

# Wealth Distribution Analysis



*The Impact of Your Planning*

For

**Robert Reynolds**

and

**Margaret Reynolds**

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# Important Notes

The following report compares hypothetical costs of settling your estate as it is currently arranged, with various gifting and planning alternatives. It provides only broad, general guidelines, which may be helpful in shaping your thinking about and in discussing your estate planning needs with your professional advisors. The quality of this report is dependent upon the accuracy of data furnished by you. No legal or accounting advice is being rendered by this report or through any other oral or written communications. This report provides estimates based on our general understanding of current tax laws. Unless otherwise 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, whether by direct gift or where such transfers may occur through trust or other arrangements where such persons may be beneficiaries. Please discuss legal and accounting matters directly with your counselors in each of those areas.

Calculations contained in this report are estimates only. Actual results may vary substantially from the figures shown. All rates of return are hypothetical and are not a guarantee of future performance of any asset, including insurance or other financial products. All inflation rates are estimates provided by you. This analysis is based on information provided by you. It should be kept in mind that property passes by deed first, next by contract, and then by will. To implement any planning option it may be necessary to change ownership or designated beneficiaries before your revised will and any planning options will be effective.

Because your estate planning concerns and goals may change in the future, periodically monitoring actual results and making appropriate adjustments are essential components of your program.

During the course of planning, gifting strategies may be proposed that include the acquisition of insurance and other financial products. When this occurs, additional information about the specific product, including a prospectus when required will be provided for your review.

This report is not valid without an attached illustration for each policy shown. Comparisons are not valid for variable products. Please refer to the attached basic illustrations for guaranteed values and other important information. This illustration shows the continuation of the currently illustrated non-guaranteed elements and is neither an estimate nor a guarantee of future performance.

You should consult your own tax and legal advisor before utilizing any planning option shown so that it can be evaluated based on your own needs and circumstances. Nothing contained in this report is intended to be used on any tax form or to support any tax deduction. Only your tax advisor should provide you with that type of information.

**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.

# Confirmation of Facts

## Your Current Plan

Assets and assumptions for a 08/30/2007 analysis assume that Robert Reynolds is currently age 61, and Margaret Reynolds is age 61. If the value at death is illustrated, it is assumed that they both die in the same year, but Robert dies first.

State Inheritance Tax based on the maximum federal credit for state death taxes.

### Salaries

Employer	Employee	Current Salary	Frequency	Inflation Rate
CEO Salary from ABC, Inc.	Robert	\$12,000	Monthly	2.000%

### Checking, Savings, CDs

Account Name	Owner	Current Balance	Balance As Of	Interest Rate	
Joint Checking	Margaret, Robert	\$25,000	Feb. 08, 2006	1.000%	This asset is the Cash Account
Money Market Savings	Margaret, Robert	\$55,000	Feb. 08, 2006	3.000%	

### Mutual Funds

Name/ Symbol	Owner	Account Balance	Balance As Of	Basis	Rates		
					Qual. Div.	Cap. Gains	App.
Eaton Vance Tax-Managed Div Inc B (EBDIX)	Margaret, Robert	\$72,600	Jun. 30, 2007	\$26,000	0.000% <sup>1</sup>	0.000% <sup>1</sup>	8.000%
Vanguard 500 Index Adm (VFIAX)	Margaret, Robert	\$138,430	Jun. 30, 2007	\$30,000	0.000% <sup>1</sup>	0.000% <sup>1</sup>	6.000%
American Performance Balanced (APBAX) Mutual Fund Portfolio	Margaret, Robert	\$27,260	Jun. 30, 2007	\$20,000	0.000% <sup>1</sup>	0.000% <sup>1</sup>	6.000%
	Margaret, Robert	\$68,000	Aug. 30, 2007	\$25,000	1.000% <sup>1</sup>	0.000% <sup>1</sup>	7.000%

### Tax Exempt Mutual Funds

Name/ Symbol	Owner	Account Balance	Balance As Of	Basis	Rates		
					Qual. Div.	Cap. Gains	App.
Eaton Vance NC Muni B (EVNCX)	Margaret, Robert	\$39,800	Jun. 30, 2007	\$40,000	4.000% <sup>1</sup>	1.000% <sup>1</sup>	0.500%

### Stocks

Name/ Symbol	Owner	Current Value	Balance As Of	Basis	Rates	
					Div. Rate	App. Rate
Robert's Stock Trade Account	Robert	\$495,000	Aug. 30, 2007	\$125,000	1.000% <sup>1</sup>	4.000%
COCA-COLA CO (KO)	Margaret	\$270,050	Aug. 27, 2007	\$180,000	2.000% <sup>1</sup>	6.000%
GLAXOSMITHKLINE PLC (GSK)	Robert	\$18,053	Aug. 23, 2007	\$25,000	2.000% <sup>1</sup>	7.000%

<sup>1</sup> Dividends are assumed to be reinvested in similar investments.

# Confirmation of Facts

## Your Current Plan (cont.)

### Incentive Stock Options

Name/ Symbol	Owner	Shares Granted	Exercise Price	Expiration Date	Dividend Rate	Appreciation Rate
ISO	Robert	1000	\$5	Jan. 01, 2010	0.000% <sup>1</sup>	5.000%

### Retirement Plans

Name	Owner	Current Balance	Balance As Of	Growth Rate	Owner Contrib'ns	Employer Contrib'ns
Robert's 401k	Robert	\$355,000	Feb. 08, 2006	6.000%	3.000%	1.000%

### IRAs

Name	Owner	Current Balance	Balance As Of	Growth Rate	Type
Robert's IRA	Robert	\$85,000	Feb. 08, 2006	6.000%	Deductible
Margaret's Roth IRA	Margaret	\$52,000	Feb. 08, 2006	6.000%	Roth

### Business Property

#### ABC, Inc.

Owner	Current Value	Balance As Of	Cost Basis	Appreciation Rate
Robert	\$4,000,000	Feb. 08, 2006	\$400,000	6.000%

Business Form	% of Total Bus. Value	Income	Income Frequency	Monthly Expenses	Annual Expenses	Inflation Rate
S Corporation	100%	n/a	n/a	n/a	n/a	n/a

### Residences

#### Primary Residence

Owner	Current Value	Balance As Of	Cost Basis	Appreciation Rate
Margaret, Robert	\$850,000	Feb. 08, 2006	\$800,000	4.000%

#### Personal Loan Secured by this Asset

Balance as of	Mortgage Balance	Payment	Frequency	Interest Rate
Feb. 08, 2006	\$500,000	\$4,200	Monthly	8.000%

#### 16 Seabreeze Drive

Owner	Current Value	Balance As Of	Cost Basis	Appreciation Rate
Margaret	\$265,000	Feb. 08, 2006	\$235,000	4.000%

### Life Insurance-Individual

Robert's Existing Whole Life Policy				
Face Amount:	\$358,000	Insured:		Robert
Monthly Premium:	\$400	Owner:		Robert
		Beneficiary:		Trust
		Premium Payer:		Robert

<sup>1</sup> Dividends are assumed to be reinvested in similar investments.

# Confirmation of Facts

## Your Current Plan (cont.)

### Essential Living Expenses

Description	Amount	Frequency	Tax Deductible	Percent Continuing after First Death	Percent Continuing after First Disability	Percent Continuing after First Retirement
<b>Basic Living Expenses</b> Already started and ending after the illustration	\$3,000	Monthly	No	100%	100%	80%
<b>Vacation Fund</b> Already started and ending after 2 years	\$2,500	Semiannual	No	100%	100%	100%
<b>Property Taxes</b> Already started and ending after the illustration	\$4,000	Annual	Yes	100%	100%	100%
<b>Charitable Contributions</b> Already started and ending after the illustration	\$300	Monthly	Yes	100%	100%	100%
<b>Medical/Prescriptions</b> Already started and ending after the illustration	\$300	Quarterly	Yes	100%	100%	120%
<b>Retirement Fun Money</b> Starting when Robert retires and ending after the illustration	\$1,000	Monthly	No	100%	100%	100%

### Debt

Liability Name	Owner	Current Balance	Balance As Of	Interest Rate
Loan for Primary Residence	Margaret, Robert	\$500,000	Feb. 08, 2006	8.000%

# Measuring the Impact of Your Planning

## Cost of Planning

Almost all financial decisions have an impact on your estate plans

- Some techniques have multiple effects
- Saving transfer costs at death often reduces your net worth
- Providing additional cash flow often forces you to sell assets
- Providing needed cash may increase your taxes

### Strategy Impact



*Consequences of Your Strategy on Net Worth...*

**Wealth Distribution Analysis** will help you examine the consequences of your current and proposed planning. You can examine a year-by-year estimate of the effects of your planning on your net worth, cash flow and net to your heirs. You can see the financial benefits and costs of your planning.

You need to know the benefit and cost of any decision, but you also need to know how that decision will affect your overall picture.

- Can your current estate arrangements support your current and desired lifestyle?
- Could you out-live your assets?
- Will you have to liquidate assets to provide for estimated living expenses?
- How can you pass to your heirs what has taken a lifetime to accumulate?

**An Example:** (based on your assumptions and proposed planning in this report)

The proposed planning will illustrate that for the next 14 years your net worth will be reduced by 3.1%, your living expenses will remain the same, and the net to your heirs will increase by 52.0%.

***Only you can determine if the benefits are worth your costs.***

***Consider the consequences of your planning in all financial areas!***

# Wealth Considerations

## *Measuring the Consequences of Your Planning*

Before implementing any planning for one financial area, you must consider the effects of that planning on the other financial areas.

### Wealth Accumulation



*Your Net Worth*

**Your Net Worth**—Your net worth is the value of your assets reduced by your liabilities.

Planning effects on wealth accumulation

- Change in the value of assets
- Effects on your qualified plans
- Mortgage balances and other debts

### Wealth Management



*Your Cash Flow*

**Expenses & Cash Flow**—Spending for your living expenses to maintain your desired lifestyle.

Wealth management examines the cash flow resulting from your plans

- Year-by-year examination of projected cash flow
- Will it be necessary to liquidate an asset?

### Wealth Transfer



*Net to Heirs*

**Net to Your Heirs**—Your heirs receive gifts during your life and the balance of your estate, after taxes, at your death.

Wealth transferred to your heirs

- Effect of gifts
- Bequests at death
- Transfer costs at death and how will they be paid?

***Consider both the benefits and the effects of your planning!***

*Current Plan*



For  
**Robert Reynolds**  
and  
**Margaret Reynolds**

# Current Planning

## *Current Will Assumptions*

This analysis assumes that Robert and Margaret both die in 14 years. Robert dies first. Not all property is transferred by your will. Property owned jointly with survivorship rights passes to the surviving joint owner. Life insurance proceeds are paid to your named beneficiary. This analysis applies the provisions below to the extent possible. State Inheritance Tax is based on the maximum federal credit for state death taxes.

### Robert's Current Plan

Your will leaves everything outright to Margaret after providing for any strategies.

### Margaret's Current Plan

Your will leaves everything outright to Robert after providing for any other planning options.

# Wealth Accumulation



*Your Net Worth*

## **Financial Resources**

- Net worth
- Values from prior planning such as trusts
- Values at death

## **Net Worth**

- Assets less liabilities
- Accumulation of your wealth at a specific time

## **How Net Worth Grows**

- Unspent income—income not spent or given away—becomes new assets or cash savings
- Qualified retirement plans increase with contributions, growth and earnings, but have special income taxation issues to consider
- Other assets appreciate and have earnings
- Reducing liabilities increases your net worth

# Financial Resources

## Summary of Values

Planning has three phases of wealth:

- Identifying and considering assets and liabilities or net worth—Your Wealth Accumulations
- Determining the spending needed each year to maintain your desired lifestyle—Your Wealth Management
- And, planning the orderly transfer of your estate at death—Your Wealth Transfer

	Robert	Margaret	Joint	Total
<b>Liquid Assets</b>				
Joint Checking			\$25,000	\$25,000
Money Market Savings			\$55,000	\$55,000
Robert's Stock Trade Account	\$495,000			\$495,000
COCA-COLA CO		\$270,050		\$270,050
GLAXOSMITHKLINE PLC	\$18,053			\$18,053
Eaton Vance Tax-Managed Div Inc B			\$72,600	\$72,600
Vanguard 500 Index Adm			\$138,430	\$138,430
American Performance Balanced			\$27,260	\$27,260
Mutual Fund Portfolio			\$68,000	\$68,000
Eaton Vance NC Muni B			\$39,800	\$39,800
Life Insurance Cash Values	\$24,512			\$24,512
<b>Retirement Plans</b>				
Robert's 401k	\$355,000			\$355,000
Robert's IRA	\$85,000			\$85,000
Margaret's Roth IRA		\$52,000		\$52,000
<b>Business</b>				
ABC, Inc.	\$4,000,000			\$4,000,000
<b>Residences</b>				
Primary Residence			\$850,000	\$850,000
16 Seabreeze Drive		\$265,000		\$265,000
<b>Total Values Today</b>	<b>\$4,977,565</b>	<b>\$322,050</b>	<b>\$1,276,090</b>	<b>\$6,840,705</b>

## Values from Prior Planning

Your prior planning affects the values your heirs will receive if you were to die today.

Life Insurance on Robert <sup>1</sup>	\$358,000
<b>Prior Planning Total</b>	<b>\$358,000</b>

## Total Value if Death Today

The summary of your values today equals the Total Values Today of \$6,840,705 less Life Insurance cash values of \$24,512 plus Values from Prior Planning of \$358,000

<b>Total Value if Death Today<sup>2,3,4</sup></b>	<b>\$7,174,193</b>
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<sup>1</sup> May be in the estate if death today based on ownership and beneficiary designations.

<sup>2</sup> Life Insurance cash values of \$24,512 not included in the "Death Today" value.

<sup>3</sup> Includes values that may not be part of taxable estate.

<sup>4</sup> Your stock options if exercised today could increase your net worth.

# Your Net Worth

## All Assets and Liabilities

Assumes Robert and Margaret are both living

### Current Plan

End of Year	Liquid Assets	Qualified Plan Assets	Other Assets	Total Assets	Total Liabilities	Net Worth
2007	\$1,164,285	\$653,510	\$5,640,805	\$7,458,599	\$479,537	\$6,979,062
2008	1,324,447	696,262	5,950,507	7,971,216	467,049	7,504,167
2009	1,461,476	741,772	6,277,551	8,480,799	453,524	8,027,275
2010	1,602,544	790,214	6,622,922	9,015,680	438,877	8,576,803
2011	1,517,860	835,328	7,689,980	10,043,168	952,826	9,090,342
2012	1,521,386	920,824	8,103,285	10,545,495	923,361	9,622,134
2013	1,484,468	1,079,634	8,539,351	11,103,453	891,451	10,212,002
2014	1,466,011	1,248,238	8,999,455	11,713,704	856,892	10,856,811
2015	1,456,707	1,427,242	9,484,947	12,368,896	819,465	11,549,431
2016	1,609,057	1,466,600	9,997,254	13,072,912	778,932	12,293,980
2017	1,735,774	1,505,466	10,537,886	13,779,126	735,034	13,044,092
2018	1,876,318	1,543,637	11,108,435	14,528,390	687,493	13,840,897
2019	2,031,279	1,580,888	11,710,588	15,322,755	636,006	14,686,749
2020	2,201,638	1,616,970	12,346,126	16,164,734	580,246	15,584,489

# Wealth Management



## Your Cash Flow

### Cash Flow Analysis

- Illustrates your wealth management
- Examines incoming cash, outgoing cash and what happens to the difference

### Nature of Cash Flow

- Outgoing cash is not "tied" directly to incoming cash
- Incoming cash goes into your bank or cash account
- Outgoing cash comes from that account
- You do not know which incoming dollars pay which outgoing dollars
- When outgoing cash is greater, you take from other assets
- When incoming cash is greater, you increase your assets or cash account

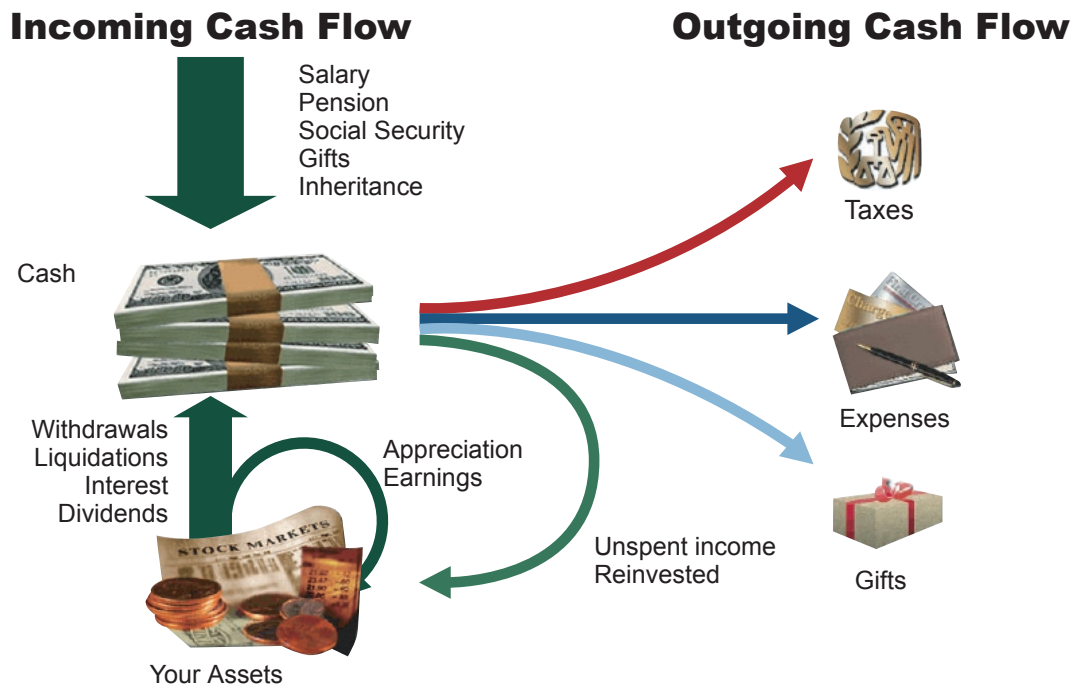
***Cash flow analysis examines this process over a period of time.***

# Your Cash Flow

## Incoming Cash and Outgoing Cash

You are the master of your cash flow—you receive income from outside sources, withdrawals of earnings from your assets and investments, and proceeds from the liquidation of your assets. Cash received from all sources is mixed together to become the cash necessary for all cash flow. Cash flow is a continuous cycle—all income is received, cash is paid out, starting with the most compulsory and ending with the most discretionary.

### Wealth Management—Your Living Expenses Cash Flow



Your cash flow starts with the required items such as taxes. Next, you spend the amounts necessary to maintain your lifestyle. Then additional gifts are made. The balance is reinvested and becomes part of your assets and investments. Some of the earnings from appreciation and investments are automatically reinvested. If income is insufficient, then assets and investments must be liquidated as necessary.

# Cash Flow Analysis

## *Outgoing Payments Vs. Expected Income*

*Assumes Robert and Margaret are both living*

### Current Plan

End of Year	Total Cash Flow Required	Income	Retirement Plan Distributions	New Loan Proceeds	Liquid Assets Used for Cash Flow	Other Assets Used For Cash Flow	Net Assets Used For Cash Flow	Total Cash Flow Provided
2007	\$177,434	\$96,167	\$0	\$0	\$81,267	\$0	\$81,267	\$177,434
2008	278,914	260,996	100,000	0	0	0	0	278,914
2009	295,668	245,547	100,000	0	0	0	0	295,668
2010	308,610	254,184	100,000	0	0	0	0	308,610
2011	429,000	150,540	100,000	0	178,461	0	178,461	429,000
2012	316,409	160,075	64,407	0	91,927	0	91,927	316,409
2013	298,569	166,383	0	0	132,186	0	132,186	298,569
2014	288,254	174,066	0	0	114,188	0	114,188	288,254
2015	288,220	182,229	0	0	105,991	0	105,991	288,220
2016	187,176	191,146	48,671	0	0	0	0	187,176
2017	232,785	201,014	51,591	0	0	0	0	232,785
2018	240,205	211,422	54,683	0	0	0	0	240,205
2019	248,393	222,400	57,957	0	0	0	0	248,393
2020	257,046	233,980	61,424	0	0	0	0	257,046

# Cash Flow from Income

## All Assets and Liabilities

Assumes Robert and Margaret are both living

### Current Plan

End of Year	Salary	Other Income <sup>1</sup>	Social Security <sup>2</sup>	Earnings (Cash, Dividends)	Total Expected Income
2007	\$60,000	\$0	\$0	\$36,167	\$96,167
2008	146,880	23,714	0	90,403	360,996
2009	149,818	0	0	95,729	345,547
2010	152,814	0	0	101,370	354,184
2011	0	0	38,133	112,407	250,540
2012	0	0	42,847	117,228	224,482
2013	0	0	44,132	122,250	166,383
2014	0	0	45,456	128,609	174,066
2015	0	0	46,820	135,409	182,229
2016	0	0	48,225	142,922	239,817
2017	0	0	49,672	151,343	252,605
2018	0	0	51,162	160,260	266,105
2019	0	0	52,696	169,703	280,357
2020	0	0	54,277	179,703	295,404

<sup>1</sup> Other Income includes any estimated tax refunds for the prior year.

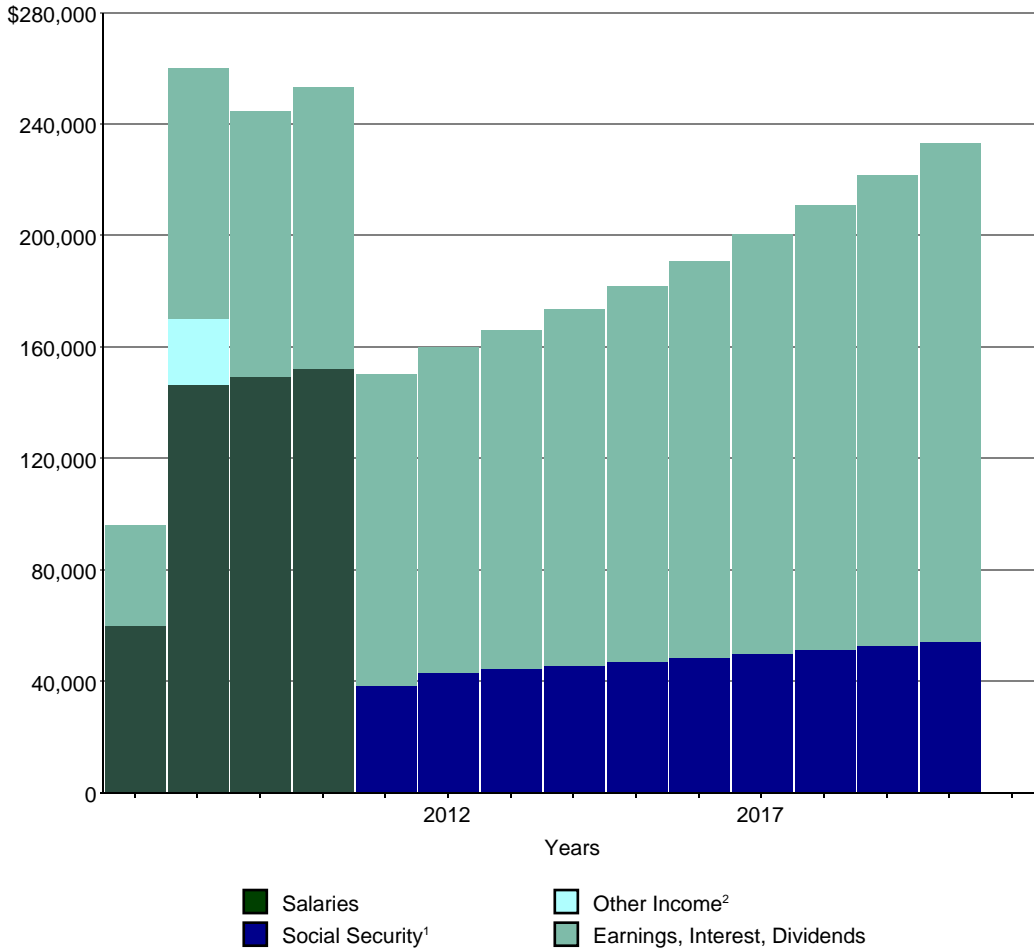
<sup>2</sup> Benefits may be reduced for earnings from current work prior to full retirement age (FRA). FRA for Robert is age 66 and FRA for Margaret is age 66.

# Cash Flow from Income

*All Assets and Liabilities*

*Assumes Robert and Margaret are both living*

## Current Plan



<sup>1</sup> Benefits may be reduced for earnings from current work prior to full retirement age (FRA). FRA for Robert is age 66 and FRA for Margaret is age 66.

<sup>2</sup> Other Income includes any estimated tax refunds for the prior year.

# Cash Flow Required for Lifestyle

## Total Expenditures

*Assumes Robert and Margaret are both living*

### Current Plan

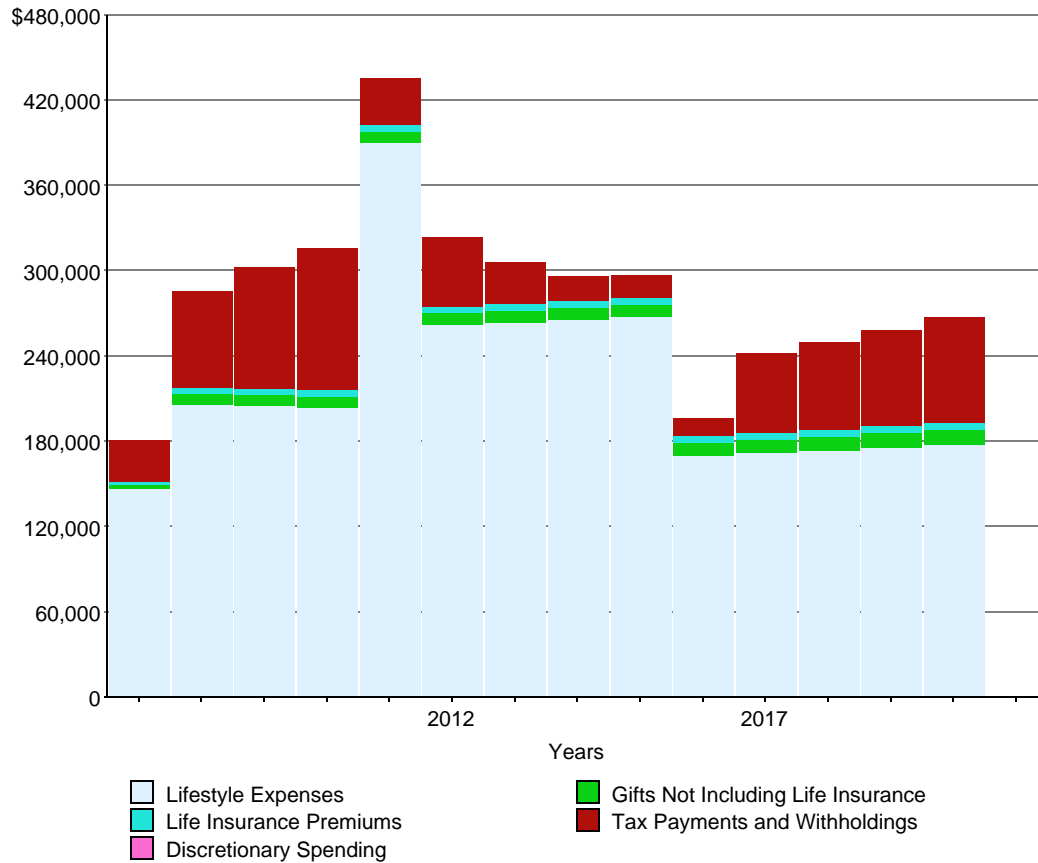
End of Year	Lifestyle Expenses	Gifts Not Including Life Insurance	Life Insurance Premiums	Tax Payments and Withholdings	Discretionary Spending	Total Cash Flow Required
2007	\$146,400	\$0	\$2,000	\$29,034	\$0	\$177,434
2008	206,100	0	4,800	68,014	0	278,914
2009	205,075	0	4,800	85,793	0	295,668
2010	203,939	0	4,800	99,872	0	308,610
2011	391,263	0	4,800	32,937	0	429,000
2012	262,404	0	4,800	49,205	0	316,409
2013	264,137	0	4,800	29,632	0	298,569
2014	265,923	0	4,800	17,531	0	288,254
2015	267,762	0	4,800	15,658	0	288,220
2016	169,656	0	4,800	12,720	0	187,176
2017	171,607	0	4,800	56,379	0	232,785
2018	173,616	0	4,800	61,789	0	240,205
2019	175,686	0	4,800	67,907	0	248,393
2020	177,818	0	4,800	74,428	0	257,046

# Cash Flow Required for Lifestyle

*Total Expenditures*

*Assumes Robert and Margaret are both living*

## Current Plan



# Special Qualified Plan Taxes

## Cash Flow Considerations

Qualified plans may provide a significant portion of your cash flow, especially during retirement years. However, there are special tax issues that must be considered when these plans are used.



### Your retirement dollar

One advantage of qualified retirement dollars is the deferral of taxation until use. There are, however, special tax rules based on how and when you use those dollars.



### Too Soon

10% penalty tax on amounts taken prior to age 59<sup>1/2</sup>



### Too Little

50% penalty tax for not taking required minimum distribution amount



### Too Late

Generally, distributions must begin by April 1st following the year you turn 70<sup>1/2</sup> and estate taxes must be paid on amounts left in your qualified plan or IRA at your death



### And, one last tax, too!

Income tax (income in respect of decedent) on amounts left to heirs, at the heirs tax rate

# Cash Flow from Retirement Plans

## Cash Flow from Qualified Retirement Plans

*Assumes Robert and Margaret are both living*

### Current Plan

End of Year	Beginning Of Year Values	Additional Deposits	Growth	Required Minimum Distribution	Actual Distributions	End of Year Plan Values	Retirement Plan Distributions
2007	\$535,535	\$102,400	\$15,574	\$0	\$0	\$653,510	\$0
2008	653,510	105,875	36,877	0	100,000	696,262	100,000
2009	696,262	105,993	39,518	0	100,000	741,772	100,000
2010	741,772	106,113	42,329	0	100,000	790,214	100,000
2011	790,214	100,000	45,114	0	100,000	835,328	100,000
2012	835,328	100,000	49,904	0	64,407	920,824	64,407
2013	920,824	100,000	58,809	0	0	1,079,634	0
2014	1,079,634	100,000	68,604	0	0	1,248,238	0
2015	1,248,238	100,000	79,004	0	0	1,427,242	0
2016	1,427,242	0	88,029	48,671	48,671	1,466,600	48,671
2017	1,466,600	0	90,457	51,591	51,591	1,505,466	51,591
2018	1,505,466	0	92,854	54,683	54,683	1,543,637	54,683
2019	1,543,637	0	95,208	57,957	57,957	1,580,888	57,957
2020	1,580,888	0	97,506	61,424	61,424	1,616,970	61,424

# Cash Flow Adjustments

## *Adjustments for Cash Flow Process*

*Assumes Robert and Margaret are both living*

### Current Plan

End of Year	Income	Retirement Plan Distributions	New Loan Proceeds	Liquid Assets Used for Cash Flow	Other Assets Used For Cash Flow	Net Assets Used For Cash Flow	Total Cash Flow Provided
2007	\$96,167	\$0	\$0	\$81,267	\$0	\$81,267	\$177,434
2008	260,996	100,000	0	0	0	0	278,914
2009	245,547	100,000	0	0	0	0	295,668
2010	254,184	100,000	0	0	0	0	308,610
2011	150,540	100,000	0	178,461	0	178,461	429,000
2012	160,075	64,407	0	91,927	0	91,927	316,409
2013	166,383	0	0	132,186	0	132,186	298,569
2014	174,066	0	0	114,188	0	114,188	288,254
2015	182,229	0	0	105,991	0	105,991	288,220
2016	191,146	48,671	0	0	0	0	187,176
2017	201,014	51,591	0	0	0	0	232,785
2018	211,422	54,683	0	0	0	0	240,205
2019	222,400	57,957	0	0	0	0	248,393
2020	233,980	61,424	0	0	0	0	257,046

# Wealth Transfer



*Net to Heirs*

## **Wealth Transfer**

- Examines your gifts and bequests to others
- Considers the taxation of any transfers

## **Qualified Retirement Plans**

- Special taxation issues and rules must be considered
- Even if you don't spend these funds, your heirs may receive only a small portion of them.

***The net value of your gifts and bequests measures the effectiveness of your wealth transfer planning.***

# Transfer Costs

## Potential Taxes and Expenses

### Unified Gift and Estate Taxes

- *Gift Taxes* on assets transferred to others during your lifetime
- *Estate Taxes* on assets you still own and/or control at the time of your death

### Inheritance Taxes

- Often the state taxes heirs or beneficiaries receiving bequests

### Other Expenses

- Final expenses, funeral and burial costs
- Administrative expenses such as title transfers
- Probate fees for the distribution of assets

What these transfer taxes could mean if you die today...



Total Value if Death Today	\$7,615,015	
Shrinkage <sup>1</sup>	\$3,045,076	40%
<b>Net to Your Heirs</b>	<b>\$4,569,939</b>	<b>60%</b>

<sup>1</sup> Estate taxes, state inheritance taxes, and any income taxes on income received in respect of a decedent, plus estimated final expenses, probate fees and liabilities, if you both die in year 2007. See Additional Details page for further information.

# Assets Before Death

## Your Current Plan

This analysis assumes that Robert and Margaret both die in 14 years. Robert dies first. The growth of your assets until death considers your income as well as the portion of existing assets used to provide the spending patterns detailed in the assumptions.

End of Year	Expected Income	Total Outgoing Payments	Change in Assets	End of Year Asset Values	Robert's Assets	Margaret's Assets
			<i>Values Today</i>	<b>\$6,816,193</b>	<b>\$5,591,098</b>	<b>\$1,225,095</b>
2007	\$96,167	\$177,434	\$198,140	\$7,458,599	\$6,202,561	\$1,256,038
2008	360,996	278,914	406,208	7,971,216	6,605,937	1,365,279
2009	345,547	295,668	406,871	8,480,799	7,016,423	1,464,376
2010	354,184	308,610	432,029	9,015,680	7,448,681	1,566,998
2011	250,540	429,000	950,689	10,043,168	8,046,789	1,996,379
2012	224,482	316,409	434,360	10,545,495	8,411,456	2,134,040
2013	166,383	298,569	555,050	11,103,453	8,857,261	2,246,192
2014	174,066	288,254	606,802	11,713,704	9,348,311	2,365,393
2015	182,229	288,220	652,329	12,368,896	9,893,431	2,475,465
2016	239,817	187,176	646,117	13,072,912	10,439,880	2,633,032
2017	252,605	232,785	686,395	13,779,126	10,997,426	2,781,701
2018	266,105	240,205	723,364	14,528,390	11,586,768	2,941,621
2019	280,357	248,393	762,400	15,322,755	12,209,419	3,113,336
2020	295,404	257,046	803,621	16,164,734	12,867,140	3,297,594
			<b>Values at Robert's death after 14 years</b>		<b>\$12,867,140</b>	<b>\$3,297,594</b>

### Adjustments at Robert's Death

Cash Flow Adjustment	-\$45,718	-\$45,718
Life Insurance in Estate <sup>1</sup>	\$358,000	
<b>Estate Total in 2021</b>	<b>\$13,179,422</b>	<b>\$3,251,875</b>
<b>Combined Estate Total</b>	<b>\$16,431,298</b>	

<sup>1</sup> Incidents of ownership or beneficiary designation cause inclusion of death proceeds in the estate.

# Estate Calculations

## Calculations at First Death

### Robert Dies First in 2021

<b>Robert's Gross Estate</b>	Current Plan <b>\$13,179,422</b>
Liabilities	(\$287,697)
<b>A. Net Estate</b>	<b>\$12,891,725</b>
Estate Expenses	
Probate and Administrative Fees	\$525,718
<b>B. Total Expenses</b>	<b>\$525,718</b>
<b>C. Adjusted Gross Estate (A-B)</b>	<b>\$12,366,007</b>
Deductions	
Marital Deduction	\$12,008,007
Includes Marital Trust	\$0
<b>D. Total Deductions</b>	<b>\$12,008,007</b>
<b>E. Total Additions</b>	<b>\$0</b>
<b>F. Tentative Tax Base (C-D+E)</b>	<b>\$358,000</b>
Taxes and Credits	
Federal Estate Tax before Credits	\$107,520
Applicable Credit Amount	(\$345,800)
State Tax	\$0
<b>G. Total Net Taxes Due</b>	<b>\$0</b>
<b>H. Distributions at Robert's Death (C-G)</b>	<b>\$12,366,007</b>

# Estate Transferred to Heirs

## *Distribution Following First Death*

### Robert Dies First in 2021

<b>Robert's Gross Estate</b>	Current Plan <b>\$13,179,422</b>
less Liabilities	(\$287,697)
less Total Expenses	(\$525,718)
<b>After Tax Estate</b>	<b>\$12,366,007</b>
<b>Reduction after Taxes and Expenses</b>	<b>6%</b>
<b>Distributions of Estate Assets</b>	
Robert's Bequests	\$0
Marital Deduction	\$12,008,007
Includes Marital Trust	
Family Trust	
<b>Other Distributions</b>	
Life Insurance Available	
Irrevocable Life Insurance Trust	\$0
Value of Future Income Payments	\$1,490,624

# Estate Calculations

## Calculations at Second Death

### Margaret Dies Second in 2021

	Current Plan
<b>Margaret's Gross Estate</b>	<b>\$15,047,772</b>
Liabilities	\$575,395
Includes Marital Trust	\$0
<b>A. Net Estate</b>	<b>\$14,472,377</b>
Estate Expenses	
Probate and Administrative Fees	\$687,710
<b>B. Total Expenses</b>	<b>\$687,710</b>
<b>C. Adjusted Gross Estate (A-B)</b>	<b>\$13,784,667</b>
<b>D. Total Deductions</b>	<b>\$0</b>
<b>E. Total Additions</b>	<b>\$0</b>
<b>F. Tentative Tax Base (C-D+E)</b>	<b>\$13,784,667</b>
Taxes and Credits	
Federal Estate Tax before Credits	\$7,411,600
Applicable Credit Amount	(\$345,800)
State Tax	\$1,672,347
State Tax Credit	(\$1,672,347)
<b>G. Total Net Taxes Due</b>	<b>\$7,065,800</b>
<b>H. Income Tax on Income in Respect of Decedent</b>	<b>\$294,458</b>
<b>I. Distributions at Margaret's Death (C-G-H)</b>	<b>\$6,424,409</b>

# Estate Transferred to Heirs

## *Distribution Following Second Death*

### Margaret Dies Second in 2021

<b>Margaret's Gross Estate</b>	Current Plan <b>\$15,047,772</b>
less Liabilities	(\$575,395)
less Total Expenses	(\$687,710)
less Total Net Taxes Due	(\$7,065,800)
less Income Tax on Inc. Resp. Dec.	(\$294,458)
<b>After Tax Estate</b>	<b>\$6,424,409</b>
<b>Reduction after Taxes and Expenses</b>	<b>57%</b>
<b>Distribution of Estate Assets</b>	
Margaret's Bequests	\$4,933,785
Family Trust	\$0
<b>Other Distributions</b>	
Life Insurance Available	
Irrevocable Life Insurance Trust	\$0
Value of Future Income Payments	\$1,490,624
<b>Total Estate Transferred</b>	<b>\$7,282,217</b>

*Proposed Plan*



For  
**Robert Reynolds**  
and  
**Margaret Reynolds**

# Additional Planning

## *Proposed Will Assumptions*

This analysis assumes that Robert and Margaret both die in 14 years. Robert dies first. Not all property is transferred by your will. Property owned jointly with survivorship rights passes to the surviving joint owner. Life insurance proceeds are paid to your named beneficiary. This analysis applies the provisions below to the extent possible. State Inheritance Tax is based on the maximum federal credit for state death taxes.

### Robert's Proposed Plan

A marital trust and a family trust are used to transfer the estate.

#### **Trust for Spouse**

Trust A for Margaret will be created in an amount equal to the marital deduction.

#### **Trust for Family**

Trust B will be created using an amount equal to the Applicable Credit Amount if available. The trust corpus is assumed to grow or earn 5% annually between your death and Margaret's death.

#### **Living Trust**

A Living Trust has been established to help reduce probate fees.

#### **Changes to Existing Insurance Policies**

Robert's Existing Whole Life Policy: Policy ownership and beneficiary will be changed to an Irrevocable Life Insurance Trust (ILIT).

### Margaret's Proposed Plan

A marital trust and a family trust are used to transfer the estate.

#### **Trust for Spouse**

Trust A for Robert will be created in an amount equal to the marital deduction.

#### **Trust for Family**

Trust B will be created using an amount equal to the Applicable Credit Amount if available. The trust corpus is assumed to grow or earn 5% annually between your death and Robert's death.

#### **Living Trust**

A Living Trust has been established to help reduce probate fees.

# Proposed Expenses

## Your Proposed Plan

This analysis of the proposed plans of Robert and Margaret assumes that the following plans for expenses and gifts replace your current plans. Expenses are referring to expenses that are consumed, that is, they are not used to purchase other assets and are in addition to expenditures shown elsewhere in this proposed plan.

### Essential Living Expenses

Description	Amount	Frequency	Percent Continuing after First Death	Percent Continuing after First Disability	Percent Continuing after First Retirement
Basic Living Expenses Already started and ending after the illustration	\$3,000	Monthly	100%	100%	80%
Vacation Fund Already started and ending after 2 years	\$2,500	Semiannual	100%	100%	100%
Property Taxes Already started and ending after the illustration	\$4,000	Annual	100%	100%	100%
Charitable Contributions Already started and ending after the illustration	\$300	Monthly	100%	100%	100%
Medical/Prescriptions Already started and ending after the illustration	\$300	Quarterly	100%	100%	120%
Retirement Fun Money Starting when Robert retires and ending after the illustration	\$1,000	Monthly	100%	100%	100%

# Proposed New Life Insurance

## *Additional Planning and New Life Insurance*

This analysis of the proposed plans of Robert and Margaret assumes that the following new life insurance is aquired.

### New Life Insurance

Proposed Wealth Replacement Policy

Face Amount:	\$3,000,000	Insured:	Survivor
Monthly Premium:	\$2,000	Owner:	ILIT
		Beneficiary:	ILIT
Premium Gift:	Exclusion	Premium Payer:	Robert
		Eligible for Annual Exclusion?	Yes
		Number of Exclusions:	2.00

Insurance owned outside the estate usually refers to insurance not owned by a decedent and not payable to the decedent's estate, but other factors may have to be taken into consideration.

Insurance is included in the estate when the incidents of ownership or the beneficiary designation causes the death proceeds to be included in the taxable estate. A change in ownership or beneficiary designation may be needed to exclude the proceeds from estate taxation. Transfer of a policy by the policy owner within three years of death will cause the death proceeds to be included in the gross estate. If a transferred policy has a cash value, a gift tax return may be required and gift taxes may be ignored.

If life insurance intended to address estate taxes is included in the estate, the insurance itself becomes a taxable item, reducing its value. Life insurance that is not included in the gross estate passes to the beneficiaries undiminished by estate taxes.

Premiums may vary based on many factors, including the age, sex, and health of the insured. This presentation is not valid unless accompanied by an illustration of proposed policy values.

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# Wealth Accumulation



*Your Net Worth*

## **Financial Resources**

- Net worth
- Values from prior planning such as trusts
- Values at death

## **Net Worth**

- Assets less liabilities
- Accumulation of your wealth at a specific time

## **How Net Worth Grows**

- Unspent income—income not spent or given away—becomes new assets or cash savings
- Qualified retirement plans increase with contributions, growth and earnings, but have special income taxation issues to consider
- Other assets appreciate and have earnings
- Reducing liabilities increases your net worth

# Your Net Worth

## All Assets and Liabilities

Assumes Robert and Margaret are both living

### Proposed Plan with New Life Insurance

End of Year	Liquid Assets	Qualified Plan Assets	Other Assets	Total Assets	Total Liabilities	Net Worth
2007	\$1,154,245	\$653,510	\$5,640,805	\$7,448,560	\$479,537	\$6,969,022
2008	1,289,725	696,262	5,950,507	7,936,494	467,049	7,469,444
2009	1,397,142	741,772	6,277,551	8,416,465	453,524	7,962,941
2010	1,510,223	790,214	6,622,922	8,923,358	438,877	8,484,481
2011	1,394,501	835,328	7,689,980	9,919,809	952,826	8,966,983
2012	1,360,104	920,824	8,103,285	10,384,214	923,361	9,460,852
2013	1,285,411	1,079,634	8,539,351	10,904,395	891,451	10,012,944
2014	1,228,424	1,248,238	8,999,455	11,476,117	856,892	10,619,225
2015	1,188,335	1,427,242	9,484,947	12,100,523	819,465	11,281,058
2016	1,305,249	1,466,600	9,997,254	12,769,104	778,932	11,990,172
2017	1,389,728	1,505,466	10,537,886	13,433,080	735,034	12,698,046
2018	1,486,331	1,543,637	11,108,435	14,138,404	687,493	13,450,911
2019	1,596,076	1,580,888	11,710,588	14,887,552	636,006	14,251,546
2020	1,720,022	1,616,970	12,346,126	15,683,118	580,246	15,102,873

# Cash Flow Analysis

## Outgoing Payments Vs. Expected Income

*Assumes Robert and Margaret are both living*

### Proposed Plan with New Life Insurance

End of Year	Total Cash Flow Required	Income	Retirement Plan Distributions	New Loan Proceeds	Liquid Assets Used for Cash Flow	Other Assets Used For Cash Flow	Net Assets Used For Cash Flow	Total Cash Flow Provided
2007	\$187,434	\$96,167	\$0	\$0	\$91,267	\$0	\$91,267	\$187,434
2008	302,914	260,997	100,000	0	0	0	0	302,914
2009	323,008	245,547	100,000	0	0	0	0	323,008
2010	336,167	257,933	100,000	0	0	0	0	336,167
2011	453,819	149,553	100,000	0	204,266	0	204,266	453,819
2012	346,042	158,787	64,407	0	122,847	0	122,847	346,042
2013	326,365	165,227	0	0	161,138	0	161,138	326,365
2014	314,421	172,915	0	0	141,506	0	141,506	314,421
2015	304,871	181,789	0	0	123,083	0	123,083	304,871
2016	206,761	191,146	48,671	0	0	0	0	206,761
2017	257,395	201,014	51,591	0	4,790	0	4,790	257,395
2018	264,827	211,422	54,683	0	0	0	0	264,827
2019	272,734	222,400	57,957	0	0	0	0	272,734
2020	281,128	233,980	61,424	0	0	0	0	281,128

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# Cash Flow from Income

*All Assets and Liabilities*

*Assumes Robert and Margaret are both living*

## Proposed Plan with New Life Insurance

End of Year	Salary	Other Income <sup>1</sup>	Social Security <sup>2</sup>	Earnings (Cash, Dividends)	Total Expected Income
2007	\$60,000	\$0	\$0	\$36,167	\$96,167
2008	146,880	23,715	0	90,403	360,997
2009	149,818	0	0	95,729	345,547
2010	152,814	0	0	105,119	357,933
2011	0	0	38,133	111,421	249,553
2012	0	0	42,847	115,940	223,194
2013	0	0	44,132	121,095	165,227
2014	0	0	45,456	127,458	172,915
2015	0	0	46,820	134,969	181,789
2016	0	0	48,225	142,921	239,817
2017	0	0	49,672	151,343	252,605
2018	0	0	51,162	160,260	266,105
2019	0	0	52,696	169,703	280,357
2020	0	0	54,277	179,703	295,404

<sup>1</sup> Other Income includes any estimated tax refunds for the prior year.

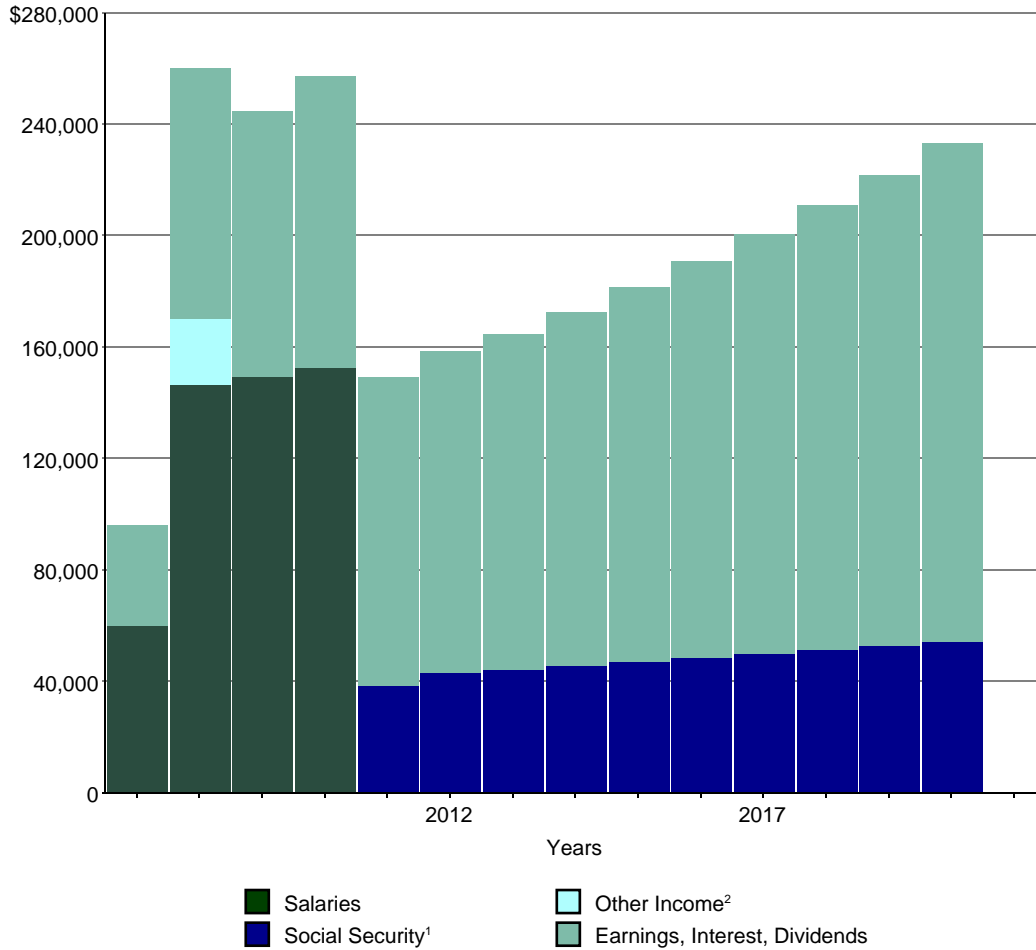
<sup>2</sup> Benefits may be reduced for earnings from current work prior to full retirement age (FRA). FRA for Robert is age 66 and FRA for Margaret is age 66.

# Cash Flow from Income

## *Income Sources of Cash Flow*

*Assumes Robert and Margaret are both living*

### Proposed Plan with New Life Insurance



<sup>1</sup> Benefits may be reduced for earnings from current work prior to full retirement age (FRA). FRA for Robert is age 66 and FRA for Margaret is age 66.

<sup>2</sup> Other Income includes any estimated tax refunds for the prior year.

# Cash Flow Required for Lifestyle

## Total Expenditures

*Assumes Robert and Margaret are both living*

### Proposed Plan with New Life Insurance

End of Year	Lifestyle Expenses	Gifts Not Including Life Insurance	Life Insurance Premiums	Tax Payments and Withholdings	Discretionary Spending	Total Cash Flow Required
2007	\$146,400	\$0	\$12,000	\$29,034	\$0	\$187,434
2008	206,100	0	28,800	68,014	0	302,914
2009	205,075	0	28,800	89,133	0	323,008
2010	203,939	0	28,800	103,429	0	336,167
2011	391,263	0	28,800	33,756	0	453,819
2012	262,404	0	28,800	54,838	0	346,042
2013	264,137	0	28,800	33,427	0	326,365
2014	265,923	0	28,800	19,698	0	314,421
2015	267,762	0	28,800	8,310	0	304,871
2016	169,656	0	28,800	8,306	0	206,761
2017	171,607	0	28,800	56,989	0	257,395
2018	173,616	0	28,800	62,411	0	264,827
2019	175,686	0	28,800	68,248	0	272,734
2020	177,818	0	28,800	74,510	0	281,128

Premiums may vary based on many factors, including the age, sex, and health of the insured. This presentation is not valid unless accompanied by an illustration of proposed policy values.

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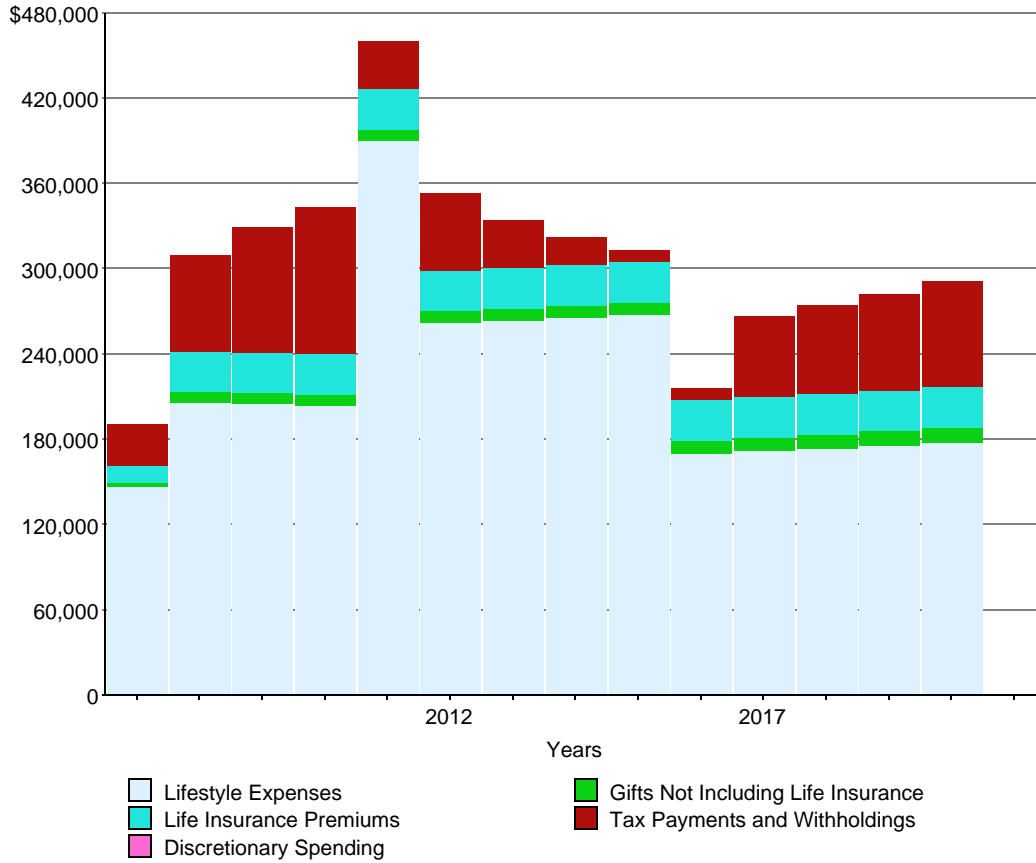
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# Cash Flow Required for Lifestyle

## Total Outgoing Payments

Assumes Robert and Margaret are both living

### Proposed Plan with New Life Insurance



Premiums may vary based on many factors, including the age, sex, and health of the insured. This presentation is not valid unless accompanied by an illustration of proposed policy values.

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# Cash Flow from Retirement Plans

## Effects on Cash Flow

*Assumes Robert and Margaret are both living*

### Proposed Plan with New Life Insurance

End of Year	Beginning Of Year Values	Additional Deposits	Growth	Required Minimum Distribution	Actual Distributions	End of Year Plan Values	Retirement Plan Distributions
2007	\$535,535	\$102,400	\$15,574	\$0	\$0	\$653,510	\$0
2008	653,510	105,875	36,877	0	100,000	696,262	100,000
2009	696,262	105,993	39,518	0	100,000	741,772	100,000
2010	741,772	106,113	42,329	0	100,000	790,214	100,000
2011	790,214	100,000	45,114	0	100,000	835,328	100,000
2012	835,328	100,000	49,904	0	64,407	920,824	64,407
2013	920,824	100,000	58,809	0	0	1,079,634	0
2014	1,079,634	100,000	68,604	0	0	1,248,238	0
2015	1,248,238	100,000	79,004	0	0	1,427,242	0
2016	1,427,242	0	88,029	48,671	48,671	1,466,600	48,671
2017	1,466,600	0	90,457	51,591	51,591	1,505,466	51,591
2018	1,505,466	0	92,854	54,683	54,683	1,543,637	54,683
2019	1,543,637	0	95,208	57,957	57,957	1,580,888	57,957
2020	1,580,888	0	97,506	61,424	61,424	1,616,970	61,424

# Cash Flow Adjustments

## *Adjustments for Cash Flow Process*

*Assumes Robert and Margaret are both living*

### Proposed Plan with New Life Insurance

End of Year	Income	Retirement Plan Distributions	New Loan Proceeds	Liquid Assets Used for Cash Flow	Other Assets Used For Cash Flow	Net Assets Used For Cash Flow	Total Cash Flow Provided
2007	\$96,167	\$0	\$0	\$91,267	\$0	\$91,267	\$187,434
2008	260,997	100,000	0	0	0	0	302,914
2009	245,547	100,000	0	0	0	0	323,008
2010	257,933	100,000	0	0	0	0	336,167
2011	149,553	100,000	0	204,266	0	204,266	453,819
2012	158,787	64,407	0	122,847	0	122,847	346,042
2013	165,227	0	0	161,138	0	161,138	326,365
2014	172,915	0	0	141,506	0	141,506	314,421
2015	181,789	0	0	123,083	0	123,083	304,871
2016	191,146	48,671	0	0	0	0	206,761
2017	201,014	51,591	0	4,790	0	4,790	257,395
2018	211,422	54,683	0	0	0	0	264,827
2019	222,400	57,957	0	0	0	0	272,734
2020	233,980	61,424	0	0	0	0	281,128

# Wealth Transfer



*Net to Heirs*

## **Wealth Transfer**

- Examines your gifts and bequests to others
- Considers the taxation of any transfers

## **Qualified Retirement Plans**

- Special taxation issues and rules must be considered
- Even if you don't spend these funds, your heirs may receive only a small portion of them.

***The net value of your gifts and bequests measures the effectiveness of your wealth transfer planning.***

# Assets Before Death

## Your Proposed Plan

This analysis assumes that Robert and Margaret both die in 14 years. Robert dies first. The growth of your assets until death considers your income as well as the portion of existing assets used to provide the spending patterns detailed in the assumptions.

End of Year	Expected Income	Total Outgoing Payments	Change in Assets	End of Year Asset Values	Robert's Assets	Margaret's Assets
			<i>Values Today</i>	<b>\$6,816,193</b>	<b>\$5,591,098</b>	<b>\$1,225,095</b>
2007	\$96,167	\$187,434	\$196,101	\$7,448,560	\$6,197,541	\$1,251,019
2008	360,997	302,914	381,415	7,936,494	6,588,576	1,347,918
2009	345,547	323,008	377,130	8,416,465	6,984,256	1,432,209
2010	357,933	336,167	400,222	8,923,358	7,402,434	1,520,924
2011	249,553	453,819	912,620	9,919,809	7,923,430	1,996,379
2012	223,194	346,042	397,726	10,384,214	8,250,174	2,134,040
2013	165,227	326,365	519,453	10,904,395	8,665,313	2,239,082
2014	172,915	314,421	571,722	11,476,117	9,191,909	2,284,208
2015	181,789	304,871	624,406	12,100,523	9,759,052	2,341,471
2016	239,817	206,761	619,539	12,769,104	10,287,976	2,481,128
2017	252,605	257,395	658,353	13,433,080	10,824,403	2,608,677
2018	266,105	264,827	697,426	14,138,404	11,391,775	2,746,628
2019	280,357	272,734	737,790	14,887,552	11,991,818	2,895,735
2020	295,404	281,128	781,290	15,683,118	12,626,333	3,056,786
			<b>Values at Robert's death after 14 years</b>		<b>\$12,626,333</b>	<b>\$3,056,786</b>

### Adjustments at Robert's Death

Cash Flow Adjustment	-\$46,574	-\$46,574
<b>Estate Total in 2021</b>	<b>\$12,579,759</b>	<b>\$3,010,212</b>
<b>Combined Estate Total</b>	<b>\$15,589,970</b>	

Premiums may vary based on many factors, including the age, sex, and health of the insured. This presentation is not valid unless accompanied by an illustration of proposed policy values.

# Estate Calculations

## Calculations at First Death

### Robert Dies First in 2021

<b>Robert's Gross Estate</b>	Proposed Plan <b>\$12,579,759</b>
Liabilities	(\$287,697)
<b>A. Net Estate</b>	<b>\$12,292,061</b>
<b>Estate Expenses</b>	
Probate and Administrative Fees	\$125,798
<b>B. Total Expenses</b>	<b>\$125,798</b>
<b>C. Adjusted Gross Estate (A-B)</b>	<b>\$12,166,264</b>
<b>Deductions</b>	
Marital Deduction	\$11,166,264
Includes Trust A	\$9,675,640
<b>D. Total Deductions</b>	<b>\$11,166,264</b>
<b>E. Total Additions</b>	<b>\$0</b>
<b>F. Tentative Tax Base (C-D+E)</b>	<b>\$1,000,000</b>
<b>Taxes and Credits</b>	
Federal Estate Tax before Credits	\$345,800
Applicable Credit Amount	(\$345,800)
State Tax	\$0
<b>G. Total Net Taxes Due</b>	<b>\$0</b>
<b>H. Distributions at Robert's Death (C-G)</b>	<b>\$12,166,264</b>

# Estate Transferred to Heirs

## *Distribution Following First Death*

### Robert Dies First in 2021

<b>Robert's Gross Estate</b>	Proposed Plan <b>\$12,579,759</b>
less Liabilities	(\$287,697)
less Total Expenses	(\$125,798)
<b>After Tax Estate</b>	<b>\$12,166,264</b>
<b>Reduction after Taxes and Expenses</b>	<b>3%</b>
<b>Distributions of Estate Assets</b>	
Robert's Bequests	\$0
Marital Deduction	\$11,166,264
Includes Trust A	\$9,675,640
Trust B	\$1,000,000
<b>Other Distributions</b>	
Life Insurance Available	
Irrevocable Life Insurance Trust	\$358,000
Value of Future Income Payments	\$1,490,624

Premiums may vary based on many factors, including the age, sex, and health of the insured. This presentation is not valid unless accompanied by an illustration of proposed policy values.

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# Estate Calculations

## Calculations at Second Death

### Margaret Dies Second in 2021

<b>Margaret's Gross Estate</b>	Proposed Plan <b>\$13,964,364</b>
Liabilities	\$575,395
Includes Trust A	\$9,530,871
<b>A. Net Estate</b>	<b>\$13,388,969</b>
<b>Estate Expenses</b>	
Probate and Administrative Fees	\$139,644
<b>B. Total Expenses</b>	<b>\$139,644</b>
<b>C. Adjusted Gross Estate (A-B)</b>	<b>\$13,249,326</b>
<b>D. Total Deductions</b>	<b>\$0</b>
<b>E. Total Additions</b>	<b>\$0</b>
<b>F. Tentative Tax Base (C-D+E)</b>	<b>\$13,249,326</b>
<b>Taxes and Credits</b>	
Federal Estate Tax before Credits	\$7,090,396
Applicable Credit Amount	(\$345,800)
State Tax	\$1,586,692
State Tax Credit	(\$1,586,692)
<b>G. Total Net Taxes Due</b>	<b>\$6,744,596</b>
<b>H. Income Tax on Income in Respect of Decedent</b>	<b>\$294,458</b>
<b>I. Distributions at Margaret's Death (C-G-H)</b>	<b>\$6,210,272</b>

# Estate Transferred to Heirs

## *Distribution Following Second Death*

### Margaret Dies Second in 2021

<b>Margaret's Gross Estate</b>	Proposed Plan <b>\$13,964,364</b>
less Liabilities	(\$575,395)
less Total Expenses	(\$139,644)
less Total Net Taxes Due	(\$6,744,596)
less Income Tax on Inc. Resp. Dec.	(\$294,458)
<b>After Tax Estate</b>	<b>\$6,210,272</b>
<b>Reduction after Taxes and Expenses</b>	<b>56%</b>
<b>Distribution of Estate Assets</b>	
Margaret's Bequests	\$4,719,649
Trust B	\$1,000,000
<b>Other Distributions</b>	
Life Insurance Available	
Irrevocable Life Insurance Trust	\$3,000,000
Value of Future Income Payments	\$1,490,624
<b>Total Estate Transferred</b>	<b>\$11,068,081</b>
<b>Increased Distributions to Heirs and Others from New Life Insurance and Additional Planning</b>	<b>\$3,785,864</b>

Premiums may vary based on many factors, including the age, sex, and health of the insured. This presentation is not valid unless accompanied by an illustration of proposed policy values.

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# Advanced Planning



## *Techniques Used for Special Objectives*

### **Objectives**

Specific objectives require advanced planning techniques.

### **Effects**

Techniques affect net worth, cash flow or net transfer to heirs.

### **Timing**

Different effects based on duration—

Illustrate over a number of years to see effectiveness at various times.

# Planning Impact



*Consequences of Planning on  
Net Worth, Cash Flow,  
and Net to Heirs*

## **Impact on Wealth Accumulations**

The impact is measured by comparing your net worth over a period of time of your current planning and your proposed planning

## **Impact of Wealth Management**

A goal of cash flow planning is to provide your desired living expenses. If this objective is met, you can maintain your lifestyle spending.

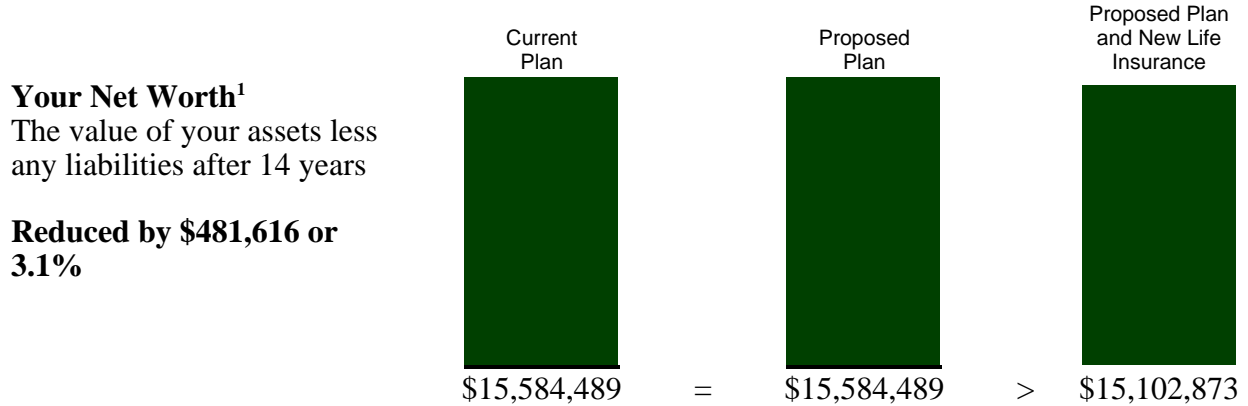
## **Impact on Wealth Transfer**

The impact of your gifts and bequests to your heirs is measured by comparing the net value to your heirs with the proposed planning.

# Planning Impact

## Net Worth, Living Expenses, and Net to Heirs

Every action has a price. The key to a good planning is that it accomplishes your objectives. The financial decisions regarding your planning should compare the value of accomplishing your objectives with the price of the planning. Consider the impact of your planning on your worth, your life style, your retirement living and the orderly transfer of assets to your heirs.



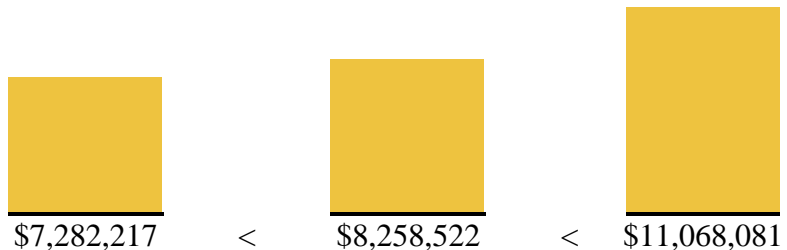
**Your Living Expenses<sup>1</sup>**  
Sum of all expenses used to maintain your lifestyle over 14 years

**No Difference**



**Net to Your Heirs<sup>1</sup>**  
If you both die in year 14, the net distribution after federal estate taxes and expenses

**Increased by \$3,785,864 or 52.0%**



<sup>1</sup> For details see Plan Summary pages for Proposed Plan and Proposed Plan with New Life Insurance.

# Plan Summary

## Net Worth and Types of Spending

Assumes Robert and Margaret are both living

### Current Plan

End of Year	Net Worth	Lifestyle Expenses	Types of Spending			
			Gifts Not Inc. Life Insurance	Life Insurance Premiums	Tax Payments and Withholdings	Discretionary Spending
2007	\$6,979,062	\$146,400	\$0	\$2,000	\$29,034	\$0
2008	7,504,167	206,100	0	4,800	68,014	0
2009	8,027,275	205,075	0	4,800	85,793	0
2010	8,576,803	203,939	0	4,800	99,872	0
2011	9,090,342	391,263	0	4,800	32,937	0
2012	9,622,134	262,404	0	4,800	49,205	0
2013	10,212,002	264,137	0	4,800	29,632	0
2014	10,856,811	265,923	0	4,800	17,531	0
2015	11,549,431	267,762	0	4,800	15,658	0
2016	12,293,980	169,656	0	4,800	12,720	0
2017	13,044,092	171,607	0	4,800	56,379	0
2018	13,840,897	173,616	0	4,800	61,789	0
2019	14,686,749	175,686	0	4,800	67,907	0
2020	15,584,489	177,818	0	4,800	74,428	0
	<b>Total</b>	<b>\$3,081,386</b>	<b>\$0</b>	<b>\$64,400</b>	<b>\$700,899</b>	<b>\$0</b>

# Net to Your Heirs

*Current Planning Projected*

In addition to seeing the net distribution to heirs if death occurred now, you should consider the effects of your current planning by examining the results if death occurred in year 2021.

Shrinkage is the total of

- Liabilities and debts
- Estimated final expenses
- Estimated federal estate taxes and state inheritance taxes
- Estimated income taxes on any income in respect of decedent



Shrinkage<sup>1</sup>  
**Net to Your Heirs**

\$9,149,080  
**\$7,282,217**

56%  
**44%**

<sup>1</sup> Estate taxes, state inheritance taxes, and any income taxes on income received in respect of a decedent, plus estimated final expenses, probate fees and liabilities, if you both die in year 2021. See Additional Details page for further information.

# Plan Summary

## Net Worth and Spending

Assumes Robert and Margaret are both living

### Proposed Plan

End of Year	Net Worth	Lifestyle Expenses	Types of Spending			
			Gifts Not Inc. Life Insurance	Life Insurance Premiums	Tax Payments and Withholdings	Discretionary Spending
2007	\$6,979,062	\$146,400	\$0	\$2,000	\$29,034	\$0
2008	7,504,167	206,100	0	4,800	68,014	0
2009	8,027,275	205,075	0	4,800	85,793	0
2010	8,576,803	203,939	0	4,800	99,872	0
2011	9,090,342	391,263	0	4,800	32,937	0
2012	9,622,134	262,404	0	4,800	49,205	0
2013	10,212,002	264,137	0	4,800	29,632	0
2014	10,856,811	265,923	0	4,800	17,531	0
2015	11,549,431	267,762	0	4,800	15,658	0
2016	12,293,980	169,656	0	4,800	12,720	0
2017	13,044,092	171,607	0	4,800	56,379	0
2018	13,840,897	173,616	0	4,800	61,789	0
2019	14,686,749	175,686	0	4,800	67,907	0
2020	15,584,489	177,818	0	4,800	74,428	0
	<b>Total</b>	<b>\$3,081,386</b>	<b>\$0</b>	<b>\$64,400</b>	<b>\$700,899</b>	<b>\$0</b>

Please refer to the Assumptions page for an explanation of the assumptions used on this page.

# Net to Your Heirs

*Proposed Planning Projected*

In addition to seeing the net distribution to heirs if death occurred now, you should consider the effects of your proposed planning by examining the results if death occurred in year 2021.

Shrinkage is the total of

- Liabilities and debts
- Estimated final expenses
- Estimated federal estate taxes and state inheritance taxes
- Estimated income taxes on any income in respect of decedent



Shrinkage <sup>1</sup>	\$8,172,776	50%
<b>Net to Your Heirs</b>	<b>\$8,258,522</b>	<b>50%</b>

<sup>1</sup> Estate taxes, state inheritance taxes, and any income taxes on income received in respect of a decedent, plus estimated final expenses, probate fees and liabilities, if you both die in year 2021. See Additional Details page for further information.

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# Plan Summary

## Net Worth and Spending

Assumes Robert and Margaret are both living

### Proposed Plan with New Life Insurance

End of Year	Net Worth	Lifestyle Expenses	Types of Spending			
			Gifts Not Inc. Life Insurance	Life Insurance Premiums	Tax Payments and Withholdings	Discretionary Spending
2007	\$6,969,022	\$146,400	\$0	\$12,000	\$29,034	\$0
2008	7,469,444	206,100	0	28,800	68,014	0
2009	7,962,941	205,075	0	28,800	89,133	0
2010	8,484,481	203,939	0	28,800	103,429	0
2011	8,966,983	391,263	0	28,800	33,756	0
2012	9,460,852	262,404	0	28,800	54,838	0
2013	10,012,944	264,137	0	28,800	33,427	0
2014	10,619,225	265,923	0	28,800	19,698	0
2015	11,281,058	267,762	0	28,800	8,310	0
2016	11,990,172	169,656	0	28,800	8,306	0
2017	12,698,046	171,607	0	28,800	56,989	0
2018	13,450,911	173,616	0	28,800	62,411	0
2019	14,251,546	175,686	0	28,800	68,248	0
2020	15,102,873	177,818	0	28,800	74,510	0
	<b>Total</b>	<b>\$3,081,386</b>	<b>\$0</b>	<b>\$386,400</b>	<b>\$710,103</b>	<b>\$0</b>

Please refer to the Assumptions page for an explanation of the assumptions used on this page.

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# Net to Your Heirs

## *Proposed Planning with New Insurance Projected*

In addition to seeing the net distribution to heirs if death occurred now, you should consider the effects of your proposed planning with insurance by examining the results if death occurred in year 2021.

Shrinkage is the total of

- Liabilities and debts
- Estimated final expenses
- Estimated federal estate taxes and state inheritance taxes
- Estimated income taxes on any income in respect of decedent



Shrinkage <sup>1</sup>	\$7,879,890	42%
<b>Net to Your Heirs</b>	<b>\$11,068,081</b>	<b>58%</b>

<sup>1</sup> Estate taxes, state inheritance taxes, and any income taxes on income received in respect of a decedent, plus estimated final expenses, probate fees and liabilities, if you both die in year 2021. See Additional Details page for further information.

Premiums may vary based on many factors, including the age, sex, and health of the insured. This presentation is not valid unless accompanied by an illustration of proposed policy values.

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# Action Plan

## *Putting Your Plan into Effect*

Check When Completed	Action	Who Is Responsible	Target Date
_____	Establish and/or review life insurance trust(s)	Attorney, Robert and Margaret	___ / ___ / ___
_____	Complete application for new life insurance policy	Trustee, Robert and Margaret	___ / ___ / ___
_____	Medical exam	Robert	___ / ___ / ___
_____	Medical exam	Margaret	___ / ___ / ___
_____	Schedule gifts to irrevocable life insurance trust	Robert and Margaret	___ / ___ / ___
_____	Review and change ownership or beneficiaries to reflect will provisions	Attorney, Robert and Margaret	___ / ___ / ___
_____	Deliver life insurance policies	Agent	___ / ___ / ___
_____	Annual review of plan	Agent, Attorney, Robert and Margaret	___ / ___ / ___

# Lifestyle Expenses Summary

## Outgoing Payments

*Assumes Robert and Margaret are both living*

### Current Plan

End of Year	Living Expenses	Education	Other Specific Needs	Loan Payments	Retirement Plan Contributions	Lifestyle Expenses
2007	\$23,600	\$0	\$0	\$21,000	\$101,800	\$146,400
2008	51,294	0	0	50,400	104,406	206,100
2009	50,181	0	0	50,400	104,495	205,075
2010	48,954	0	0	50,400	104,584	203,939
2011	191,156	0	0	100,107	100,000	391,263
2012	57,778	0	0	104,626	100,000	262,404
2013	59,512	0	0	104,626	100,000	264,137
2014	61,297	0	0	104,626	100,000	265,923
2015	63,136	0	0	104,626	100,000	267,762
2016	65,030	0	0	104,626	0	169,656
2017	66,981	0	0	104,626	0	171,607
2018	68,990	0	0	104,626	0	173,616
2019	71,060	0	0	104,626	0	175,686
2020	73,192	0	0	104,626	0	177,818

# Outgoing Payments Summary

## Outgoing Payments

*Assumes Robert and Margaret are both living*

### Current Plan

End of Year	Lifestyle Expenses	Gifts Not Including Life Insurance	Life Insurance Premiums	Tax Payments and Withholdings	Discretionary Spending	Outgoing Payments
2007	\$146,400	\$0	\$2,000	\$29,034	\$0	\$177,434
2008	206,100	0	4,800	68,014	0	278,914
2009	205,075	0	4,800	85,793	0	295,668
2010	203,939	0	4,800	99,872	0	308,610
2011	391,263	0	4,800	32,937	0	429,000
2012	262,404	0	4,800	49,205	0	316,409
2013	264,137	0	4,800	29,632	0	298,569
2014	265,923	0	4,800	17,531	0	288,254
2015	267,762	0	4,800	15,658	0	288,220
2016	169,656	0	4,800	12,720	0	187,176
2017	171,607	0	4,800	56,379	0	232,785
2018	173,616	0	4,800	61,789	0	240,205
2019	175,686	0	4,800	67,907	0	248,393
2020	177,818	0	4,800	74,428	0	257,046

# Asset Summary

*All Assets*

*Assumes Robert and Margaret are both living*

## Current Plan

End of Year	Beginning of Year Assets	Income	Retirement Plan Distributions	Total Cash Flow Required	Change in Asset Values	End of Year Assets <sup>1</sup>
2007	\$7,265,402	\$96,167	\$0	\$177,434	\$198,140	\$7,458,599
2008	7,458,599	260,996	100,000	278,914	406,208	7,971,216
2009	7,971,216	245,547	100,000	295,668	406,871	8,480,799
2010	8,480,799	254,184	100,000	308,610	432,029	9,015,680
2011	9,015,680	150,540	100,000	429,000	950,689	10,043,168
2012	10,043,168	160,075	64,407	316,409	434,360	10,545,495
2013	10,545,495	166,383	0	298,569	555,050	11,103,453
2014	11,103,453	174,066	0	288,254	606,802	11,713,704
2015	11,713,704	182,229	0	288,220	652,329	12,368,896
2016	12,368,896	191,146	48,671	187,176	646,117	13,072,912
2017	13,072,912	201,014	51,591	232,785	686,395	13,779,126
2018	13,779,126	211,422	54,683	240,205	723,364	14,528,390
2019	14,528,390	222,400	57,957	248,393	762,400	15,322,755
2020	15,322,755	233,980	61,424	257,046	803,621	16,164,734

<sup>1</sup> Assets equal total income less outgoing payments plus net effects of cash flow plus existing assets.

# Liability Summary

*All Liabilities*

*Assumes Robert and Margaret are both living*

## Current Plan

End of Year	Beginning of Year Total Liabilities	New Loans Added	Interest Charges	Total Payments To Principal and Interest	End of Year Total Liabilities
2007	\$484,454	\$0	\$16,083	\$21,000	\$479,537
2008	479,537	0	37,912	50,400	467,049
2009	483,589	0	36,875	50,400	453,524
2010	482,879	0	35,753	50,400	438,877
2011	471,814	0	73,812	100,107	952,826
2012	1,002,031	0	75,161	104,626	923,361
2013	952,993	0	72,716	104,626	891,451
2014	908,982	0	70,067	104,626	856,892
2015	872,551	0	67,199	104,626	819,465
2016	832,185	0	64,092	104,626	778,932
2017	835,311	0	60,728	104,626	735,034
2018	796,823	0	57,085	104,626	687,493
2019	755,400	0	53,139	104,626	636,006
2020	710,434	0	48,865	104,626	580,246

# Gift Summary

**Total Gifts**

*Assumes Robert and Margaret are both living*

## Current Plan

End of Year	Life Insurance Premium Gifts	Non Premium Gifts	Taxable Gifts	Exclusion Gifts	Charitable Gifts	All Gifts
2007	\$0	\$3,000	\$0	\$0	\$3,000	\$3,000
2008	0	7,416	0	0	7,416	7,416
2009	0	7,638	0	0	7,638	7,638
2010	0	7,868	0	0	7,868	7,868
2011	0	8,104	0	0	8,104	8,104
2012	0	8,347	0	0	8,347	8,347
2013	0	8,597	0	0	8,597	8,597
2014	0	8,855	0	0	8,855	8,855
2015	0	9,121	0	0	9,121	9,121
2016	0	9,394	0	0	9,394	9,394
2017	0	9,676	0	0	9,676	9,676
2018	0	9,966	0	0	9,966	9,966
2019	0	10,265	0	0	10,265	10,265
2020	0	10,573	0	0	10,573	10,573

# Gift Details

## Total Gifts

*Assumes Robert and Margaret are both living*

### Current Plan

End of Year	Non-Premium Exclusion Gifts	Life Ins Premium Exclusion Gifts	Total Annual Exclusion Gifts	Non-Premium Taxable Gifts	Life Ins Premium Taxable Gifts	Total Annual Taxable Gifts	Charitable Gifts
2007	\$0	\$0	\$0	\$0	\$0	\$0	\$3,000
2008	0	0	0	0	0	0	7,416
2009	0	0	0	0	0	0	7,638
2010	0	0	0	0	0	0	7,868
2011	0	0	0	0	0	0	8,104
2012	0	0	0	0	0	0	8,347
2013	0	0	0	0	0	0	8,597
2014	0	0	0	0	0	0	8,855
2015	0	0	0	0	0	0	9,121
2016	0	0	0	0	0	0	9,394
2017	0	0	0	0	0	0	9,676
2018	0	0	0	0	0	0	9,966
2019	0	0	0	0	0	0	10,265
2020	0	0	0	0	0	0	10,573

# Income and Gift Tax Summary

## Annual Details

*Assumes Robert and Margaret are both living*

### Current Plan

End of Year	Income Taxes Due for Prior Year	Income Taxes Refund for Prior Year	Withholding for Year	FICA Withholding	Gift Taxes Due for Prior Year	Taxes Payments and Withholdings
2007	\$0	\$0	\$24,444	\$4,590	\$0	\$29,034
2008	0	23,714	59,839	8,175	0	68,014
2009	16,540	0	61,036	8,217	0	85,793
2010	29,354	0	62,256	8,261	0	99,872
2011	32,937	0	0	0	0	32,937
2012	49,205	0	0	0	0	49,205
2013	29,632	0	0	0	0	29,632
2014	17,531	0	0	0	0	17,531
2015	15,658	0	0	0	0	15,658
2016	12,720	0	0	0	0	12,720
2017	56,379	0	0	0	0	56,379
2018	61,789	0	0	0	0	61,789
2019	67,907	0	0	0	0	67,907
2020	74,428	0	0	0	0	74,428

# Additional Details

## Your Current Plan

Calculations assume that Robert Reynolds (age 61) and Margaret Reynolds (age 61) both die in 2021. Robert is assumed to die first.

Robert is eligible for Social Security benefits. Robert's Social Security benefits are estimated based on the information contained in the Social Security Benefit statement you provided. Robert plans to take Social Security retirement benefits starting at age 65.

Margaret is eligible for Social Security benefits. Margaret's Social Security benefits are estimated based on the information contained in the Social Security Benefit statement you provided. Margaret plans to take Social Security retirement benefits starting at age 65.

Robert is a U.S. Citizen and Margaret is a U.S. Citizen.

### Income Tax Rates

Federal Income Tax Rate: 35%

State Income Tax Rate: 7%

### Change in Income Tax Rates (starting when Robert retires)

Federal Income Tax Rate: 28%

State Income Tax Rate: 7%

### Other Rates

Capital Gains Tax Rate: 15%

Income Tax Rate for Income in Respect of a Decedent: 35%

General Inflation Rate: 3%

Inflation Rate for Federal Indexed Values: 3%

An IRC Sec. 7520 rate of 5% is used to calculate the remainder interests for trusts, annuities and income in respect of decedent.

Income designated as Capital Gains Income is assumed to qualify for long-term capital gains treatment.

Calculations of short-term capital gains, adjusted net capital gain or qualified 5-year gain is beyond the scope of this analysis.

### Prior Taxable Gifts

#### Robert:

Prior Taxable Gifts: \$0

Gift Taxes Paid: \$0

Applicable Credit Used: \$0

#### Margaret:

Prior Taxable Gifts: \$0

Gift Taxes Paid: \$0

Applicable Credit Used: \$0

### Growth Rates for Gifts, Bequests and Life Insurance Proceeds

Growth Rates for Transfers to Others: 5%

Growth Rates for Transfers to Charities: 5%

Rates for Life Insurance Proceeds in Trust: 5%

# Additional Details

*Your Current Plan (cont.)*

## **Probate and Expenses**

### **Robert:**

Final Expenses: \$0  
Probate Fees (% Gross Estate): 4%  
Probate Fees: \$0  
Administrative Fees (% Assets): 1%  
Administrative Fees: \$0  
Additional Expenses: \$0  
Additional Taxes: \$0

### **Margaret:**

Final Expenses: \$0  
Probate Fees (% Gross Estate): 4%  
Probate Fees: \$0  
Administrative Fees (% Assets): 1%  
Administrative Fees: \$0  
Additional Expenses: \$0  
Additional Taxes: \$0

Stock options have been illustrated to estimate their effects on your overall assets. It is not possible to predict the performance of any stock. The taxation of stock options can vary greatly based on the exact provisions of the grant, the vesting schedule, the market price when first exercisable, how long you held the options, when you exercised the options, and when you sold the acquired shares. Incentive stock options are assumed to meet all of the limitations described in IRC Sec. 422. All shares are assumed to be held one year after exercise of the option. Options exercised at the end of two years or later are assumed to meet the IRS two year requirement. You should consult your tax or legal advisor before taking any action concerning your stock options.