Estate Tax Concepts

for
Edward and Tina Collins

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Important Notes

This presentation illustrates how accepted wealth preservation strategies can maximize the passage of property to designated beneficiaries and how life insurance can be used to preserve an estate. The options selected do not constitute a recommendation of any particular technique. Although actual current client data can be used to demonstrate the application of wealth preservation strategies, the program is designed to illustrate general concepts and does not purport to show precisely how those concepts would work for a specific client. For example, certain items such as anticipated inheritances, tuition expenses, and life insurance premium payments are not reflected in the analysis for determining the value of property that may ultimately be exposed to federal estate taxes and other administrative expenses.

Each scenario shown illustrates your current situation or an alternative strategy and its possible effects on the financial situation you provided. Inclusion of one or more of these strategies does not constitute a recommendation of that strategy over any other strategy.

Calculations contained in this analysis are estimates only based on the information you provided, such as the value of your assets today, and the rate at which the assets appreciate. The actual values, rates of growth, and tax rates may be significantly different from those illustrated. These assumptions are only a “best guess.” No guarantee can be made regarding values, as all rates are the hypothetical rates you provided. These computations are not a guarantee of future performance of any asset, including insurance or other financial products.

No legal or accounting advice is being rendered either by this report or through any other oral or written communications. Nothing contained in this report is intended to be used on any tax form or to support any tax deduction. Unless indicated, the tax aspect of the federal Generation-Skipping Transfer Tax (GSTT) is not reflected. The GSTT is similar to an additional level of estate tax on certain transfers to grandchildren, or individuals two or more generations removed from the transferor. State laws vary regarding the distribution of property, and individual circumstances are unique and subject to change. You should discuss all strategies, transfers, and assumptions with your legal and tax advisors.

To implement a strategy, it may be necessary to restructure the ownership of property, or change designated beneficiaries before specific will or trust provisions, prepared by the client’s counsel, become effective. The transfer of a life insurance policy may not result in its removal from the estate of the prior owner for three years.

Strategies may be proposed to support the purchase of various products such as insurance and other financial products. When this occurs, additional information about the specific product (including a prospectus, if required, or an insurer provided policy illustration) will be provided for your review.

IMPORTANT: The projections or other information generated by this investment analysis tool (Estate Tax Concepts) regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results and are not guarantees of future results.

IRS CIRCULAR 230 NOTICE: To ensure compliance with requirements imposed by the IRS, this notice is to inform you that any U. S. federal tax advice contained in this presentation is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding penalties under the Internal Revenue Code or (ii) promoting, marketing or recommending to another party any transaction or matter addressed in this presentation.

Important Notes (Continued)

Tax Act of 2012

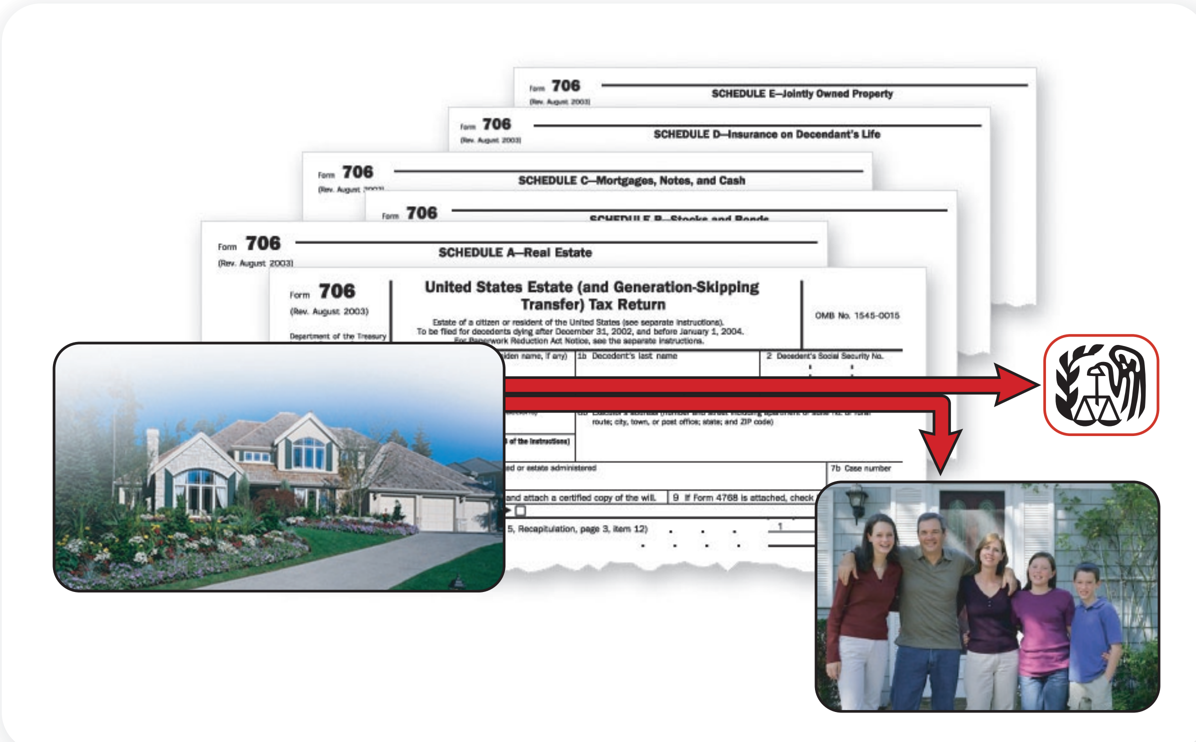
The American Taxpayer Relief Act of 2012 became law January 2, 2013. It applies to deaths and gifts made in 2013 and later.

The calculations contained in this material generally reflect the law established under the American Taxpayer Relief Act of 2012 (Tax Act of 2012). Among other changes, the Tax Act of 2012 establishes maximum exclusion amounts of $5,000,000 per person, adjusted for inflation after 2011, for transfer tax purposes, establishes a maximum transfer rate of 40%, and provides for portability of the estate tax exclusion between spouses.

You've worked a lifetime to accumulate your estate.

All assets in which you have an interest, plus all assets owned by you at your death, are included in your estate for estate tax purposes (assets in an irrevocable life insurance trust, including life insurance proceeds in which you had no incidents of ownership, will generally *not* be included in your taxable estate). Estate taxes and other transfer costs generally must be paid before the balance of your estate is distributed to your heirs.

At your death, the federal government imposes an estate tax on all property passing from you to your heirs.



Form 706 is the IRS Estate Tax Return form that lists a person's assets that are subject to estate taxes. The return is due within nine months of death and the tax payment that accompanies it must be made in cash. The payment made with this form can exceed half of your estate.

The same government office that estimates that the average Form 1040 (the Income Tax Return Form) can be completed in minutes also estimates that the average completion time for Form 706 is over 33 hours.[1] The form has 21 schedules for describing assets in detail.

[1] Source: Office of Management and Budget, Paperwork Reduction Project (1545-0015), Washington, DC 20503.

Federal estate taxes can be the largest transfer costs. Additional transfer costs due at death may include:

- **Debts**
- **State Death Taxes**
- **Funeral Expenses**
- **Probate Fees**
- **Legal and Administrative Fees**
- **Income Taxes**

How much could these add to the cost of transferring your estate?

Transfer costs are all the taxes and expenses involved with transferring your estate to your family. In addition to estate taxes, many other transfer costs may be incurred during the process of settling your estate.

There are steps you can take now to transfer more of your estate to your heirs.

Step 1: **Identify your estate transfer costs.**

Step 2: **Use available tax breaks to reduce transfer costs.**

Step 3: **Determine the best method of paying the remaining costs.**

Using wealth preservation strategies before death can reduce estate transfer costs. Estate taxes can seldom be completely eliminated, but they can often be greatly reduced.

The first step is to identify the problem–the estate transfer costs. Until you identify these costs, you can't do anything about them.

The second step is to use available tax breaks to reduce these transfer costs. Every individual can use one applicable credit that can minimize federal estate taxes, but taking proper action is necessary to ensure efficient use of this credit.

Your life insurance may be arranged so that it is not taxed in your estate, increasing its effectiveness. The use of lifetime gifts can pass assets to your family that might otherwise be taxed in your estate. Every available tax break should be examined to see how well it meets your overall goals. After identifying the problem and reducing the transfer costs as much as possible, while maintaining your lifestyle requirements, the final step is to determine the least expensive method of paying these remaining costs.

All to Surviving Spouse

Assumes Edward and Tina Die in 2025

Current Net Estate	$13,000,000
Future Growth[1]	2,846,927
Existing Life Insurance	500,000
Total	$16,346,927

Estate of Surviving Spouse
$16,346,927

After Tax Estate
$13,862,770

Taxes and Expenses[2]
$2,484,157
15.2%

Distribution to Heirs

After Tax Estate	$13,862,770

Distribution to Family: 84.8%

[1] These calculations are based on projected estate values 10 years from today growing at 2.000% per year.
[2] The American Taxpayer Relief Act of 2012 became law on January 2, 2013. These calculations assume an estate tax return is timely filed at the first spouse's death that includes an election to allow the deceased spousal unused exclusion amount (DSUEA) to be used by the surviving spouse.

This presentation is not a financial plan.

By-Pass Trust and Other Transfers

Assumes Edward and Tina Die in 2025

Federal Estate
Taxes and Expenses
At First Death
$641,560 (3.9%)

Current Net Estate	$13,000,000
Future Growth[1]	2,846,927
Existing Life Insurance	500,000
Total	$16,346,927

By-Pass Trust and Other Transfers
$6,610,000

Estate of Surviving Spouse
$9,095,367

After Tax Estate
$7,536,991

Taxes and Expenses[2]
$1,558,376
9.5%

Distribution to Heirs

After Tax Estate	$7,536,991
By-Pass Trust and Other Transfers	6,610,000
Total	$14,146,991

Distribution to Family: 86.5%

[1] These calculations are based on projected estate values 10 years from today growing at 2.000% per year. Actual results may vary. Assumes properly structured trusts.
[2] The American Taxpayer Relief Act of 2012 became law on January 2, 2013.

This presentation is not a financial plan.

By-Pass Trust and Life Insurance Trust

Assumes Edward and Tina Die in 2025

Federal Estate Taxes and Expenses At First Death
$641,560 (3.9%)

Current Net Estate	$13,000,000
Future Growth[1]	2,846,927
Existing Life Insurance	500,000
Total	$16,346,927

By-Pass Trust and Other Transfers
$6,610,000

Estate of Surviving Spouse
$8,595,367

Life Insurance Trust[3]
$500,000

After Tax Estate
$7,269,391

Taxes and Expenses[2]
$1,325,976
8.1%

Distribution to Heirs

After Tax Estate	$7,269,391
By-Pass Trust and Other Transfers	6,610,000
Life Insurance Trust	500,000
Total	$14,379,391

Distribution to Family: 88.0%

[1] These calculations are based on projected estate values 10 years from today growing at 2.000% per year. Actual results may vary. Assumes properly structured trusts.
[2] The American Taxpayer Relief Act of 2012 became law on January 2, 2013.
[3] Gift tax implications of transferring an existing life insurance policy to an ILIT must be considered.

How would you pay this bill now?

Estate Taxes and Expenses

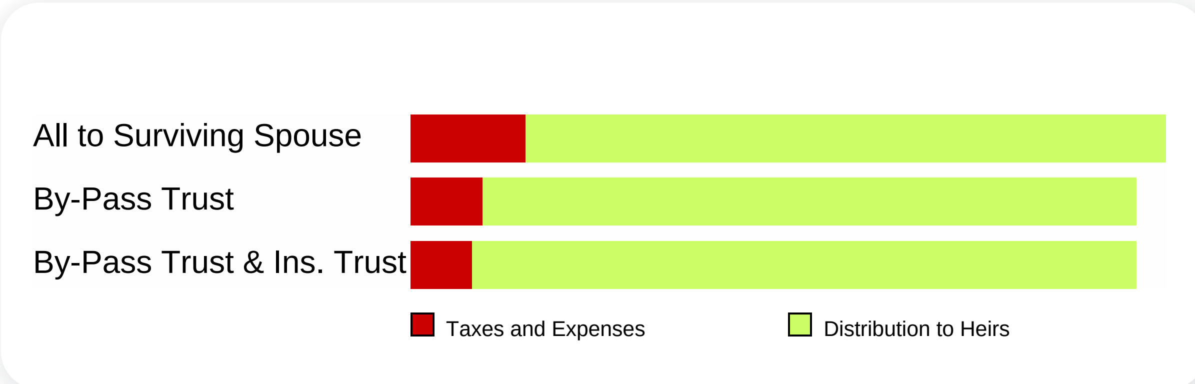
Date Due: 9 Months

Total Net Estate in 2025	$16,346,927
Estate Tax	$1,359,321
Additional Expenses	$608,215
Total Due In Cash	**$1,967,536**

How will your family pay it at your death?

Your estate doesn't actually receive a bill for estate taxes and expenses, but if it did, it might look like the bill above. Like other bills, estate taxes and expenses must be paid on a timely basis. Your family can enjoy only what is left after this bill is paid.

Proper preparation helps reduce taxes and increase your family's inheritance.



Based on the flow chart "All to Surviving Spouse," these values reflect a simple will leaving everything to the surviving spouse. The chart shows the distributions to the family at the surviving spouse's death of $13,862,770.

A By-Pass Trust is established by your will, funded with up to $6,610,000. Trust income can be given to your spouse, but ultimately the trust's assets will pass to your designated heirs. The applicable credit is equal to the federal estate taxes due on the first $6,610,000 of your estate, so the By-Pass Trust can be used to take advantage of this credit at your death. The assets in the By-Pass Trust will not be taxed in the estate of your spouse either. Thus, the By-Pass Trust allows up to $6,610,000 of assets to be passed to your family free of estate taxes. A By-Pass Trust is sometimes referred to as a credit shelter trust or a family trust. The chart shows the distribution to the family at the surviving spouse's death using a By-Pass Trust of $14,146,991.

Based on the flow chart "By-Pass Trust, Other Transfers, and Life Insurance Trust," this option uses both the applicable credit By-Pass Trust and the Life Insurance Trust to reduce the federal estate taxes. Note that the transfer of a life insurance policy to a trust may result in some gift taxation, based on the cash value of the policy at the time of transfer.[1] The chart shows the distribution to the family at the surviving spouse's death using a By-Pass Trust and Insurance Trust of $14,379,391. Consult your tax attorney.

The American Taxpayer Relief Act of 2012 became law on January 2, 2013. These values represent federal estate tax rates in 2013 and beyond. The maximum tax rate is 40%. The maximum exclusion amount is $5,000,000 per person, adjusted for inflation after 2011.

[1] If the insured dies within 3 years of making a gift of the policy, the death proceeds will be included in the insured’s gross estate for estate tax purposes.

How would you pay this bill now?

Use Cash

- It's unlikely that there will be enough cash to pay taxes and other expenses.
- Cash is subject to estate taxes.
- Using cash may leave your family with little or no liquidity.

Liquidate

- A quick sale or liquidation often yields far less than market value.
- It may be difficult to find a buyer in time.
- Your family may not want to sell special assets.
- Assets are subject to estate taxes.

Borrow the Money

- The borrowed money must be repaid with interest.
- It may be difficult to find a lender in time.
- It may be difficult to negotiate favorable rates and items.

Borrow from the Government (IRC Section 6166)

- Your estate may not qualify.
- Deferral is available only for the estate tax on business and farm assets.
- There will be an IRS lien on the assets.
- The IRS may require a bond to guarantee payment.

There is another choice!

The Insurance Solution

- **It creates liquidity at the precise time it is needed.**
- **It can help pay estate transfer costs.**
- **It can permit your family to inherit more of what you've worked a lifetime to accumulate.**

Life insurance proceeds can provide the liquidity needed to pay all of your estate transfer costs. These funds can be available to pay administrative costs and estate taxes (which are due within nine months of death) without forcing the executor to sell estate assets to raise the necessary cash. Premium payments are made during your lifetime so that the death proceeds will be available to pay some or all of the estate's transfer costs on a timely basis.

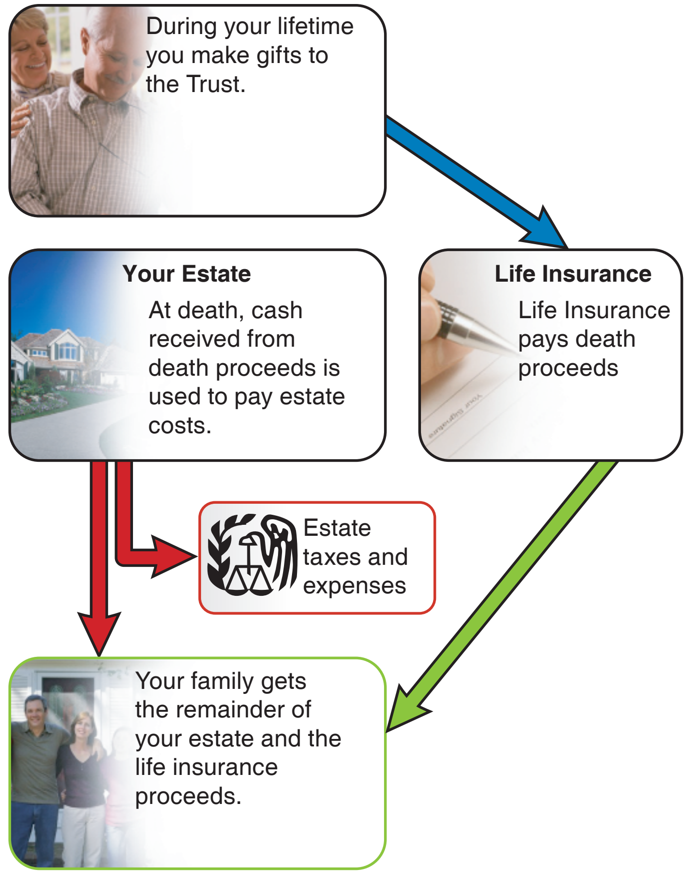
Life insurance can provide benefits at a reduced cost!

The cost of each dollar of life insurance death benefit is often significantly less than a dollar. This cost varies based on the age, sex, and health of the insured.

Your Dollars

Use your dollars to pay transfer costs. Needed cash comes from the dollars you've worked a lifetime to accumulate.

With Life Insurance



Insurance should be arranged so that it will not be included in your estate. The life insurance provides the needed dollars which can be used to help replace dollars lost to transfer costs. The proceeds could be used to purchase assets from the estate or loan money to the estate—giving the estate cash for transfer costs and getting estate assets to heirs.

Life insurance provides dollars to help replace the wealth lost.

Life Insurance Trust Conserves Your Estate

Assumes Edward and Tina Die in 2025

Federal Estate Taxes and Expenses At First Death $641,560 (3.5%)

Current Net Estate	$13,000,000
Future Growth[1]	2,846,927
Existing Life Insurance	500,000
Total	$16,346,927

By-Pass Trust and Other Transfers
$6,610,000

Estate of Surviving Spouse
$8,595,367

Life Insurance Trust[3]

Existing	$500,000
New	$1,967,536
Total	$2,467,536

After Tax Estate
$7,269,391

Taxes and Expenses[2]
$1,325,976
8.1%

Distribution to Heirs

After Tax Estate	$7,269,391
By-Pass Trust and Other Transfers	6,610,000
Life Insurance Trust	2,467,536
Total	$16,346,927

Distribution to Family: 100.0%

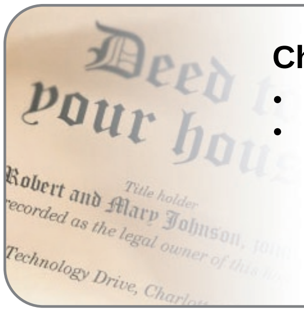
[1] These calculations are based on projected estate values 10 years from today growing at 2.000% per year. Actual results may vary. Assumes properly structured trusts.
[2] The American Taxpayer Relief Act of 2012 became law on January 2, 2013.
[3] Gift and estate tax implications of transferring an existing life insurance policy to an ILIT must be considered. Death within 3 years will result in inclusion of proceeds in the estate.

This presentation is not a financial plan.

In Summary

- **Proper wealth preservation strategies can help reduce the estate transfer costs due at your death.**
- **The use of wealth preservation strategies can help increase your family's inheritance.**
- **By taking the proper steps, you can help protect what you've worked a lifetime to accumulate.**

Review Your Strategy*



Check the ownership of assets

- Examine joint ownership of assets
- Check community property and local laws that affect assets

Examine existing contracts

- Buy-sell agreements
- Trusts
- Life insurance policies and annuities
- Review beneficiary designations

Understand employer provided benefits

- Medical coverage
- Disability insurance
- Group benefits
- Retirement plans
- Severance benefits

Read your will

- Identify assets controlled by your will
- Determine who gets what
- Is your will consistent with your desires?
- Review designations of beneficiaries

Create a strategy

- Restructure ownership of assets
- Create new trusts if needed
- Change life insurance owners and beneficiaries
- Revise your will

* You should consult an attorney on all legal aspects of any strategy.

The Next Step

1. **Gather needed information**
   - Client's goals and objectives
   - Assets: type, value, ownership, projected growth, etc.
   - All deeds, wills, existing contracts or trust agreements

2. **Analyze situation**
   - Are the client's goals being met?
   - Look at potential changes and how they affect goals

3. **Get recommendations from advisors**
   - Potential methods of reducing the taxable estate
   - Most effective arrangement of insurance
   - How to pay the remaining taxes
   - Maintain client's objectives and lifestyle requirements

4. **Put your strategy into effect**
   - Restructure ownership of assets[1]
   - Create new trusts if needed[1]
   - Change life insurance owners and beneficiaries
   - Revise your will[1]
   - Change beneficiary designations

[1] Should be done by your attorney.

Supporting Details

for

Edward and Tina Collins

Estate Calculation Details

Assumes Edward and Tina Die in 2025

Assumptions

Client Name:	Edward Collins
Spouse Name:	Tina Collins
Current Estate Value	$13,000,000
Growth Rate of All Assets	2.000%
Years to Project	10
Transfer Costs	4%
Total Existing Life Insurance	$500,000
Total New Life Insurance	$1,967,536
Tax State	Connecticut

Federal Inflation Rates for Applicable Exclusion Amount is 2.000%
Calculate Insurance amount needed.

Flow Chart Calculations

	All To Spouse	By-Pass Trust	By-Pass & Life Insurance Trust	By-Pass & Life Insurance Trust with New Life Insurance
Current Estate	**$13,000,000**	**$13,000,000**	**$13,000,000**	**$13,000,000**
plus Future Growth (2.000% for 10 years)	2,846,927	2,846,927	2,846,927	2,846,927
plus Existing Insurance Inside Estate	500,000	500,000	0	0
Future Gross Estate	**$16,346,927**	**$16,346,927**	**$15,846,927**	**$15,846,927**
minus Probate and Admin (4%)	0	264,400	264,400	264,400
minus By-Pass Trust	0	6,610,000	6,610,000	6,610,000
Connecticut Estate/Inheritance Tax[1]	0	377,160	377,160	377,160
Total Deductions	**$0**	**$7,251,560**	**$7,251,560**	**$7,251,560**
Distribution to Spouse	**$16,346,927**	**$9,095,367**	**$8,595,367**	**$8,595,367**
minus Probate and Admin (4%)	633,877	343,815	343,815	343,815
Tentative Tax Base	**$15,713,050**	**$8,751,552**	**$8,251,552**	**$8,251,552**
Federal Tax Before Credits	5,662,314	3,207,794	3,029,394	3,029,394
minus Applicable Credit	5,233,800	2,589,800	2,589,800	2,589,800
Connecticut Estate/Inheritance Tax[1]	1,421,766	596,568	542,568	542,568
Total Net Taxes	1,850,280	1,214,562	982,162	982,162
Total Net Taxes, Probate, and Admin	**$2,484,157**	**$1,558,376**	**$1,325,976**	**$1,325,976**
Estate Transferred to Heirs	**$13,862,770**	**$7,536,991**	**$7,269,391**	**$7,269,391**
plus By-Pass Trust	0	6,610,000	6,610,000	6,610,000
plus Insurance Outside Estate	0	0	500,000	2,467,536
Total Distribution to Heirs	**$13,862,770**	**$14,146,991**	**$14,379,391**	**$16,346,927**

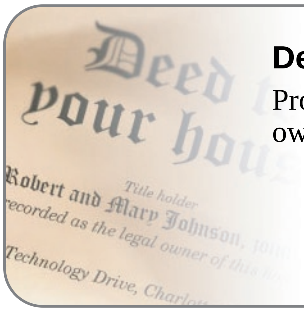
[1] Calculations assume the net estate outside the marital deduction will pass to decedent's children for Connecticut estate/inheritance tax purposes.

Resources

for

Edward and Tina Collins

How Property Passes at Death

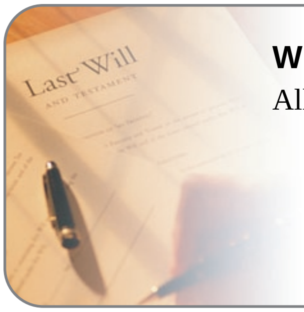


Deed

Property owned jointly with survivorship rights passes to the surviving joint owner.

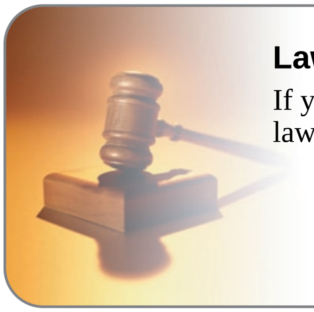
Contract

A life insurance policy is an example of a contract that pays death benefits to a named beneficiary.



Will

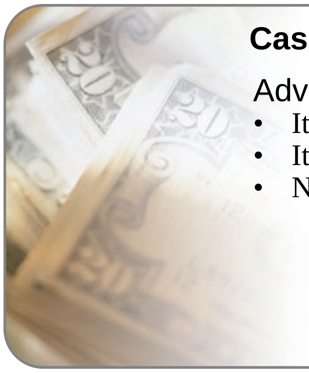
All remaining property is distributed according to the terms of the will.



Law

If you have no will, the remaining property is distributed according to state law.

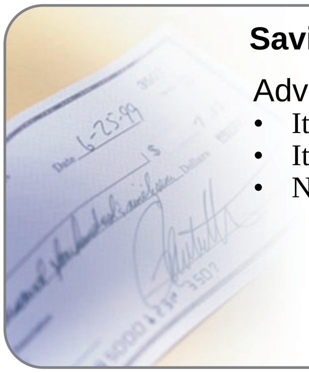
How Families Pay Estate Taxes



Cash on Hand

Advantages
- It's easy to use.
- It's always available.
- No interest costs.

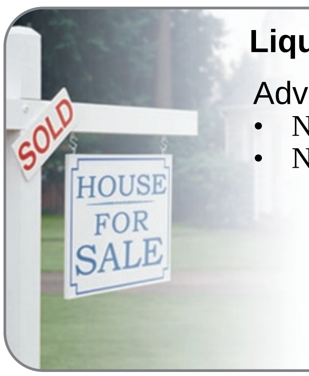
Concerns
- Who has that amount of cash?
- Cash is subject to estate tax.
- May be better uses for cash.
- Your creditors may want it.



Savings

Advantages
- It's easy to use.
- It's always available.
- No interest costs.

Concerns
- Not enough time to save it.
- Income tax may impede growth.
- Cash is subject to estate tax.
- May be better uses for cash.
- Your creditors may want it.

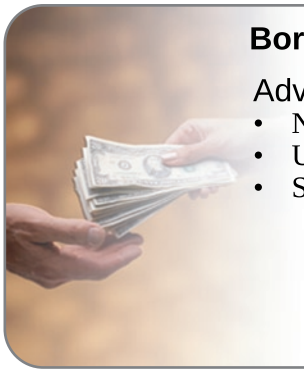


Liquidating Assets

Advantages
- No need to save during life.
- No interest costs.

Concerns
- Can't find a buyer.
- Can't get full value.
- Buyer doesn't have all the money.
- Sale takes too long.
- Assets are subject to estate tax.
- Family may want to keep the asset.
- There is a cost to sell assets.

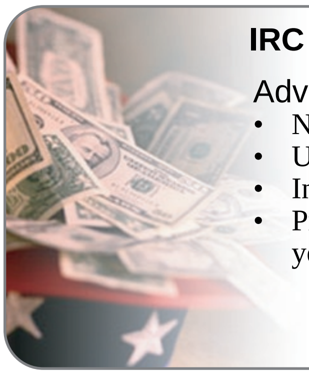
How Families Pay Estate Taxes (Continued)



Borrowing

Advantages
- No immediate outlay.
- Uses other people's money.
- Single sum transfer.

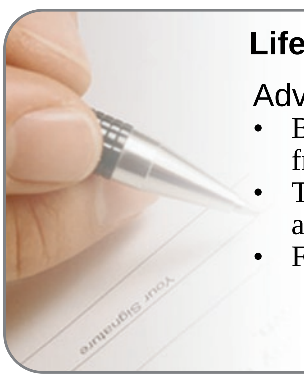
Concerns
- Can't find a lender.
- Interest charges can be high.
- Can you pay back the principal?
- Loan payments impede lifestyle.
- Lien on assets.



IRC Section 6166: Borrowing from the Government

Advantages
- No immediate outlay.
- Uses government's money.
- Interest only for 4 years.
- Principal and interest for 10 years.

Concerns
- Estate may not meet requirements.
- Not available for non-business assets.
- Miss a payment and loan is due.
- IRS lien on business or farm.
- Can you pay back the principal?
- Installments can outlast the business.



Life Insurance

Advantages
- Benefits are paid income tax free. (See IRC 101(a).)
- Tax-deferred cash accumulations.
- Flexible outlay options.

Concerns
- Requires annual premiums.
- Must take a medical exam to qualify.
- If benefits are estate tax free, you can't own it.

I Have Enough Liquidity

Do you assume that your liquid assets will be used to pay taxes?

Lack of sufficient liquidity can be a pressing concern. If there is not enough liquidity in the estate, assets are often sold at sacrifice prices to raise cash within nine months. Many individuals therefore focus on ensuring adequate liquidity to pay expenses, debts, and taxes. This may only be a partial solution. This strategy may prevent the forced sale of fixed assets, but it doesn't allow the heirs to receive the liquid assets in the estate. A successful wealth preservation strategy must not only consider liquidity needs, but also consider transferring all the assets in the estate, including the liquid assets, to the heirs.

Why Use a Trust?

1. **Allows greater flexibility**

2. **May provide more investment options**

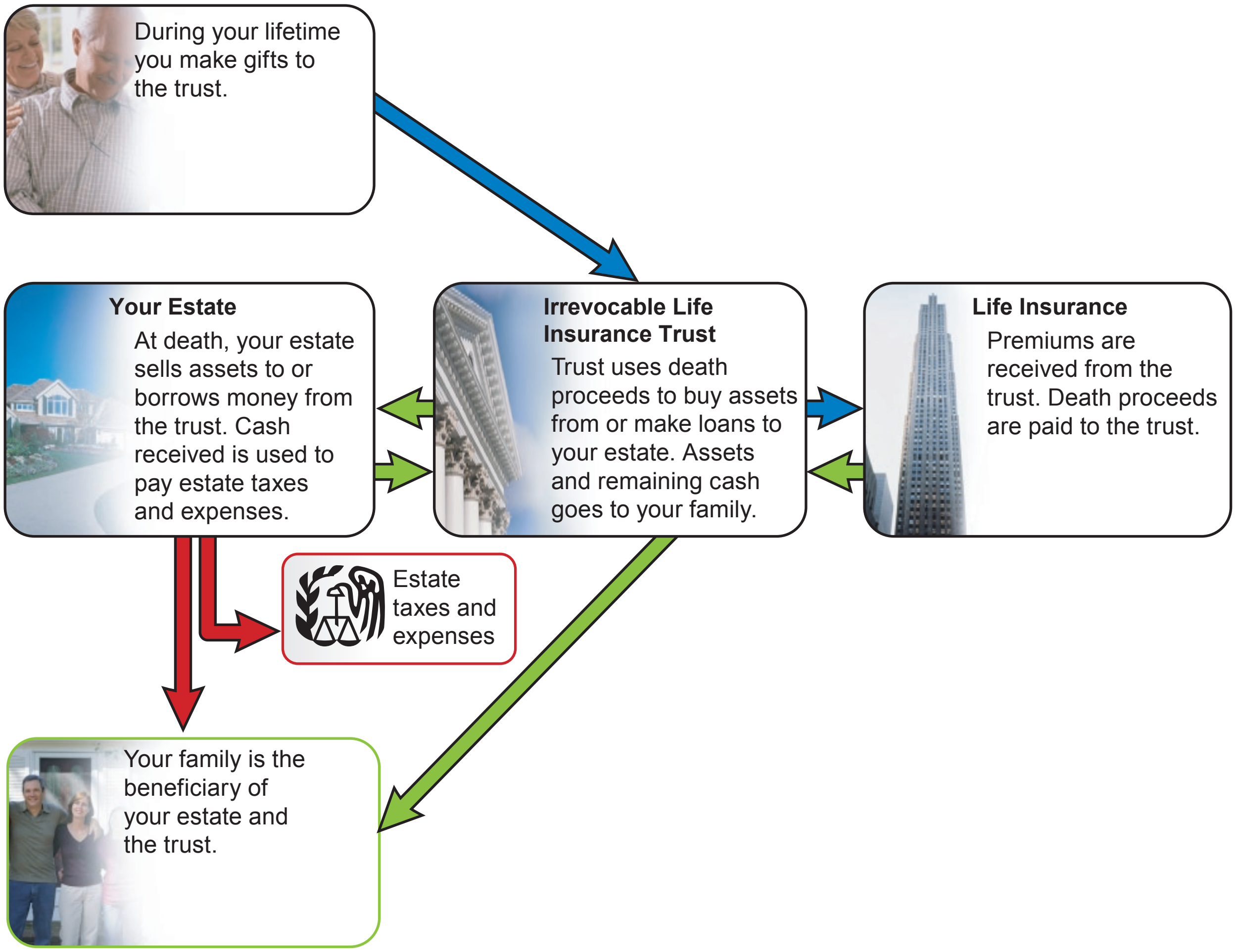
3. **Saves the expense of guardians**
   - Trustee acts on behalf of minor beneficiaries
   - May save expenses of guardianship

4. **Provides desired restrictions and limitations**
   - Rules for use of trust funds
   - May keep life insurance out of probate estate

5. **May reduce or eliminate estate taxes**
   - May remove some assets (including life insurance proceeds) from the taxable estate
   - May reduce or eliminate estate taxes at spouse's death

Note: There are several types of trusts, including the revocable living trust and the irrevocable life insurance trust. Different trusts meet different needs. Consult with your legal/tax advisor to determine whether a particular type of trust would be beneficial for you.

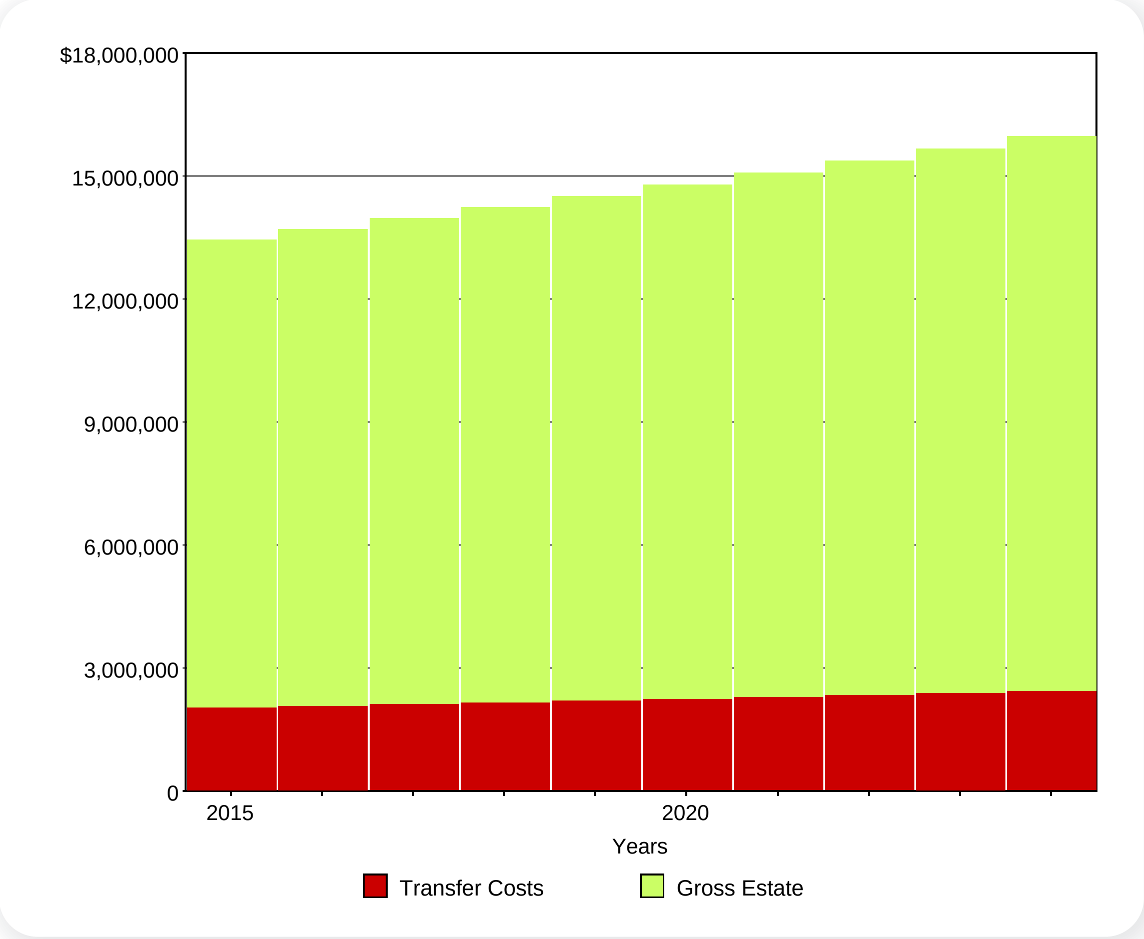
How an Insurance Trust Works



Your estate is taxed before your family receives your assets. An irrevocable trust, properly established and funded with life insurance, is not taxed at your death. The trust can make loans to or buy assets from your estate for cash. The estate uses the cash to pay estate taxes and expenses. Your heirs, as trust beneficiaries, inherit the trust assets.

Needs Over Time

All to Surviving Spouse

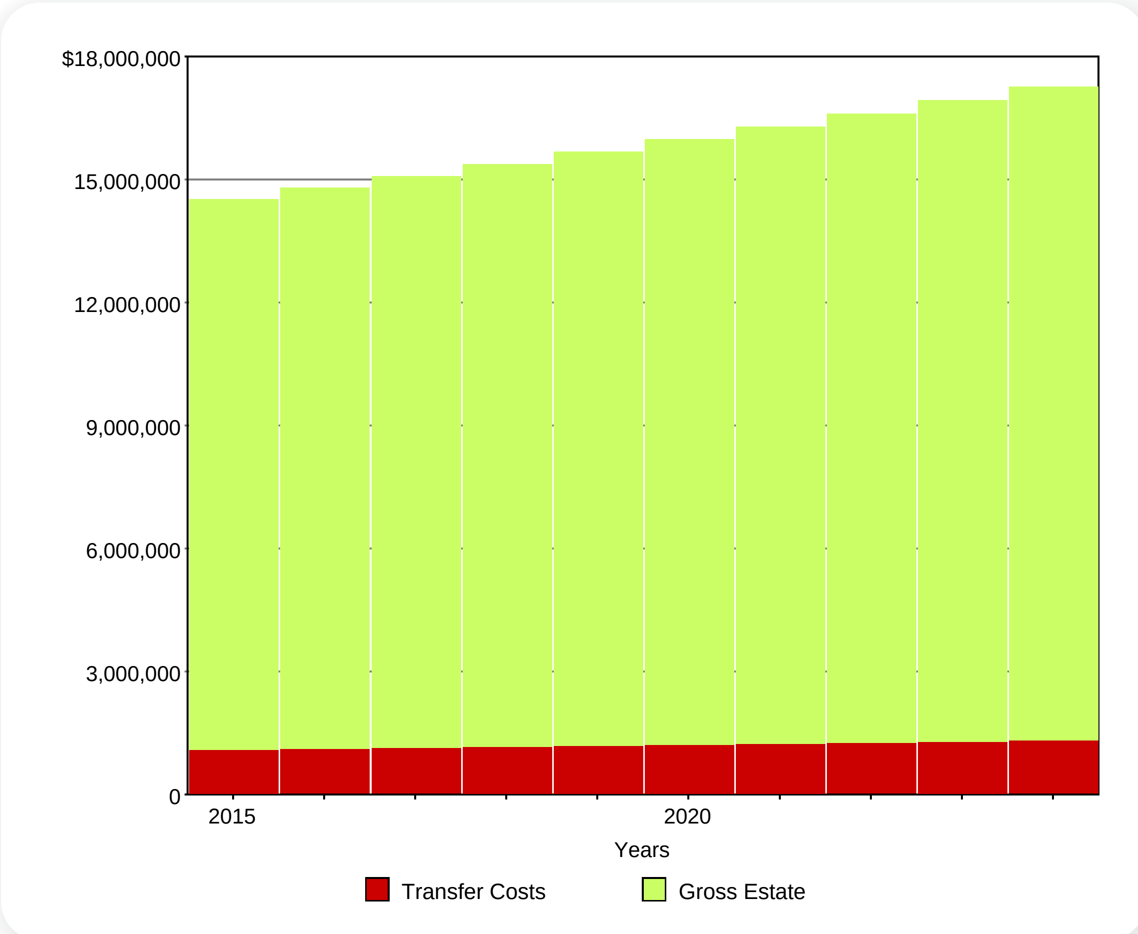


This graph shows the effect of federal estate taxes and expenses on your estimated estate if you and your spouse die in the year shown. Calculations assume the same techniques used in the "All to Surviving Spouse" flow chart.

The Tax Act of 2012 allows an individual who dies in 2013 or later to pass $5,000,000 to their heirs free of federal estate tax. This exclusion is adjusted for inflation after 2011. Unused exclusion amounts may be passed to the surviving spouse (portability) provided an election is made on a timely filed estate tax return of the deceased spouse.

Needs Over Time

Using a Life Insurance Trust to Conserve Your Estate



This graph shows the effect of this law on your estimated estate if you and your spouse die in the year shown. Calculations assume the same techniques used in the "Life Insurance Trust Conserves Your Estate" flow chart.

The Tax Act of 2012 allows an individual who dies in 2013 or later to pass $5,000,000 to their heirs free of federal estate tax. This exclusion is adjusted for inflation after 2011. Unused exclusion amounts may be passed to the surviving spouse (portability) provided an election is made on a timely filed estate tax return of the deceased spouse.