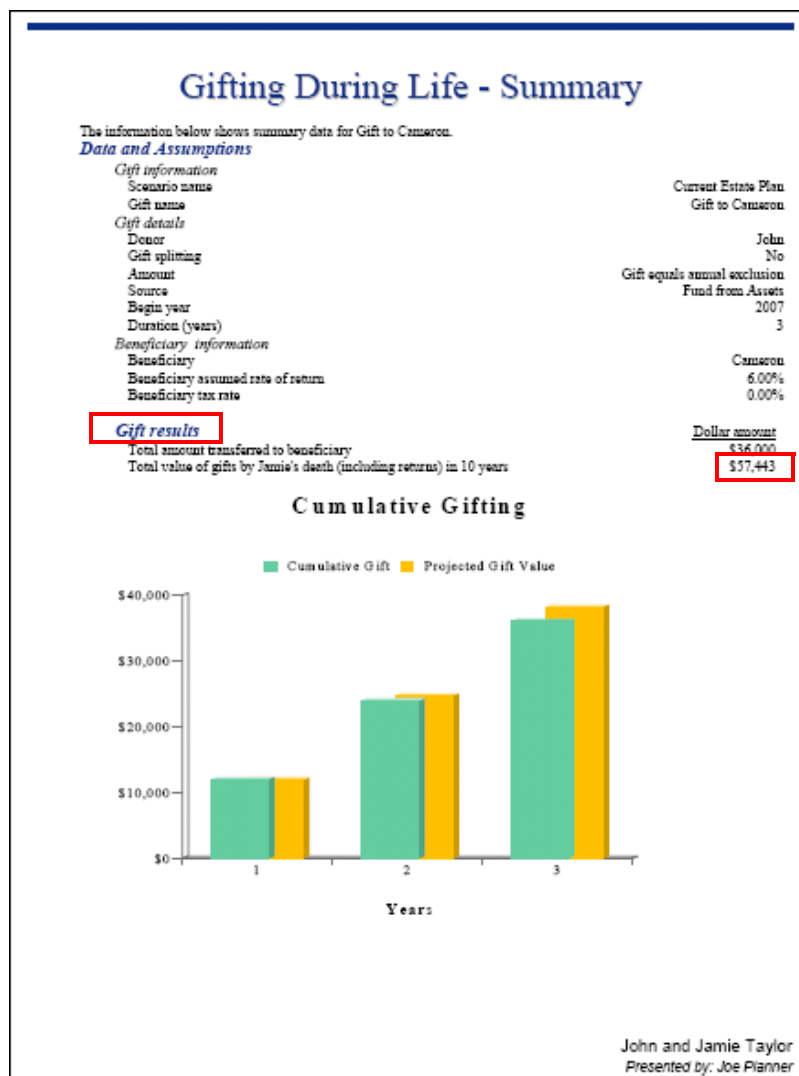


Figure 6: Client Presentation – Estate – Scenario 1 (Active) - Current Estate Plan – S1 Gifting During Life - Summary – S1 Gift - Gift to <beneficiary> presentation page

This report summarizes the input on the *Gifting During Life* screen (\$12,000 gifted three years). Note, under *Gift results*, that the projected value in ten years is higher than the total gift amount. This is because the beneficiary's assumed rate of return applies to the gift amount. \$36,000 was transferred to the beneficiary in \$12,000 increments in years 2007, 2008, and 2009. If death occurred in 2017, a total of \$57,443 would be removed from the estate including returns. The bar graph shows annual gifts and depicts the cumulative gift amount and the projected value. An audit page is available that shows the gift strategy information in a table.

You've now completed the second learning objective, entering gifting during life strategies.

Model wills and revocable living trusts

Next, let's consider wills and revocable living trusts, two important estate planning tools. On the *Estate* screen, clicking the *Select* link next to *Will* opens the *Will* screen.

Will
Current Estate Plan

Include in Analysis?

Will Details

	Client A	Client B
Does the client have a will?	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Indicate if clients' Will or RLT have provided for the following items.		
Directives for the executor of the estate	<input type="checkbox"/>	<input type="checkbox"/>
Guardianship directives for minor or special needs children	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Provisions to fund a CST at death	<input type="checkbox"/>	<input type="checkbox"/>
Provisions to fund a QTIP at death	<input type="checkbox"/>	<input type="checkbox"/>
Provisions to fund a QDOT at death	<input type="checkbox"/>	<input type="checkbox"/>
Provisions dealing with generation-skipping transfer taxes	<input type="checkbox"/>	<input type="checkbox"/>
Indicate if the following documents are part of the clients' estate plan.		
Written medical directives	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Powers of attorney	<input type="checkbox"/>	<input type="checkbox"/>

Delete this Will Close

Include in Analysis?

Figure 7: Case Data – Estate – Select link next to Will

This screen provides a checklist for your clients' wills. Note that selections made here will not automatically implement any tool. You can use the *S1 Wills Details* audit page, located under *Client Presentation – Estate - Scenario 1 (Active) - Current Estate Plan*, to quickly confirm client information. Text pages are also available to educate your clients about using wills.

It is very simple to establish a revocable living trust in Profiles Professional. Creating a revocable living trust has the following benefits:

- avoids the probate process
- reduces probate costs
- maintains privacy instead of passing through probate court
- property is managed during incapacity or inability
- reduces delay in distributing the clients' estate

On the *Estate* screen, clicking the *Select* link next to *Revocable Living Trust* opens the *Revocable Living Trust* screen.

The screenshot shows the 'Revocable Living Trust' screen. At the top right, it says 'Current Estate Plan'. Below the title, there is a checkbox for 'Include in Analysis?' which is checked. The main section is titled 'RLT Details' and contains a table with three columns: 'Asset Name', 'Held in RLT', and 'Transfer to RLT'. The table lists various assets with their respective checkboxes. At the bottom right, there are two buttons: 'Delete this RLT' and 'Close'. At the bottom left, there is another 'Include in Analysis?' checkbox.

Asset Name	Held in RLT	Transfer to RLT
Savings Account	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Schwab Money Market	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Jamie's 401(k)	<input type="checkbox"/>	<input type="checkbox"/>
John's 401(k)	<input type="checkbox"/>	<input type="checkbox"/>
John's IRA	<input type="checkbox"/>	<input type="checkbox"/>
Jamie's Investment Account	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
John's Investment Account	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Joint Investment Account	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Cameron's Schwab Acct.	<input type="checkbox"/>	<input type="checkbox"/>
Real Estate	<input type="checkbox"/>	<input type="checkbox"/>
Vacation Home	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
225 Chesterfield Lane	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>

Figure 8: Client Data – Estate – Select link next to Revocable Living Trust

This screen lists all the clients' assets and indicates whether they are already held in a revocable living trust or are to be transferred into one. If the *Held in RLT* check box is already selected, it means the trust was established when the asset was entered, and the asset can't be edited here. If the asset is already held in an RLT, the *Transfer to RLT* check box is also automatically selected.

To transfer an asset, select the **Transfer to RLT** check box beside the appropriate asset.

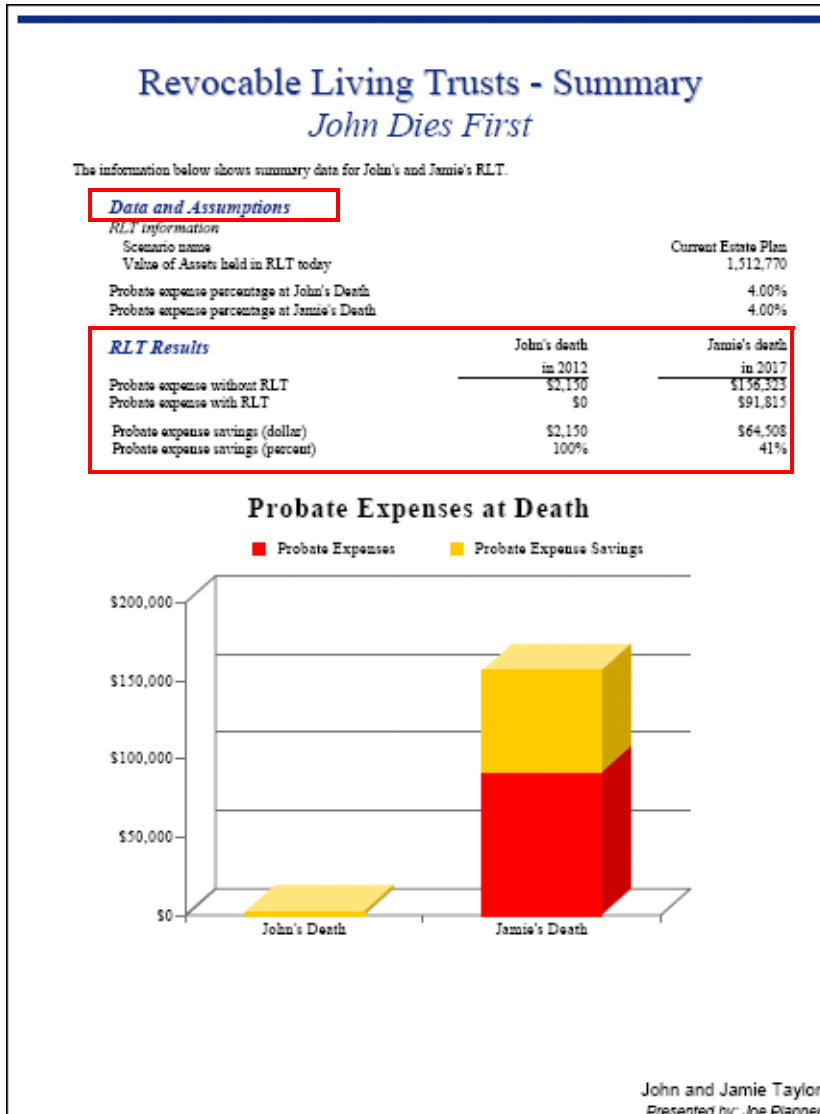


Figure 9: Client Presentation – Estate – Scenario 1 (Active) - Current Estate Plan – S1 Revocable Living Trusts - Client A presentation page

The *S1 Revocable Living Trusts* presentation page provides the following information:

- Under *Data and Assumptions*, you can see basic probate-related inputs in the case
- The *RLT Results* table shows probate with and without RLT for Client A's and Client B's death
- The graph displays the same information as the *RLT Results* table in graphical format

The audit page gives a detailed account of each asset and its associated probate expense or savings. A text page is also available.

Profiles Professional offers several primary estate output pages that help you assess the clients' current situation, such as the *S1 Estate Flowchart - A Dies First*, *S1 Estate Tax - A Dies First*, and the *S1 Estate Liquidity Analysis - A Dies First* output pages.

First let's take a look at the *Estate Plan Flowchart* presentation page.

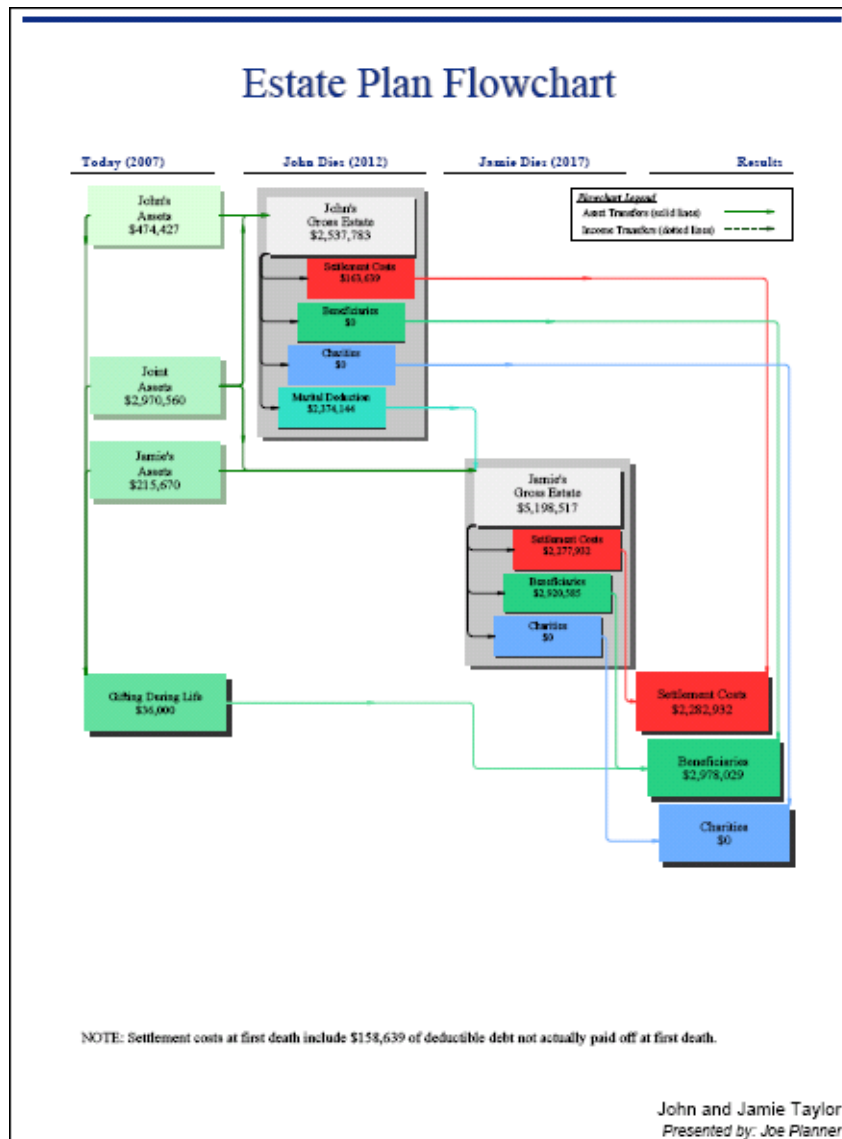


Figure 10: Client Presentation – Estate – Scenario 1 (Active) - Current Estate Plan – S1 Estate Flowchart - A Dies First presentation page

This page uses graphics to show the clients' overall situation, based on the estate planning tools they currently have in place. The dates of death are based on the hypothetical entries on the *Estate* screen.

The *Today* column shows the current ownership of the Taylors' assets. Any gifting or trusts that have been established are listed here. The *Client A Dies* column shows the assets transferred via the unlimited marital deduction. The *Client B Dies* column shows settlement costs and transfers to beneficiaries. The *Results* column shows totals for settlement costs, and how much goes to beneficiaries and charities, if applicable. In all graphs, solid lines represent asset transfers and dotted lines represent income transfers.

The audit page explains the values in the flowchart and also references other useful audit pages.

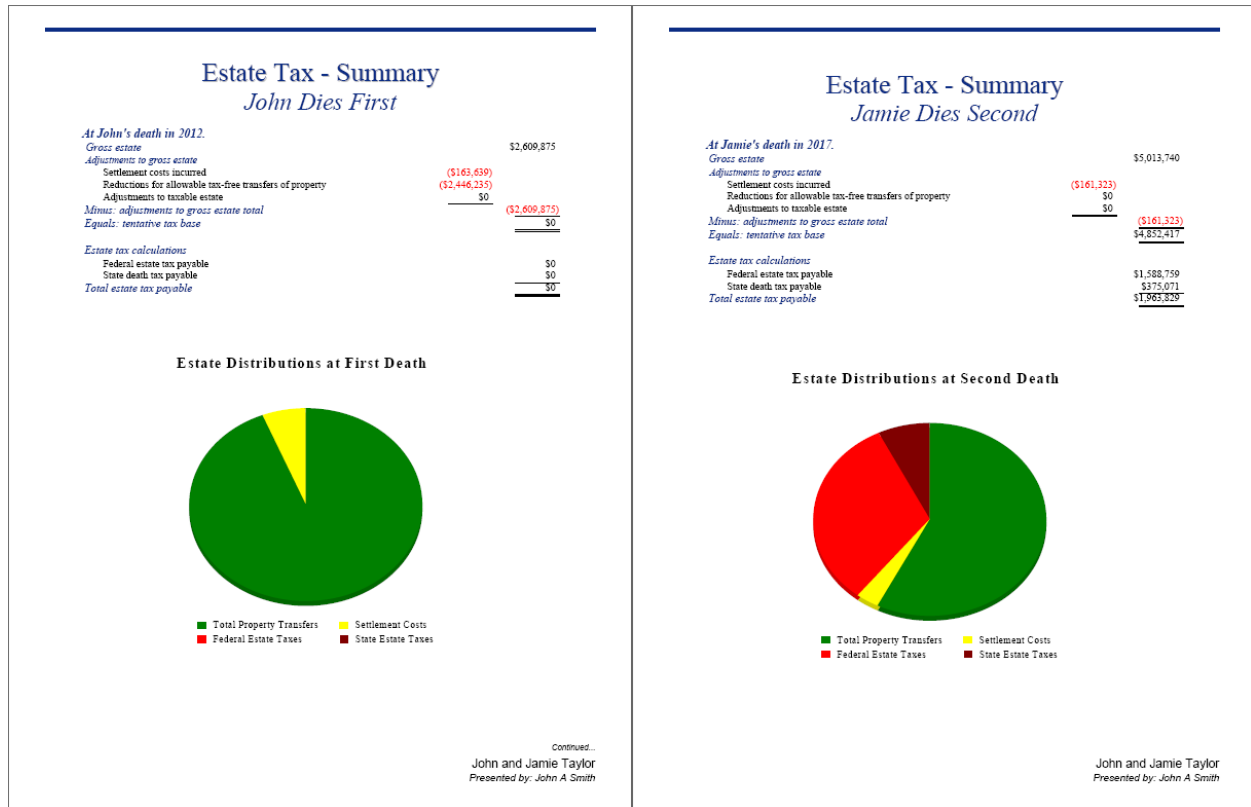


Figure 11: Client Presentation – Estate – Scenario 1 (Active) - Current Estate Plan – S1 Estate Tax - A Dies First presentation page

The *Estate Tax - Summary* presentation pages provide a summary of key estate planning values like gross estate, adjustments to gross estate including settlement costs and tax-free transfers, tentative tax base, and tax payable.

The pie chart on the *Estate Tax - Summary* page for the second to die shows the portion of the client's wealth that is distributed versus lost to taxes. This is a good page to review with clients before adding planning strategies, and then again after, for an easy, quick, and dramatic comparison.

Obviously the Taylors have a tax problem. How would you address it?

You can use the *Estate Liquidity* output pages to illustrate whether the clients currently have enough liquid assets to pay estate costs at the assumed dates of death.

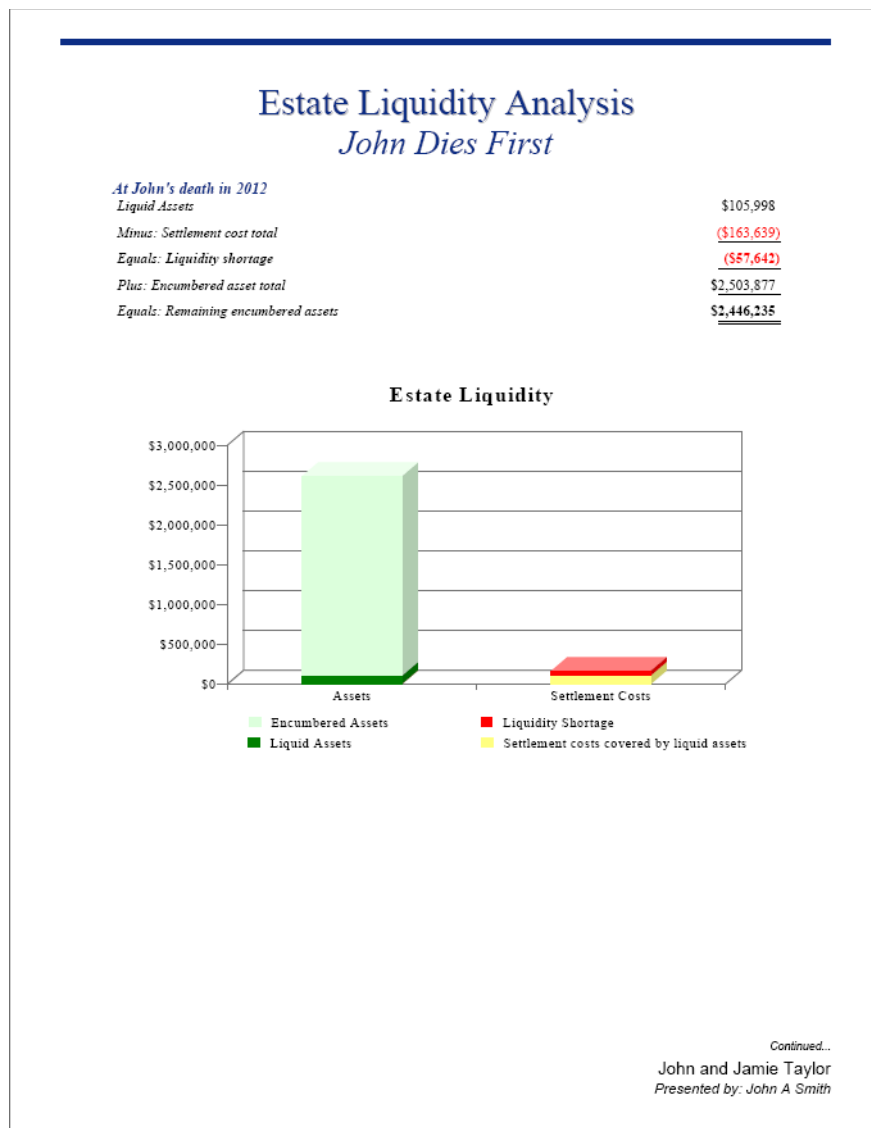


Figure 12: Client Presentation – Estate – Scenario 1 (Active) - Current Estate Plan – S1 Estate Liquidity Analysis - A Dies First

On this graph, the *Liquid Assets* value is the value of assets available at death. *Settlement costs* are the total amount of costs. *Encumbered Assets* are assets not generally available because they are jointly owned or retirement assets, for example, a residence asset, personal property, or the decedent's 401(k); they can be redeemed if absolutely needed. *Liquidity shortage* or *surplus* shows whether there is a deficit or a surplus. In the Taylor's case, there is a deficit because many assets are encumbered. A

deficit suggests a need for additional liquid assets or even life insurance. You can use the corresponding audit page to see a detailed listing of assets and costs.

You've now completed the third learning objective, modeling wills and revocable living trusts.

Now that the current estate situation has been analyzed, you can start examining how to model suggestions and strategies. It's a good idea to select *File – Save As* to create the suggested case and to keep the original data for comparison purposes.

Model credit shelter trusts

In cases like this one for the Taylor family, a credit shelter trust (CST) might be beneficial.

You can use concepts and text pages to help explain an estate tool. The *Credit Shelter Trust* concept page is especially useful. To open the *Credit Shelter Trust* concept page, select the page and double-click, or drag the page across to the right-side column. Click **Display** the first time you generate the concept so that you can enter concept details, like estate value.

The screenshot shows a window titled "Credit Shelter Trust". Inside, there is a label "Estate Value" followed by a text input field containing "3,500,000". To the right of the input field are two buttons: "OK" and "Cancel". Below the input field, there is a small label "Estate Value" and a vertical line.

Figure 13: Client Presentation – Estate – Credit Shelter Trust concept page

Many concept reports like this one are interactive. Enter an approximate estate value and the concept page illustrates the effect a credit shelter trust would have on the estate.

Credit Shelter Trust

Size of Estate: \$3,500,000


	Without CST	With CST
 <i>At death of first spouse</i>	Transfer up to 100% of adjusted gross estate to surviving spouse estate-tax free.	Transfer to spouse \$1,500,000 Transfer to CST \$2,000,000
<i>At death of surviving spouse</i>	Federal estate tax on amount transferred to spouse \$675,000	Federal estate tax on amount transferred to spouse \$0 Federal estate tax on amount transferred to CST \$0
Net to beneficiaries	\$2,825,000	\$3,500,000
<i>Federal estate tax savings</i>		\$675,000

Figure 14: Credit Shelter Trust concept report (text portion)

The graph explains the flow of funds over time, and the table shows what happens if you enter a CST and if you don't. This concept page shows that, without a CST, the beneficiaries receive \$2,825,000 but with a CST, the beneficiaries receive the full \$3,500,000.

If you want to know what assumptions were used for the concept page, look at the footnotes at the bottom of the *Credit Shelter Trust* concept page (you will have to scroll down on the page to see them).

Please keep in mind that the CST has not yet been entered into the case.

To add a CST to the case, go to the **Estate** screen, and then click the **Select** link beside *Credit Shelter Trust*. The *Credit Shelter Trust* screen opens.

Figure 15: Case Data – Estate – Select link – Credit Shelter Trust

Use the fields under *CST Details* to define the annual return on trust assets and the annual income payment to the surviving spouse. In tax-sensitive cases, you can also define the trust tax rate.

Four funding options are available:

- *Use Full Federal Credit* – CST should be funded up to the federal limit in the hypothetical year of death (depends on the option you select from the *Federal Tax Law to Apply* list)
- *User Entered* – Allows you to define the funding amount
- *Targeted Estate Tax* – Allows you to define the estate tax amount you want to pay
- *Minimize Estate Tax* – Trust is funded using as much of the federal credit as possible without incurring a state death tax liability (*State Freeze* must be selected from the *State Death Tax to Apply* list)

Profiles Professional automatically determines which assets will be used to fund the CST based on the liquidation order of eligible assets defined in the case.

The following assets are not eligible to fund the credit shelter trust:

- Assets with *Other* as the beneficiary designation
- Joint assets (pass to the survivor automatically)
- Assets used for estate adjustments like settlement costs and tax-free transfers
- Survivor's half of community assets

Now let's review the *Credit Shelter Trust - Summary* presentation and audit pages.

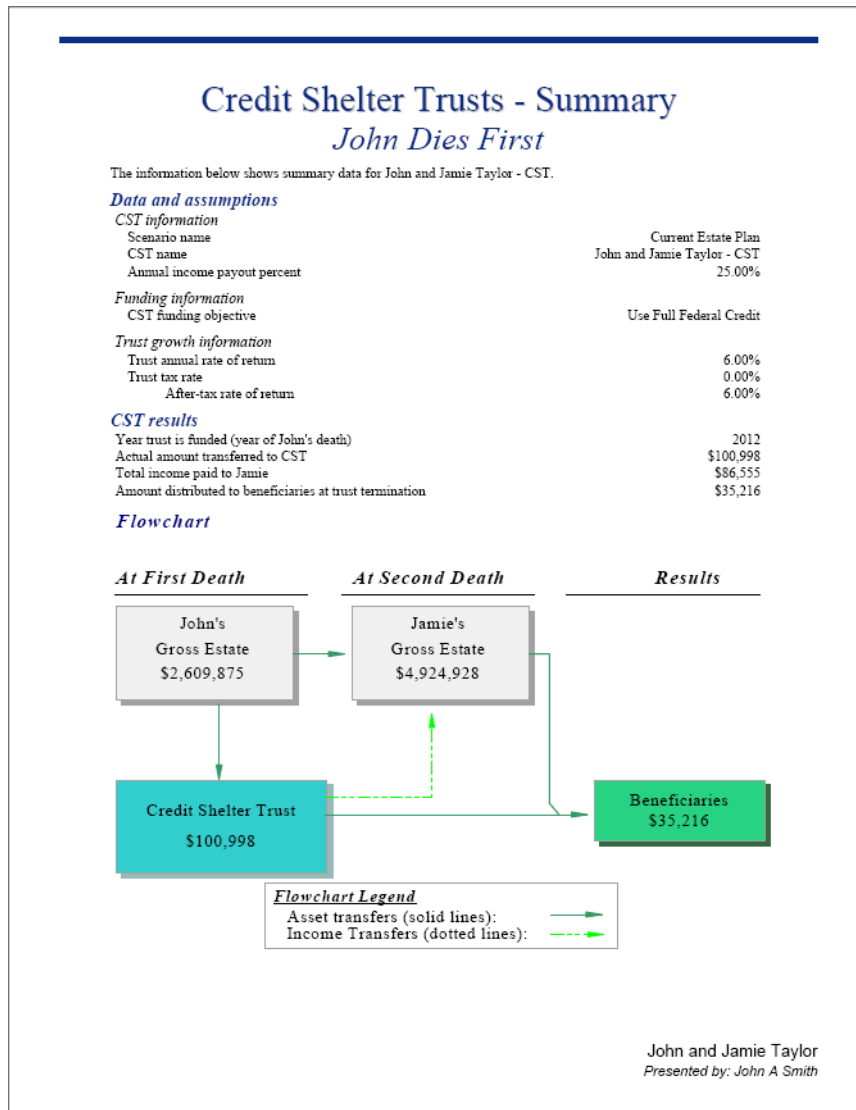
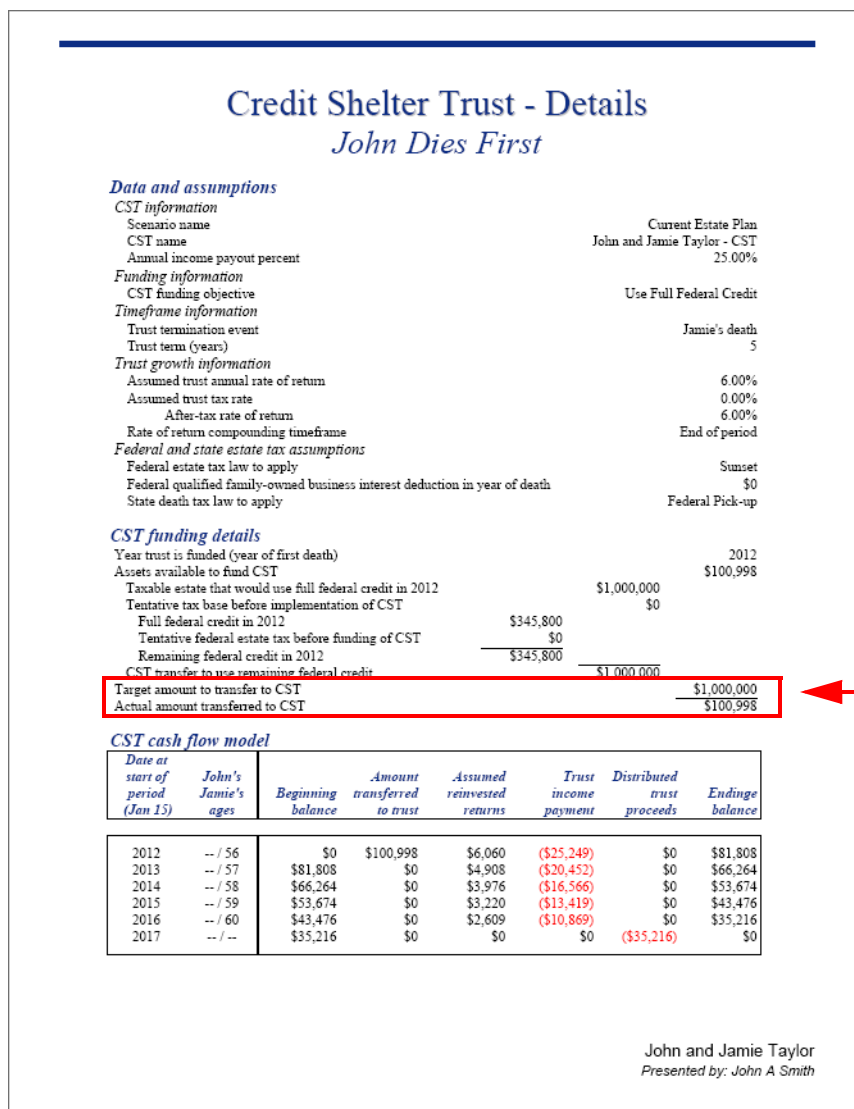


Figure 16: Client Presentation – Estate – Scenario 1 (Active) - Current Estate Plan – S1 Credit Shelter Trust - Client A presentation page

The *Data and assumptions* section on this page shows the data input for the CST. Under *CST results*, the hypothetical year of death, funding amount, and distributions to beneficiaries are listed. The flowchart shows the flow of assets at first death and second death. It starts with the value of Client A's gross estate at death, followed by the amount transferred to the CST. The dotted line represents income to the survivor, while the solid line shows trust assets transferred to beneficiaries.

To determine what the gross estate is made of, you can look at the *Gross Estate* audit page which provides an itemized account of each asset and life insurance policy (the *Gross Estate* presentation page only shows subtotals).



Note the target amount was not met in this case.

Figure 17: Client Presentation – Estate – Scenario 1 (Active) - Current Estate Plan – S1 Credit Shelter Trust - Client A audit page

The *Credit Shelter Trust - Client A/B* audit page provides more specific information such as the CST funding objective, the trust term, the available assets amount, federal and state tax assumptions, the federal credit limit in the year of death, and target vs. actual transfer to the CST amount.

The *CST cash flow model* table shows an audit trail that illustrates the growth of the CST between first and second death, including reinvested returns, trust income payments, and the final amount distributed.

The trust term only last for five years because of the hypothetical life expectancy dates entered on the *Estate* screen.

Assets are divided into individually-owned assets and joint property. Qualified assets are listed with the individually-owned assets but the CST is not funded by qualified accounts because the spouse is the beneficiary. Joint property is transferred directly to the survivor, so it is not available to fund the CST. If there are liquidity issues affecting funding of the CST, and the CST is not funded to the full amount, an option would be to split the joint assets into Client A and Client B owned portions.

The Taylors' case had a liquidity problem due to encumbered assets, remember? This is why the actual amount to transfer to the CST does not meet the target amount in this case. You could solve this problem by changing the ownership of their real estate property from *Joint* to *Client A* on the *Real Estate Property Entry* screen.

This completes the fourth learning objective, modeling credit shelter trusts.

Model irrevocable life insurance trusts

Clients may want to use an irrevocable life insurance trust to

- keep insurance proceeds out of their estate
- reduce or eliminate federal estate taxes
- provide liquidity to the surviving spouse to offset estate shrinkage due to settlement costs
- provide income to the survivor
- control distributions to remainder beneficiaries

To model an irrevocable life insurance trust (ILIT), go to the **Estate** screen, and then click the **Select** link next to *Irrevocable Life Insurance Trust*. The *Irrevocable Life Insurance Trust* screen opens.

The screenshot shows the 'Irrevocable Life Insurance Trust' screen with the following details:

- ILIT Number:** 1 of 1
- ILIT Name:** John and Jamie Taylor - ILIT
- Include In Analysis?:**
- Current Estate Plan:** (checked)
- ILIT Details:**
 - Grantor:** Client B
 - Trust Rate of Return:** 0 %
 - Gift Splitting:**
- Policy Details:**
 - Funding Options:** Model a Policy (dropdown), Transfer All (button)
 - Gift equals annual exclusi:** Transfer Policies (dropdown), Model a Policy (dropdown)
 - Amount:** \$12,000
 - Duration:** 10
 - Policy Name:** JrJ second to die
 - Insured:** 2nd-to-die (dropdown)
 - Net Death Benefit:** \$500,000
 - Annual Premium:** \$9,500
 - Number of Premiums Remaining:** 10
- Beneficiary Information:**

Remainder Beneficiary	Percent	
Cameron	100.00	Delete
		Delete

Buttons at the bottom: Add Beneficiary, Delete this ILIT, Close.

Figure 18: Case Data – Estate – Select link – Irrevocable Life Insurance Trust (showing Funding Options list)

On the left side of this screen, you can enter the details of the ILIT. Under *ILIT Details*, you can select the grantor and indicate whether or not he or she will be splitting the gifts to the trust to potentially double the gift exclusion amount.

Under *Policy Details*, you can define the details of the life insurance policy. Under *Funding Options*, you can select *Transfer Policies* to transfer an existing policy to the ILIT, or you can select *Model a Policy* to model a new policy.

On the right side of the screen, you can define the insured, death benefits, premiums, and payments. In the Taylors' case (see Figure 18), gifts are \$12,000 annually, \$9,500 of which will be premiums, the rest goes into the trust balance.

Under *Beneficiary Information*, you can input the remainder beneficiary for the trust.

Once you have entered all of the irrevocable life insurance trust information, you can review the output.

Note: If the client's hypothetical death is within three years and you transfer an existing policy, the look-back rule will not be satisfied and the proceeds will be included in the case.

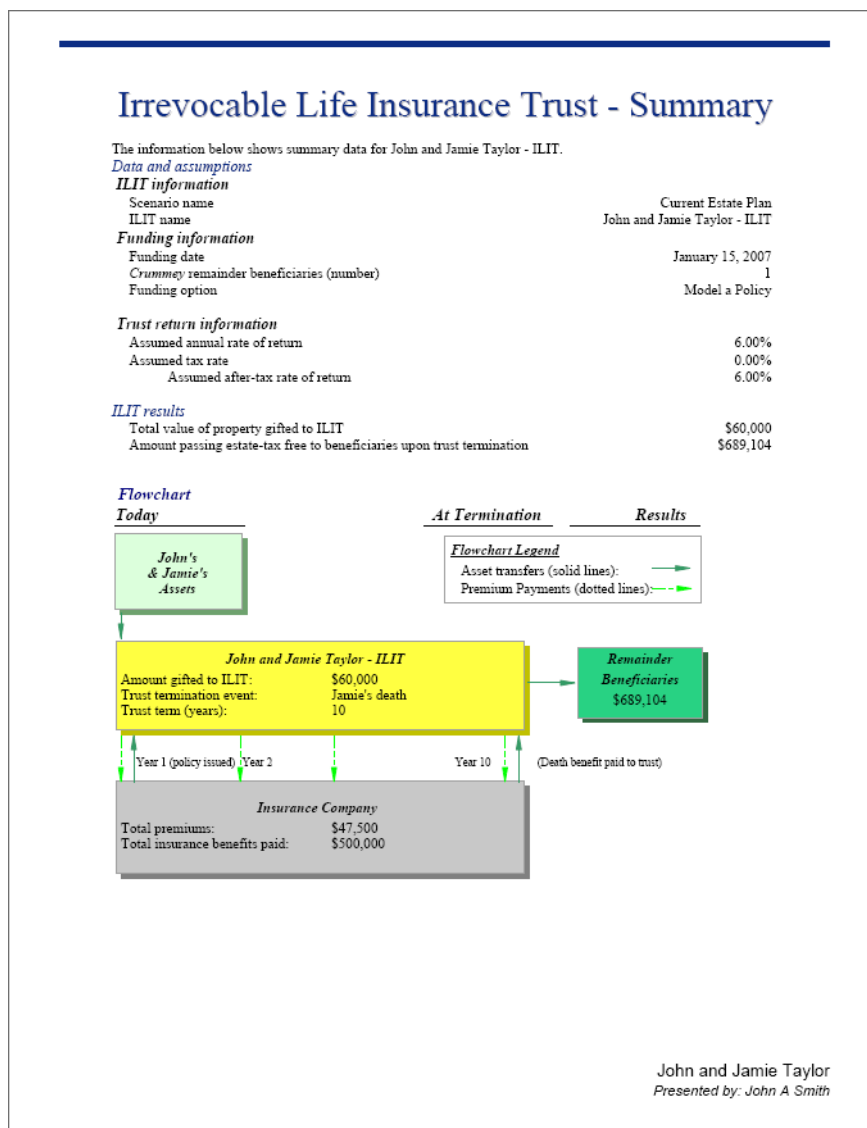


Figure 19: Client Presentation – Estate – Scenario 1 (Active) - Current Estate Plan – S1 Irrevocable Life Insurance Trust - Summary – S1 ILIT - <case name> - ILIT presentation page

The *Irrevocable Life Insurance Trust Summary* shows summary data for the ILIT you modeled. The flowchart illustrates the flow of

- assets and cash from the clients to the trust
- premiums to the insurance company from the trust (green dotted lines)
- benefits to the trust (green solid lines)
- remainder to the beneficiaries (green solid lines)

An ILIT audit page is also available with more detailed information, including an ILIT cash flow model table.

Comparing key output pages like the flowchart or presentation pages for both the current client case and the suggested case is a good way to see if the suggested strategies you added are working.

The Advanced Estate Planning feature is available for purchase and includes the following:

- ability to create multiple estate scenarios within one case and compare within output pages
- wealth replacement trusts
- family-owned business trusts
- qualified terminable interest property trusts
- qualified personal residence trusts
- special needs trusts
- four charitable trusts
- two grantor retained trusts

Exercises

Exercise 1: Define estate assumptions

- Which of the following is not an option on the *Planning Preferences – Estate Preferences* screen?
 - Federal Estate Tax Law to Apply*
 - State Death Tax Law to Apply*
 - Annual Gift and GSTT Exclusion Index Rate*
 - Default Hypothetical Age of Death*
- List two options within the *Account Entry* screen that affect estate output.

Exercise 2: Enter gifting during life

- Why should you enter a rate of return for each beneficiary in the case?

- Which of the following reports displays the total amount of all gifts made by the client on a year-by-year basis?
 - S1 Gift Tax Timeline - Client A/B* audit page
 - S1 Gift – Gift to <beneficiary>* presentation page
 - S1 Gift – Gift to <beneficiary>* audit page
 - None of the above

Exercise 3: Model wills and revocable living trusts

- How can you ensure the *Held in RLT* option is selected on the *Revocable Living Trust* screen?
 - On the asset's *Account Entry* screen, select **Account Held in Living Trust**.
 - Select **Held in RLT**.
 - Select **Transfer to RLT**, and then select **Held in RLT**.
 - Select **Transfer to RLT** (the *Held in RLT* option is selected automatically).

2. Which of the following reports would you use to explain to your clients the general benefits of a revocable living trust?
 - a) *S1 Revocable Living Trusts - Client A/B* presentation page
 - b) *S1 Revocable Living Trusts - Client A/B* audit page
 - c) *Revocable Living Trusts* text page
 - d) None of the above

Exercise 4: Model credit shelter trusts

1. Which of the following reports compares the *Target amount to transfer to CST* with the *Actual amount to transfer to CST* in the case?

Hint: A credit shelter trust must be included in the case for all the CST output pages to be available.

- a) *S1 Credit Shelter Trust - Client A/B* presentation page
 - b) *S1 Credit Shelter Trust - Client A/B* audit page
 - c) *Credit Shelter Trust* text page
 - d) *Credit Shelter Trust* concept page
2. What do the green dotted lines in the flowchart on the *S1 Credit Shelter Trust - Client A/B* presentation page represent?
 - a) Asset transfers to the trust
 - b) Asset transfers to the beneficiaries
 - c) Income transfers to the surviving client
 - d) Income transfers to the beneficiaries

Exercise 5: Model irrevocable life insurance trusts

1. On the *Irrevocable Life Insurance Trust* screen, what is the default selection in the *Funding Options* field?
 - a) *Model a Policy*
 - b) *Transfer Policies*
 - c) *<blank>*

2. When you model a policy in an ILIT, the gift amount and the annual premium for the policy must be equal. Is this statement true or false?
 - a) True
 - b) False

3. If your clients asked you to demonstrate a growth projection of excess gifts over premiums within the trust, which report should you generate and present to the clients?

Hint: Including an existing ILIT in the case might make the report easier to present.

- a) *S1 ILIT – <trust name> – ILIT presentation page*
- b) *S1 ILIT – <trust name> – ILIT audit page*
- c) *Irrevocable Life Insurance Trusts text page*
- d) *Irrevocable Life Insurance Trusts concept page*

Answers to exercises

Exercise 1: Define estate assumptions

1. d) *Default Hypothetical Age of Death* is not an option.
2. Possible options for an asset that can affect estate output:
 - *Owner*
 - *Disposition at Death*
 - *Account Held in Living Trust*
 - *Beneficiary*

Exercise 2: Enter gifting during life

1. The return rate helps to show in the output the future value of assets removed from the estate.
2. a) *S1 Gift Tax Timeline - Client A/B* audit page displays the total amount of all gifts made by the client on a year-by-year basis.

Exercise 3: Model wills and revocable living trusts

1. a) On the asset's *Account Entry* screen, select **Account Held in Living Trust** to ensure the *Held in RLT* option is selected on the *Revocable Living Trust* screen.
2. c) The *Revocable Living Trusts* text page can be used to explain the general benefits of a revocable living trust to your clients.

Exercise 4: Model credit shelter trusts

1. b) *S1 Credit Shelter Trust - Client A/B* audit page compares the *Target amount to transfer to CST* with the *Actual amount to transfer to CST* in the case.
2. c) Income transfers to the surviving client are represented by green dotted lines in the flowchart on the *S1 Credit Shelter Trust - Client A/B* presentation page.

Exercise 5: Model irrevocable life insurance trusts

1. b) *Transfer Policies* is the default selection in the *Funding Options* field.
2. b) False. When you model a policy in an ILIT, the gift amount and the annual premium for the policy do not have to be the same.
3. b) The *S1 ILIT - <trust name>* - ILIT audit page can be used to demonstrate a growth projection of excess gifts over premiums within the trust.