ESTATE PLANNING

A BIBLICAL PERSPECTIVE

The manner in which you leave your estate-money, possessions and legacy-will have significant impact on your heirs. Besides distributing your assets, an estate plan can be used to communicate values and character. What do you want to communicate?

The inheritance that you leave your heirs is not only material, but also spiritual. If you plan to leave significant wealth to your children, make sure sufficient time has been spent instilling biblical wisdom on how to handle resources. The key to this is to verbalize your values while you are living, teaching your heirs to be productive and not consumptive.

Consider giving some assets early, before death, to assist with this training process. Passing an entire estate to children may not be wise in all cases. Refer back to the *Life Overview* diagram in the "Goals" section that depicts the need to build spiritual and social capital into children before leaving financial capital.

Family conferences can be an effective forum for inter-generational dialogue, acting as a training tool for the next generation as well as promoting family harmony.

"If I would get to the highest place in Athens, I would lift up my voice and say, 'What mean you, fellow citizens, that you turn every stone to scrape wealth together, and take so little care of your children to whom you must one day relinquish it all?'"

Socrates (469 BC)

"Wisdom along with an inheritance is *good and an advantage to those who see the sun. For wisdom is protection just as money is protection. But the advantage of knowledge* is *that wisdom preserves the lives of its possessors."* ECCLESIASTES 7:11-12

ESTATE PLANNING IDEAS & QUESTIONS

READ: PROVERBS 13:22
Estate planning balances family provision with charitable giving.

READ: ECCLESIASTES 2:18-19
The inheritance left to the next generation should be an amount that will not destroy self-esteem, marriages, work ethic, etc.

READ: PROVERBS 11:4
Your estate planning decisions may be your final testimony to your heirs.

READ: LAMENTATIONS 3:27, PROVERBS 22:6
Consider giving a portion of your estate away to your children while you are alive so that you can train and observe them.

READ: LUKE 15:11.14
In the parable of the prodigal son, we see the disappointing result of giving large sums of money to one who is untrained.

READ: PROVERBS 22:6
Teach your children financial stewardship. Look at your present family giving (e.g., allowances) as a discipleship tool. Help your children develop a plan as to how they will spend what you give them.

OBJECTIVES TO CONSIDER
To what amount do you believe God wants to see your estate grow? Why?

What is your vision for the ultimate distribution of your estate?

If applicable, how are you currently discipling your children in the area of financial stewardship?

- How are you encouraging them to develop a spending plan that allows for giving and saving?
- How are you providing a good example for them to follow?
- What spiritual disciplines, abilities, or positive character traits do your children currently possess?
- How are you teaching them to be productive versus consumptive?

ESTATE PLANNING CONSIDERATIONS

In evaluating your estate plan, it is important to determine exactly what you want to accomplish. Following are some considerations that should be part of every well-defined estate plan.

Financial Resources Distribution

There are only four alternatives available for the final distribution of your financial resources;

- Family and friends
- Charity
- Government (taxes)
- Settlement Expenses

Plan this allocation after spending time with God. Try to quantify where your estate should ultimately end up, then estate documents can be drafted accordingly.

Estate Liquidity

Liquidity provides the financial flexibility needed during the transition period immediately following one's death before assets can be officially transferred, retitled, and released. It also assists in preventing the sale of non-liquid assets during an unfavorable economic climate when they might lose their true value. In addition, liquidity may facilitate paying any necessary taxes and can make it easier to distribute an estate among several beneficiaries.

Ease of Estate Management and Administration

The days and months following the death of a close loved one are emotionally overwhelming, but with expert counsel and solid estate planning, settling a loved one's estate can be handled efficiently and without the headaches that can come from lack of planning.

Care for Immediate Family and Grown Children

When children are young, guardianship in the event of death of both parents must be addressed. Future educational, physical, mental and emotional needs must also be addressed. For grown children, there is a fine line between provision and protection. Provision should be to the extent that the child has the opportunity to trust God to work in his/her life. Become aware of the differences in children--differences in age, temperament, demonstrated ability to handle money, spiritual maturity, comfort with marriage partners, and their children. It is the responsibility of parents and grandparents to entrust God's resources to children only if they have demonstrated the ability to handle those resources in a manner that would be pleasing to the One who is the owner of it all.

Estate Planning Considerations

Continued

CHARITABLE GIVING

Implementing your desired charitable giving strategy can be accomplished in part through your estate plan. In large estates it is sometimes difficult to eliminate large estate tax liabilities without the use of charitable bequests. These bequests can be outright or in the form of various trusts. See the "Strategic Giving" section for more details.

YOUR PERSONAL TESTIMONY

A will can provide a public record of your Christian testimony, not only for your children, but also for anyone else who reads the document, including attorneys, judges, accountants, and family members. A more detailed discussion of wills follows in this section.

FUTURE PLANNING FLEXIBILITY

Because circumstances and desires change over time, make sure you prayerfully consider any irrevocable decisions within your estate plans.

ESTATE TAX PLANNING

There are many technical aspects to estate planning, including numerous methods to minimize estate taxes. Current tax law allows each individual to pass a set amount to his or her heirs tax-free. This tax exemption is commonly known as the applicable exclusion amount or unified credit. In designing an estate plan, it is imperative that the ownership of assets and naming of beneficiaries be coordinated with the legal provisions included in your estate documents. This coordination is important because several assets, such as jointly-held property, life insurance, and retirement plans, pass directly to beneficiaries—regardless of the provisions of your will. Thus, even well-written estate documents (wills) can be ineffective without appropriate planning.

TOOLS FOR ESTATE PLANNING

TRUSTS A trust is a vehicle that provides direction for the management and distribution of assets over a period of time. It can be used to help avoid probate costs and as an effective tax planning tool. A trust exists as a separate taxable entity and involves three parties: a trustor or grantor (the one who sets up the trust); a beneficiary (the one who receives some beneficial interest in the trust); and a trustee (the one who is responsible for managing the trust).

Many types of trusts exist to meet individual estate planning needs. The following are the most common:

Revocable Living Trust

This trust is set up during the grantor's life and can be dissolved at any time. This trust provides privacy with regard to the distribution of estate assets because there is no court record made of those assets and their distribution. Additionally, it provides for ongoing management fees subtracted from the trust at the discretion of the grantor. The living trust is most beneficial for: reducing of the assets, should the grantor become incapacitated.

Marital Trust

This trust, sometimes known as Trust A, is used to pass assets to a surviving spouse and is established through the will. In general, there is no federal estate tax upon the death of the first spouse. Thus, assets are received in this trust without taxation. The marital trust provides for ongoing administration and asset management on behalf of the surviving spouse.

Residual Trust

This irrevocable trust is also known as Credit Shelter Trust, Trust B, Family Trust, Applicable Exclusion Trust. It is generally established after the death of the grantor and allows the estate to take full advantage of the unified credit or applicable exclusion amount. During the life of the surviving spouse, he/she can have full access to all of the income generated by the trust, but the principal is required to remain intact for the children. However, the tax code stipulates certain situations (health, education, maintenance and support) in which trust principal can be accessed by the trustee on behalf of the surviving spouse.

ANNUAL GIFT EXCLUSION

The Annual Gift Exclusion is an excellent method to reduce the size of the taxable estate during one's lifetime. In 2005 each donor can make a $11,000 gift to an unlimited number of recipients. For example, a husband and wife could jointly give a total gift of up to $44,000 to each married child and their spouse.

WILLS

Leaving a Legacy

Your will provides written documentation of your wishes, thereby preventing the state of your residence from appointing executors, guardians, and trustees who are not known to you. A will is the basic building block of your estate plan. Its primary purpose is to provide for the distribution of your property and to appoint individuals and/or institutions to certain key roles. The type of will appropriate for your estate depends on the size and complexity of your individual financial situation.

Who's Who in Your Will

Before drafting your will, you need to prayerfully consider the following appointments which are in every way as important as the technical decisions of how and when to leave your property:

Executor: The executor is responsible for assembling the property belonging to the estate; safeguarding and insuring the estate property during the period of estate settlement; temporarily managing the estate while it is being settled; paying estate taxes and expenses; accounting for the estate administration; and making distribution of the net estate to the heirs. The duties of the executor can be time-consuming, frustrating, and complicated. To a surviving spouse they can be overwhelming. In the will, a qualified individual or corporate trust company can be chosen to assist or fulfill all duties.

Trustee: The trustee is responsible for managing the amount of the estate left in trust via the terms of your will and making distributions accordingly. The trustee can be corporate (such as a bank) or individual. We recommend having an individual trustee; if a bank is named, make sure the beneficiaries have the right to replace the trustee to enhance your heirs' flexibility.

Note: The executor and the trustee can be the same.

Guardian: The guardian is someone you would feel comfortable raising your children if something were to happen to both of you. Consideration should be given to the financial situation of the potential guardian, his/her health, age, spiritual maturity, and the compatibility of his/her values with yours.

You should select one person for each of the above, as well as an alternate.

TOOLS FOR ESTATE PLANNING
Continued

For larger estates, several other planning opportunities exist. Depending on your distribution objectives, some combination of the following techniques may be appropriate to consider:

INSURANCE PLANNING

Irrevocable life Insurance Trust (ILIT)

Life insurance proceeds are not considered taxable income, but they are part of the taxable estate. An ILIT removes the insurance proceeds from the taxable estate and transfers them to your beneficiaries, without tax consequences.

When funding an ILIT by transferring policies you currently own, you must survive the transfer by three years or the proceeds revert back to your estate. There is no survival period on newly issued policies.

The main disadvantages of the trust are the up-front administrative costs associated with the transfer, its irrevocability, and the potential lack of liquidity to the surviving spouse.

CHARITABLE PLANNING

Retirement Beneficiary Designations

Because most retirement assets have never been income taxed, they are subject to a double tax in your estate (income and estate tax). Depending on the size of your estate, this tax can be as high as 70%. However, by designating a charity as a contingent beneficiary (i.e., beneficiary after death of surviving spouse), you avoid both the income and estate taxes. The charity receives the full value of the gift.

Charitable Remainder Trust (CRT)

The CRT allows you to transfer appreciated assets to a trust on behalf of a charity and liquidate them at no tax cost to you or the trust.

You also receive a current income tax deduction for the gift, determined by the annual payout rate and the term of the trust. The trust beneficiary, usually the grantor, receives a stream of income payments with the remaining trust assets or corpus going to charity at a specific period of time. The use of a CRT allows you to diversify your assets and potentially increase your annual income when compared to the low-yielding assets you may currently hold.

The CRT is irrevocable, so any gift made is no longer available for your personal use.

TOOLS FOR ESTATE PLANNING

Continued

Non-Grantor Charitable Lead Trust (CLT)

This trust has a pre-established annual payout rate that goes to the charities of your choice for a determined period of years, then the remaining assets transfer to your designated beneficiaries.

A gift to the trust offers you no tax deduction; however, net income earned on trust assets is taxed to the trust rather than to you personally and is offset by income distributed to charity. The investment return achieved by the trust assets-versus the payout rate to charity-will determine the ultimate value of the asset that transfers to your beneficiaries at the end of the trust term.

Because CLT payouts are made to charitable organizations rather than being paid out to you, the trust allows you to continue charitable giving on an annual basis, but shields your estate from the trust asset income.

The trust accounting can be somewhat complicated and requires ongoing administration. When contributing assets to a CLT, you make an irrevocable decision, which could create some inflexibility for future estate planning purposes.

FAMILY TRANSFER PLANNING

Qualified Personal Residence Trust (QPRT)

This trust allows you to place your primary and/or secondary residence in a special trust that passes the ownership of the residence to your heirs after a specified number of years. Because you are retaining the use of your home during this period, you obtain a sizable discount in the value of the gift versus the fair market value of the residence.

After the trust term is completed, your heirs become the actual owners of the residence. If your home appreciates in value in succeeding years, this simply adds to the value of the trust by shifting that appreciation out of your taxable estate. You may sell the residence during the trust term with no consequences if you re-invest the proceeds into a new residence.

You maintain the ability to deduct property taxes, and if you have a mortgage you may deduct the interest. Your heirs lose the stepped-up tax basis on the residence they would normally receive after your death. This results in a higher capital gain for them upon an eventual sale.

TOOLS FOR ESTATE PLANNING

Continued

Qualified Personal Residence Trust (QPRT) continued

After the trust term, you may arrange to continue to rent the home from your heirs, who are now the owners. For peace of mind, it may be appropriate to have a long-term lease agreement drafted at the time the trust is implemented.

Family Limited Partnership (FLP)

In this technique, you form a partnership with other family members designed to transfer your holdings to them at a discounted rate.

You can gift assets via limited partner interests, while maintaining control over those assets by retaining a general partner interest in the FLP. A limited partner cannot participate in the management of the FLP and cannot transfer his or her interest without the written consent of the general partner.

ESTATE PLANNING DECISION MAKING PROCESS

Decisions regarding structuring an estate should be thought out using a process-driven approach rather than a product-driven approach.

> *"Wisdom along with an inheritance is good and an advantage to those who see the sun. For wisdom is protection just as money is protection. But the advantage of knowledge is that wisdom preserves the lives of its possessors."*
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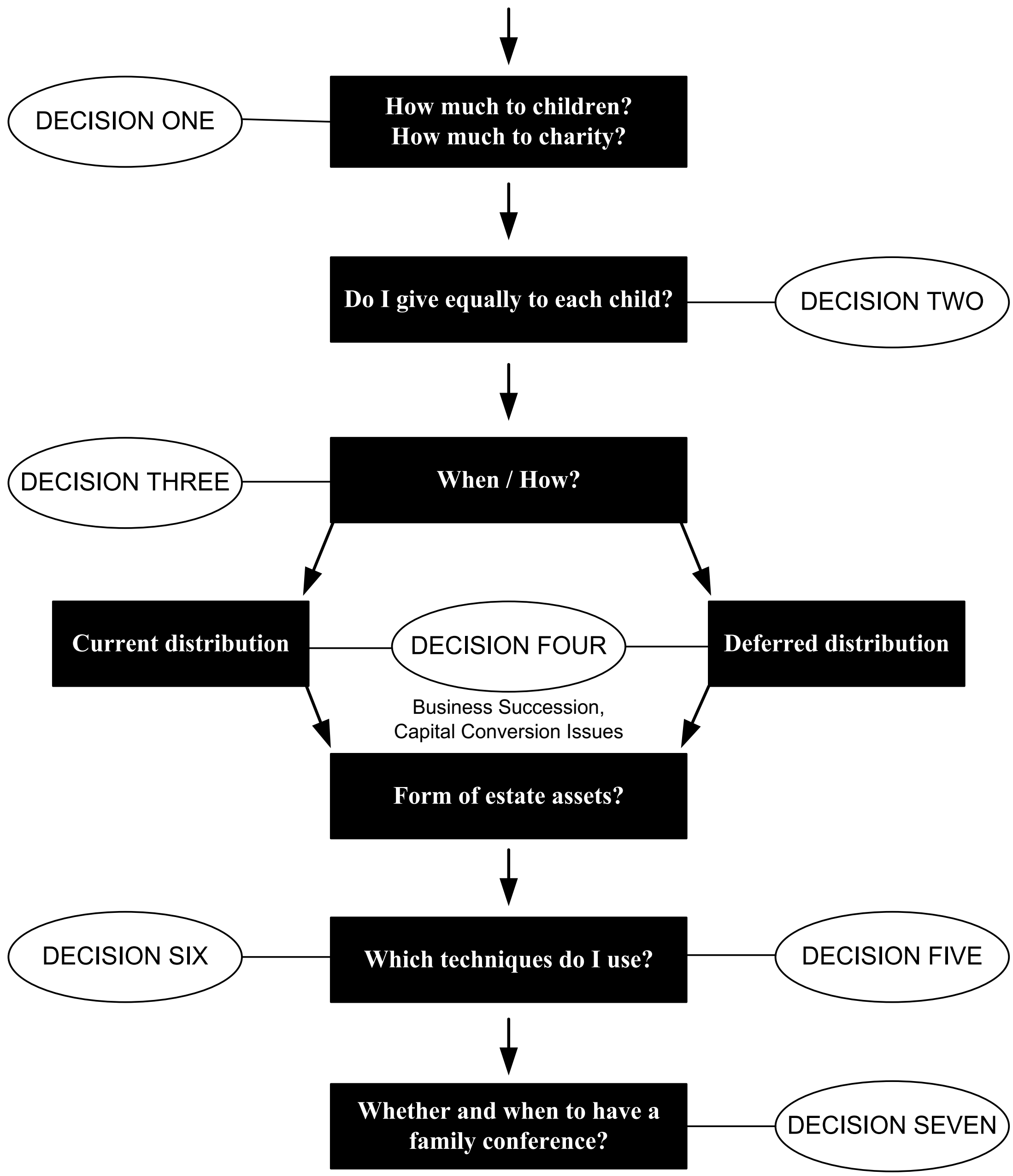
> ECCLESIASTES 7:11-12



Glossary Of Estate Planning Terms

APPLICABLE EXCLUSION AMOUNT: The amount of assets an individual can shelter from estate tax, from $1,500,000 in 2005 increasing to $2,000,000 in 2006 and $3,500,000 in 2009 (followed by repeal in 2010 and reversion to pre-2002 law in 2011, an exclusion of $1,000,000, unless changed by Congress in the interim). Prior to 2002 this exclusion was the same for gift tax purposes; the gift tax exclusion amount is fixed at $1,000,000—once aggregate gifts in excess of annual exclusions exceed this amount gift tax will be payable. The amount of the gift tax exclusion used during life reduces the applicable exclusion amount available at death

COMMUNITY PROPERTY: Nine states currently recognize this type of ownership: Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, and Wisconsin. Generally, assets acquired during a marriage in the above states are considered community property, and so are equally owned by the spouses.

ESTATE AND GIFT TAXES: Property can be transferred during life or at death through gifts to non-charitable organizations or individuals. In each case, the transfer of that property could be subject to taxation. Each individual has a unified credit that will offset the first portion of tax. However, property transferred to charitable organizations, either during life or at death, escapes all estate and gift taxes.

GRANTOR: One who establishes a trust and transfers property to it.

INTERVIVOS TRUST: This is a trust set up during life. An inter-vivos trust can have two characteristics. It can either be revocable, meaning the trustor or grantor can revoke, amend, or restate the trust at any time and even take back the property once it has been transferred to a trust.

JOINT TENANCY BY THE ENTIRETY: A form of joint ownership restricted solely to spouses that does not allow for property to be obtained by one tenant acting alone. Property is transferred automatically to the surviving spouse at the death of the co-owner. Assets transferred in this way avoid probate.

JOINT TENANCY IN COMMON: A form of joint ownership in which two or more persons share an undivided interest in the property. At the death of a tenant, ownership transfers to that person's designated beneficiaries or heirs, not to the other joint owner(s).

JOINT OWNERSHIP WITH RIGHT OF SURVIVORSHIP: A form of ownership in which two or more individuals share an undivided interest in the property. At the death of one individual, ownership of the decedent's share transfers equally to the surviving owners. Assets transferred in this way avoid probate.

MARITAL DEDUCTION: Assets can be transferred between spouses during life or at death without the imposition of a gift or estate tax. There are no limits to the deduction for assets transferred between spouses. Utilization of the marital deduction generally allows a couple to defer federal estate tax until the death of the second spouse.

POUR-OVER WILL: This type of will simply leaves everything of the first to die to a revocable living trust that has already been established. The revocable living trust then provides for the formation of other trusts or the distribution of the estate.

PROBATE: The process of determining the legality of a will and managing the transmission of the property from the decedent to the beneficiaries of the will, after the payment of debts, expenses and taxes.

SIMPLE WILL: Also referred to as an "I Love You Will," this type of will basically leaves everything to the surviving spouse with no trusts included for planning purposes.

Scriptural Insights On Estate Planning

"A good man leaves an inheritance to his children's children, and the wealth of the sinner is stored up for the righteous."
PROVERBS 13:22

"I hated all the things I had toiled for under the sun, because I must leave them to the one who comes after me. And who knows whether he will be a wise man or a fool? Yet he will have control over all the work into which I have poured my effort and skill under the sun. This, too, is meaningless."
ECCLESIASTES 2:18.19

"Riches do not profit in the day of wrath, but righteousness delivers from death."
PROVERBS 11:4

"It is good for a man that he should bear the yoke in his youth."
LAMENTATIONS 3:27

'Train up a child in the way he should go; even when he is old he will not depart from it."
PROVERBS 22:6

"Jesus continued, 'There was a man who had two sons. The younger one said to his father; 'Father; give me my share of the estate.' So he divided his property between them. Not long after that, the younger son got together all he had, set off for a distant country and there squandered his wealth in wild living. After he had spent everything, there was a severe famine in that whole country, and he began to be in need.'"
LUKE 15:11.14

'Their inner thought is that their houses are forever and their dwelling places to all generations. They have called their lands after their own names."
PSALM 49:11