2016 Advisor Symposium

Issues of interest to advisors today.

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Taming the Planning "B.E.A.S.T."

James M. Duggan, MBA, JD
DUGGAN BERTSCH, LLC

Taming the B.E.A.S.T.

For the private client, there is a planning BEAST always lurking, and it needs to be tamed:

B – Buy-Sell Planning

E – Estate Planning

A – Asset Protection

S – Succession Planning

T – Tax Minimization

…And it CAN be.

B.E.A.S.T.

Buy-Sell Planning

Reasons for a buy-sell agreement (BSA)

A BSA is critical for the private company, above all, to provide certainty, but also:

- To restrict transfers.
- To create "Permitted Transferees."
- To clarify desired trigger events for purchase.
- To provide a guaranteed market for ownership interests.
- To establish purchase price or valuation method.
- To establish payment terms.
- To avoid litigation.
- To assist with tax planning.
- And, did I mention, to create certainty.

BSA and purchase structures

The BSA can be structured as one of the following:

- Redemption –
  - Company redeems interests from owners (no step-up in basis for remaining shareholders).
- Cross-purchase –
  - Owners purchase interests from each other (step-up in basis for remaining shareholders).
- A combination of the two.

Typical BSA trigger events

Most owners are driven to enter into a BSA in consideration of one's death, but a more comprehensive list of desirable trigger events is:

- Death
- Disability
- Voluntary transfer
- Involuntary transfer
- Retirement
- Early resignation
- Attainment of certain investment return
- Divorce
- Bankruptcy
- Loss of professional license
- Termination
- Dispute
- Passage of time
- Criminal conviction

Valuation methods in the BSA

Valuation methods include:

- Agreed value – adjust annually in minutes.
- Agreed formula – industry norm or customized.
- Appraised value – by one or more appraisers.
- Amount of insurance proceeds – death or disability.
- A combination of the above.
  - Consider punitive value for “bad” departure – e.g., divorce.
  - Consider full value or premium for “good” departure – e.g., retirement.
  - “Greater of” and “lesser of” standards also can be used.

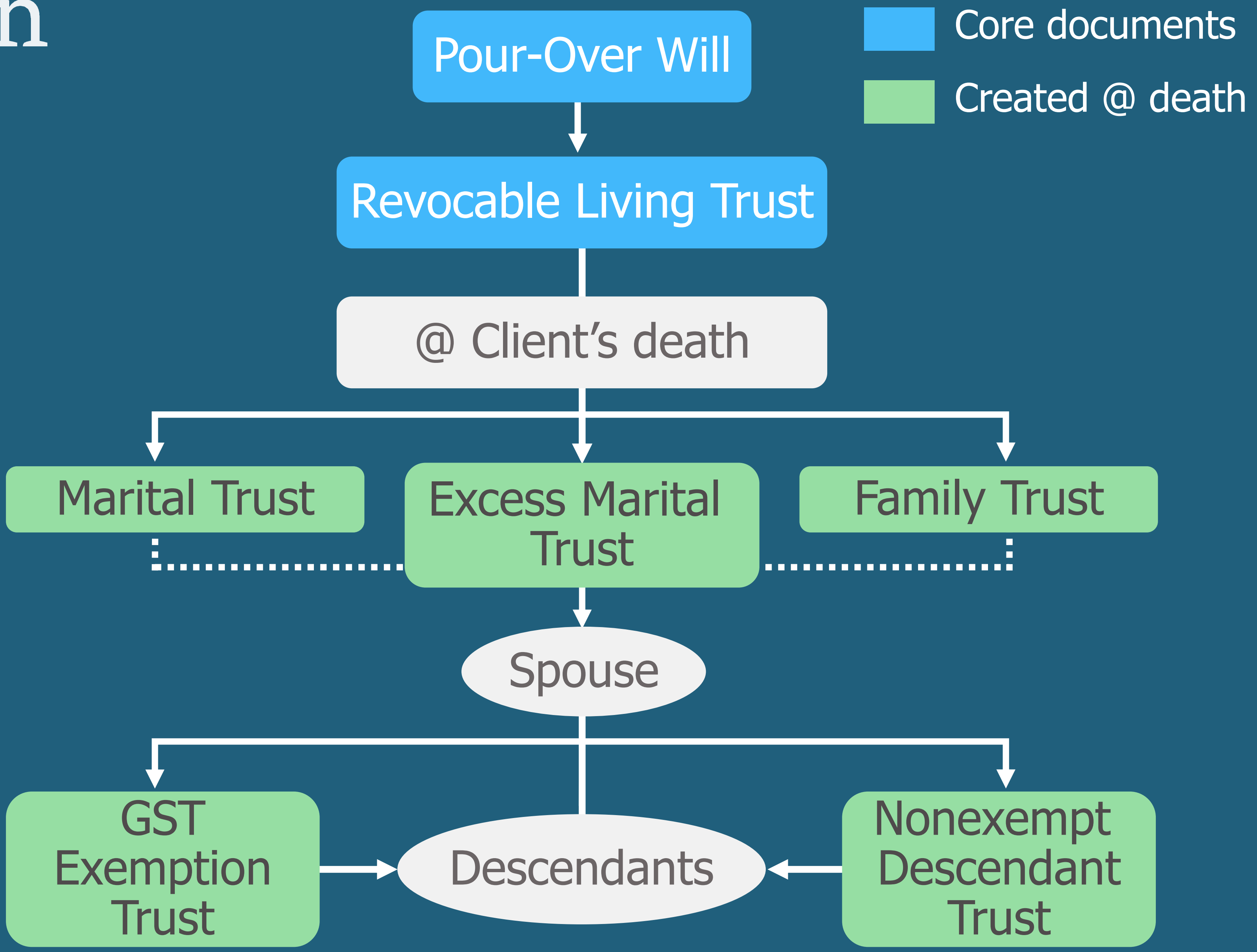
B.E.A.S.T.

Estate Planning

The Core Plan

Other documents

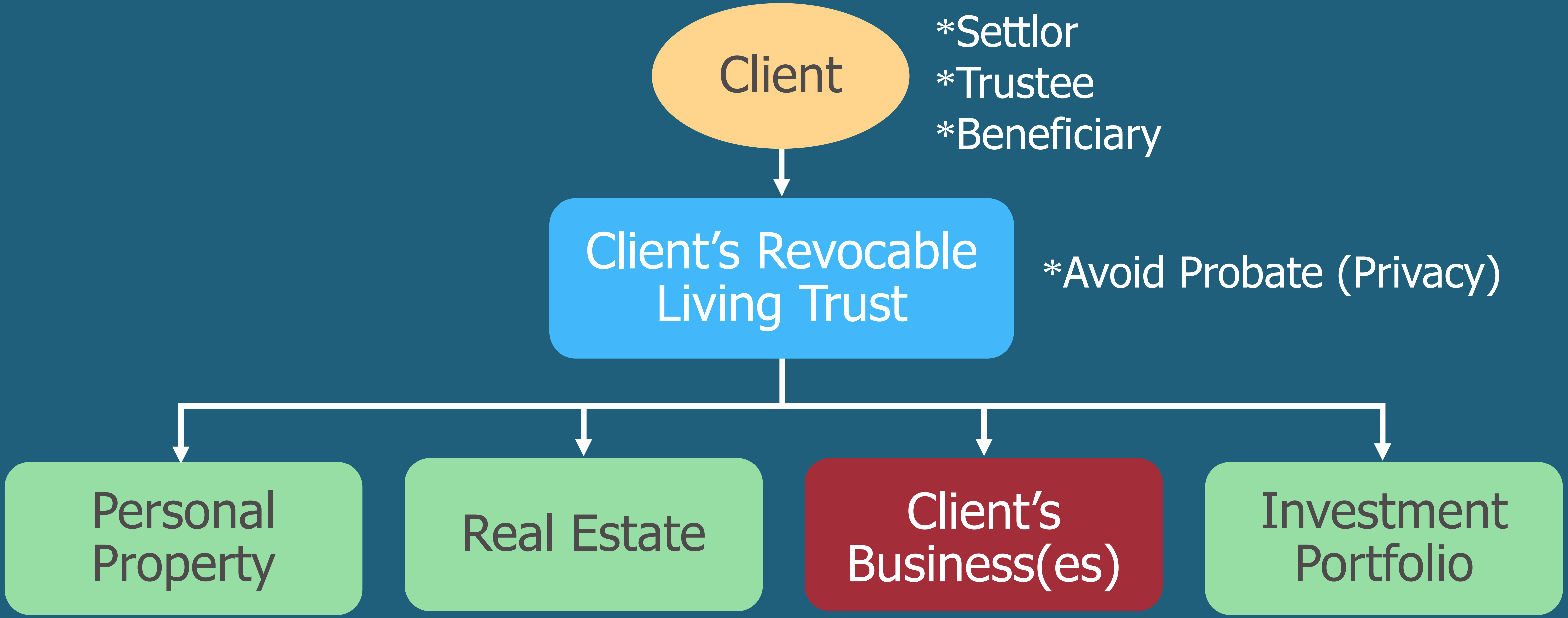
- Living Will
- Health Care POA
- Property POA
- Limited POA for Business Decisions
- Estate Planning Adjunct Letter



Key points for the Core Plan

1. Have a core plan – don’t leave it to the state to decide.
2. Avoid probate – delay, costs, publicity.
3. Fund your trust!
4. Consider non-statutory POAs.
5. Business owners should consider a Limited POA for Business Decisions.

Revocable Living Trust structure



* FUND THE TRUST!!

B.E.A.S.T.

Asset protection

Asset protection planning

- Comprehensive asset protection planning requires planning in two distinct areas:
  - Business protection.
  - Personal protection.

Limited liability business structures

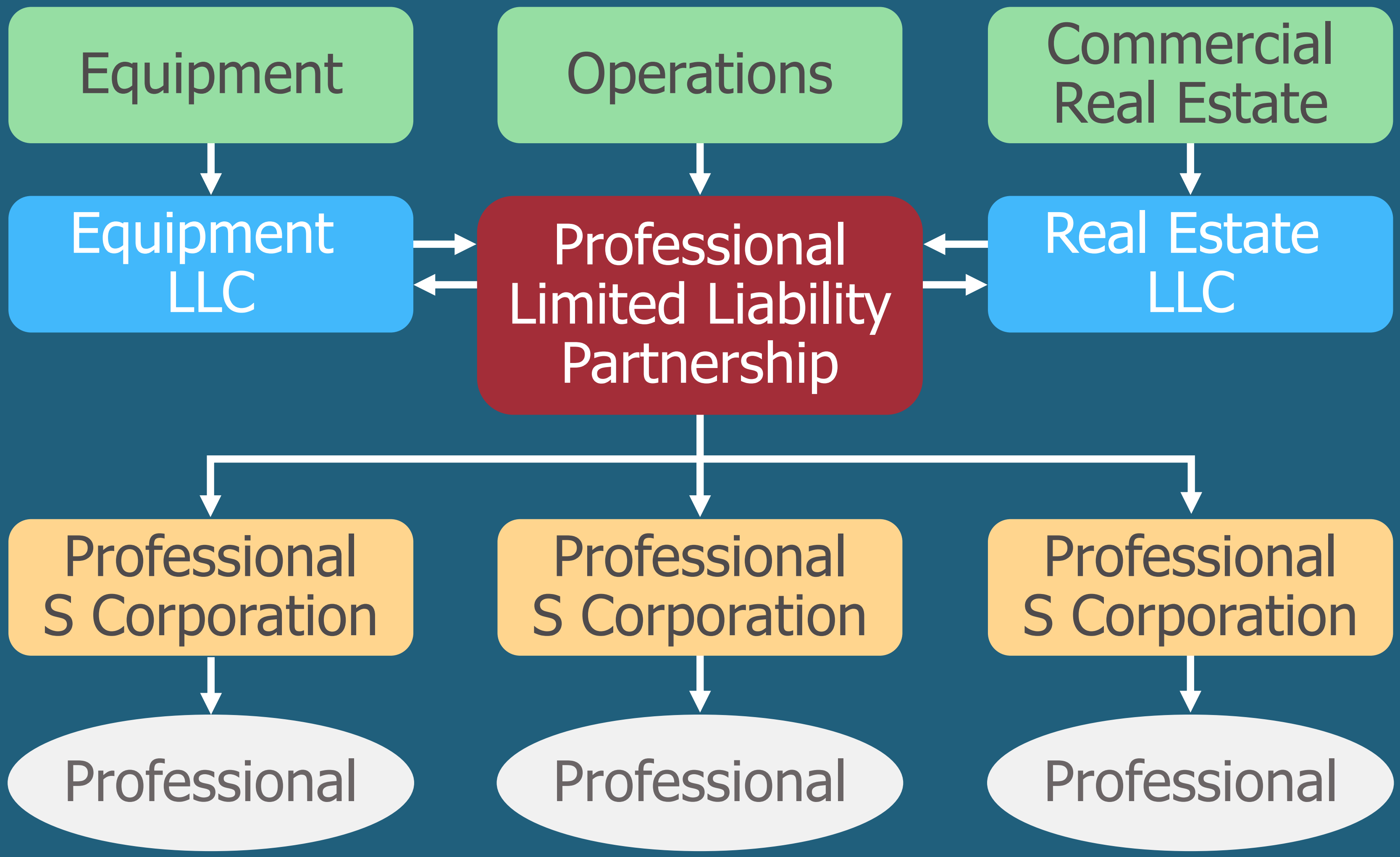
Asset protection in the business arena is generally accomplished through conventional entity planning:

- Corporations
  - S or C
- Limited Partnerships (LP)
  - With corporate general partner (GP)
- Limited Liability Companies (LLC)
  - Multi-member, single-member, series
- Limited Liability Partnerships (LLP)
  - Professional and non-professional

Limited liability business structures

- All should protect owner’s personal assets from claims against the business.
- No Sole Proprietorships please!
- May be enhanced through insurance.

Sample multi-entity business structure – physician group



Comprehensive asset protection planning

Aside from acting in a manner that will avoid lawsuits, and carrying sufficient insurance, personal asset protection optimization has two principal components:

- Maximizing exempt assets.
- Transferring non-exempt assets to asset protection vehicles.

Comprehensive asset protection planning

Step #1: Identify exempt assets in your state and maximize those assets.

- Homestead exemption
- Tenancy by the entirety
- Qualified/Retirement plans
- Nonqualified retirement plans
- Insurance
- Annuities

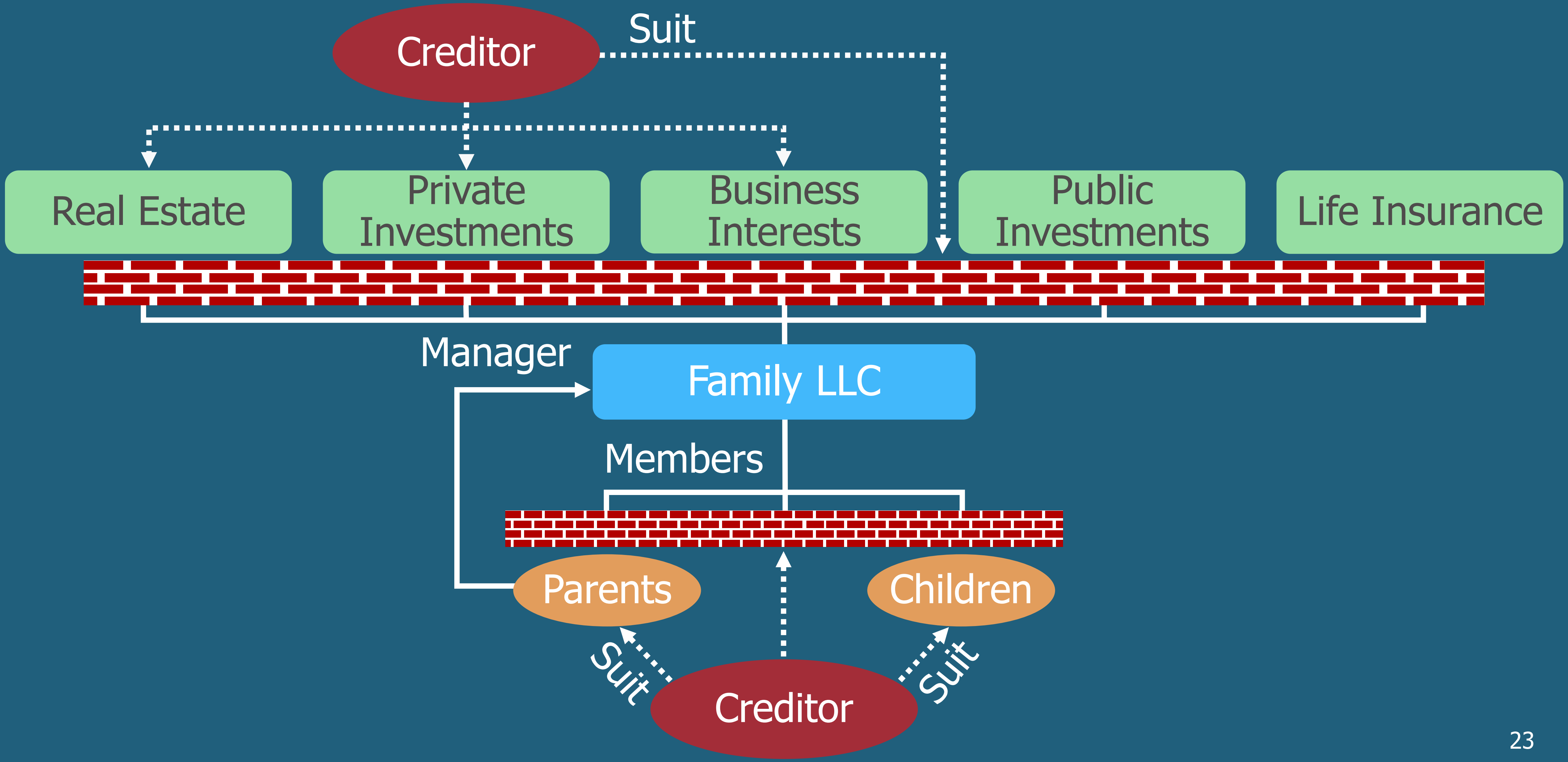
Comprehensive asset protection planning

Step #2: Transfer remaining assets to asset protection vehicles.

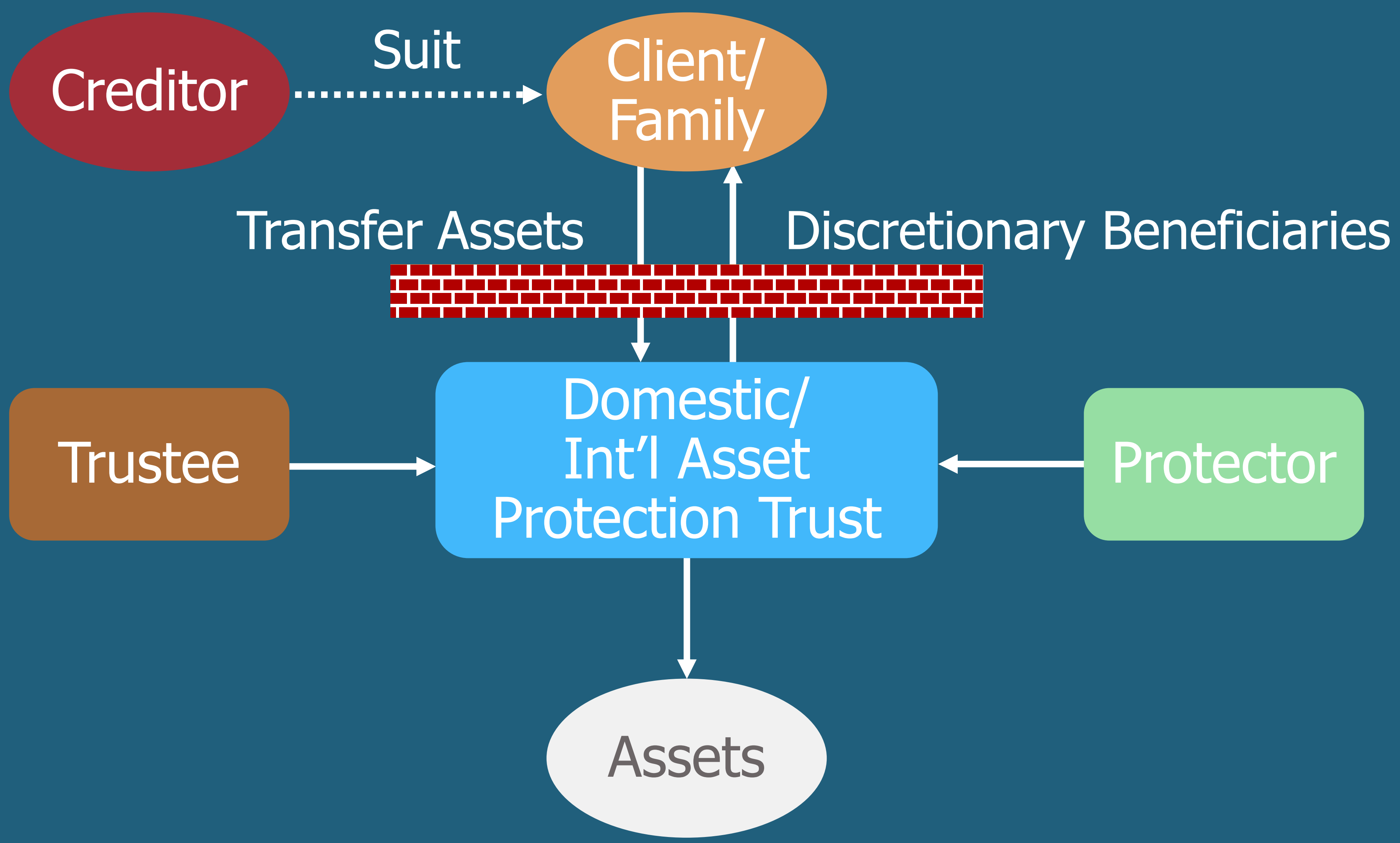
- Business entities – Family LPs, LLCs, or LLPs.
- Asset protection trusts – third party, self-settled, domestic, offshore.

- Transfer to *other people?* – Subject to trust, and claims of their creditors; asset <u>not</u> protected.

Planning with FLLCs



Asset protection trusts



B.E.A.S.T.

Succession planning

Company succession planning

- Corporate contingency plan.
- Successor directors stated in annual minutes.
- Shareholder's Agreement.

Personal succession planning

- Transition plan for next generation/spouse.
- Wealth succession plan – LLC as “Virtual Family Office.”
- Family governance and management designation.
- Change in investment profile.
- Customized “best interests” distribution provisions in trusts.

B.E.A.S.T.

Tax minimization – Estate and income

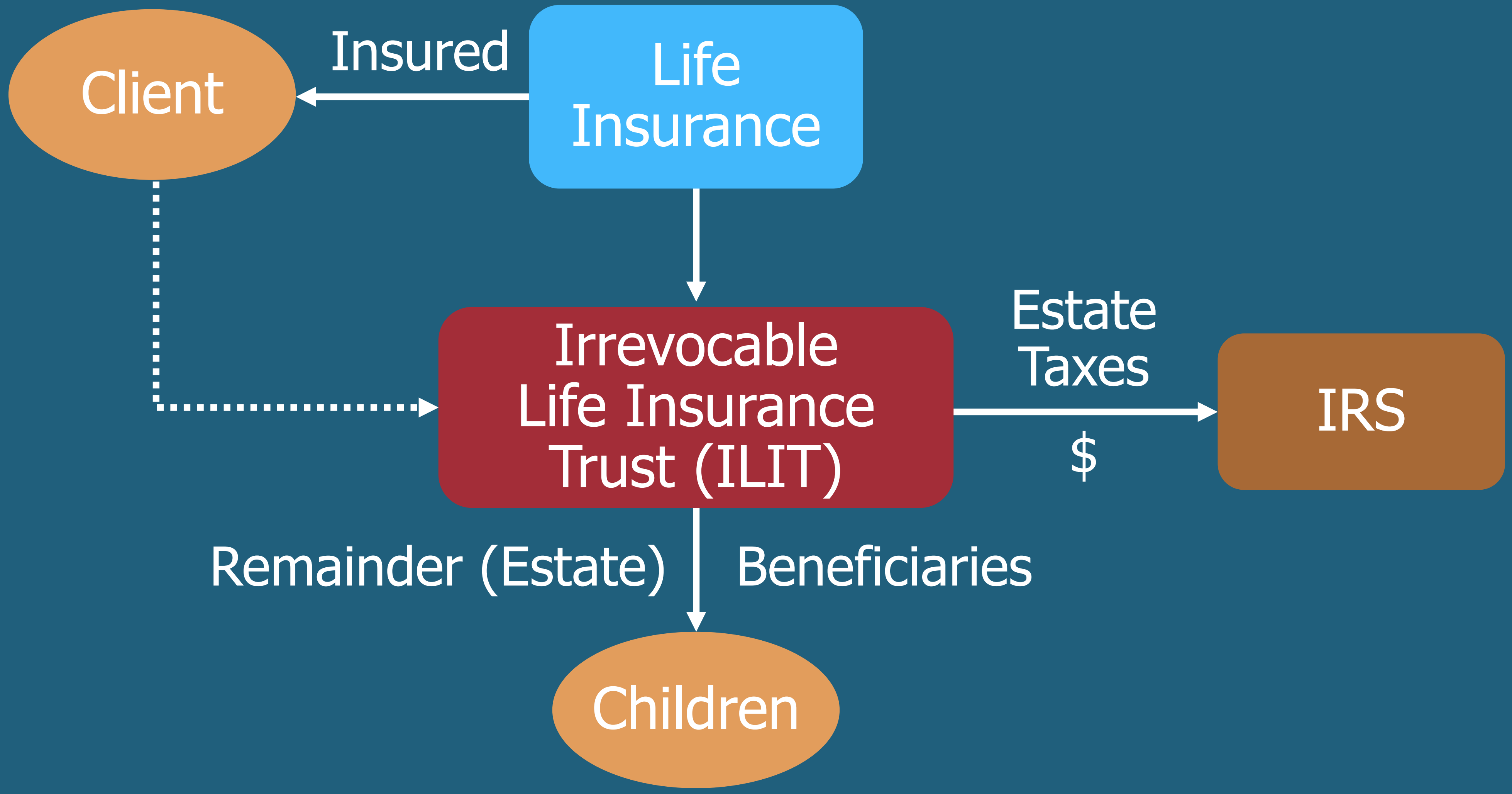
Planning for the taxable estate

When confronted with a taxable estate, an individual generally has 3 options in planning for the corresponding estate taxes:

- Pay them – with own assets or with insurance.
- Reduce them – gifting, freezing, discounting.
- Avoid them – diverting income and acquisitions, and using charitable deductions.

Pay the estate tax

The Irrevocable Life Insurance Trust (ILIT)

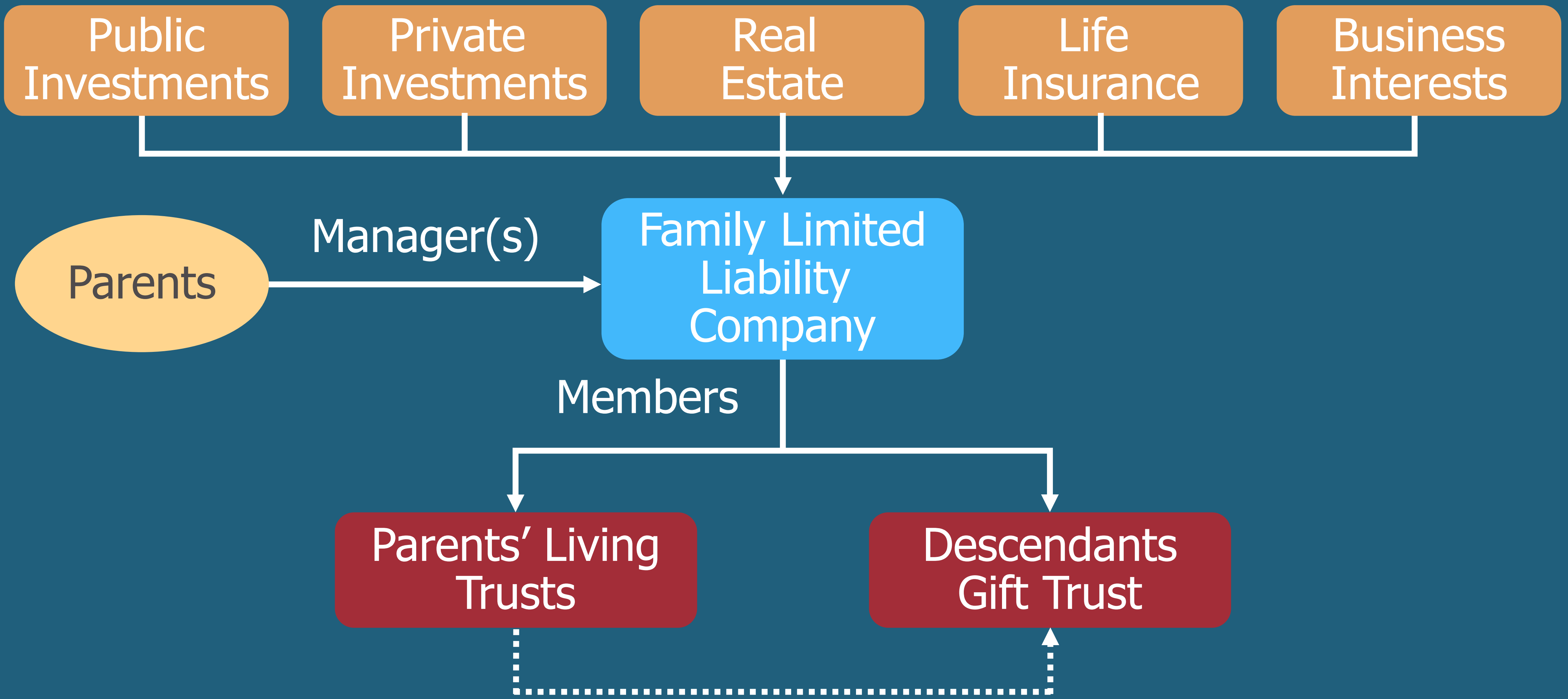


Reduce the estate tax through direct gifting

Estate taxes are reduced by reducing the size of the estate. Simple gifting strategies include:

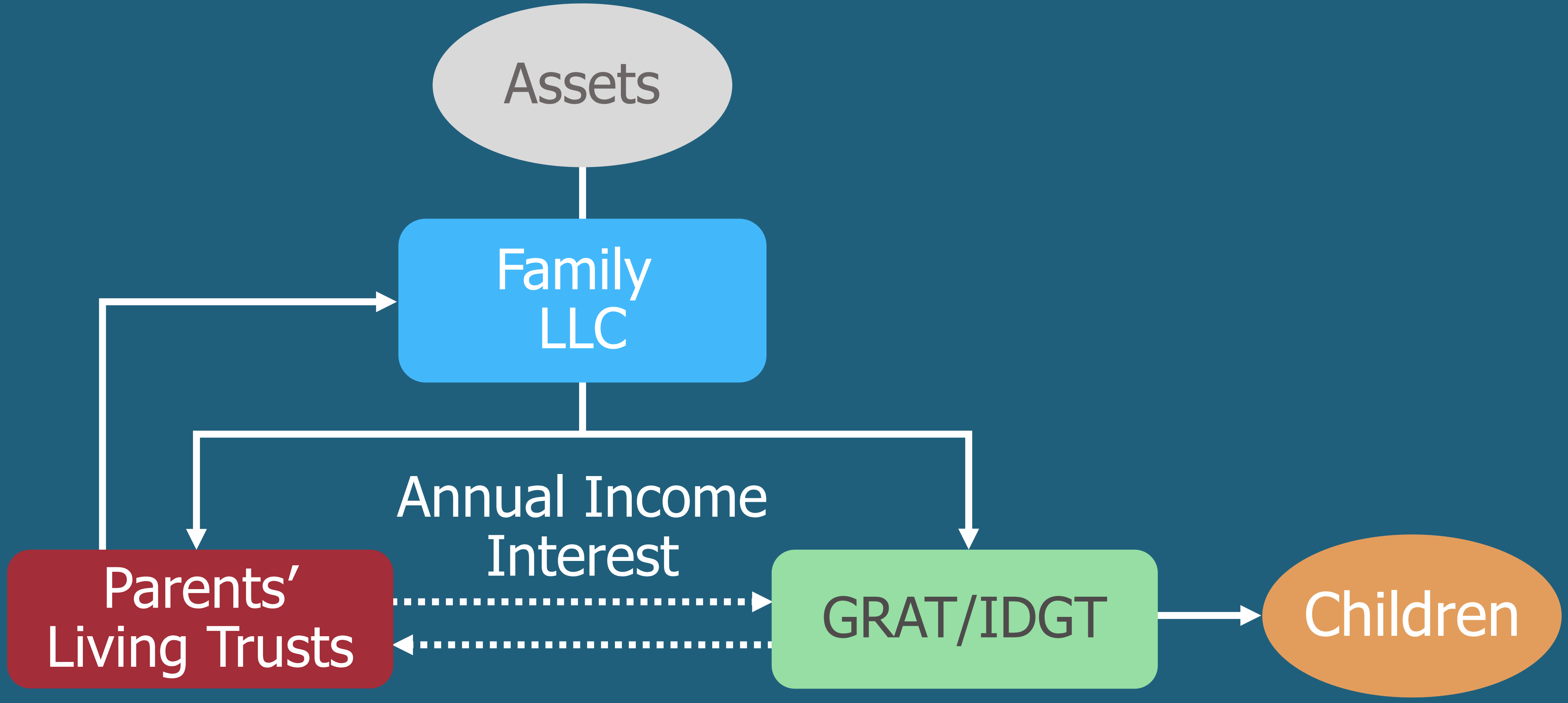
- Formalized gifting programs (using the annual and/or lifetime exclusions).
- Qualified tuition expenses.
- Qualified medical expenses.
- 529 college saving plans (5-year front-loading).
- UGMAs/UTMAs – for smaller amounts.
- Crummey trusts/2503(c) gift trusts.

Reduce the estate tax with discount planning



Reduce the estate tax through freeze techniques

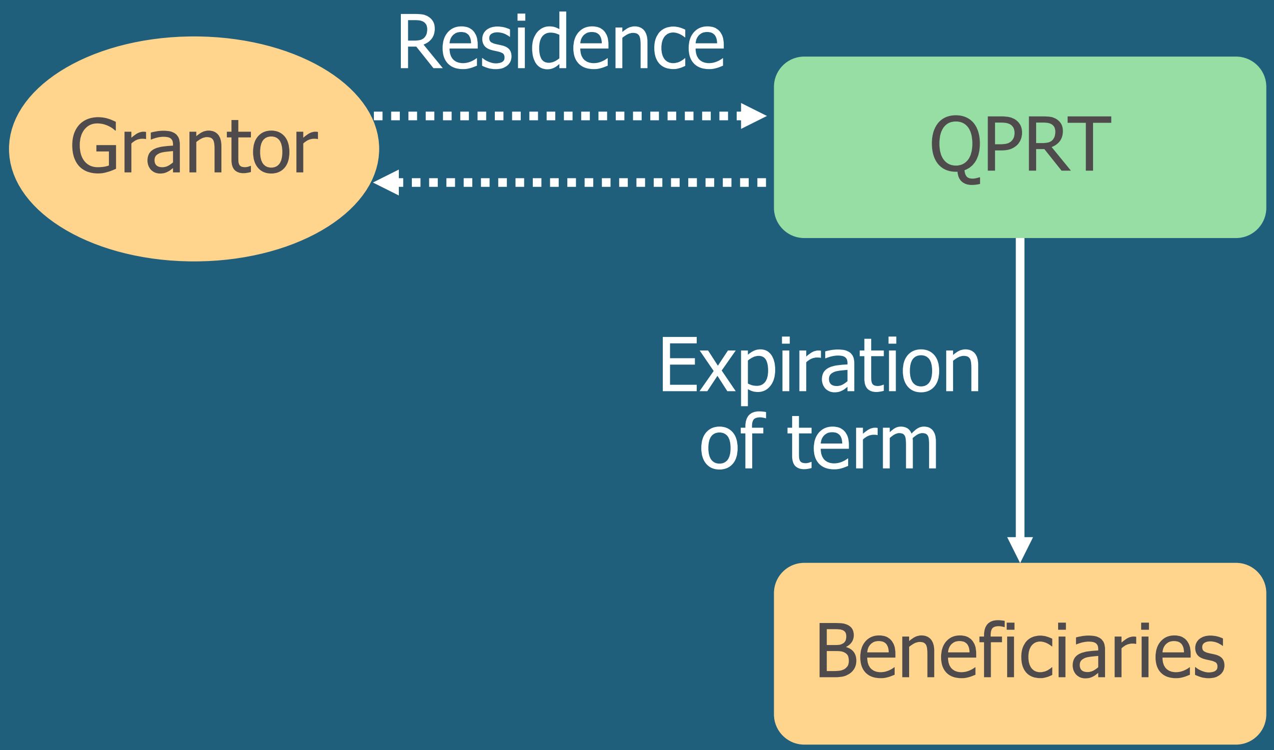
Freezing asset values with GRATs and IDGTs.



Reduce the estate tax through QPRTs

Reduce estate by transferring residence to QPRT.

- Must outlive term.
- Must pay FMV rent at end of term.
- Allowed for personal residence and one vacation home.



Avoid the estate tax by diverting acquisition opportunities

- Perhaps the best way to avoid inclusion of an asset in one's estate is to never actually own the asset. Diverting original acquisition opportunities of business interests, real estate, competitive enterprises, and speculative securities to the next generation in the first place will remove the asset and all future appreciation from the estate.
- Best to accomplish through LLC owned by descendants.

Income tax minimization

Four basic strategies to reduce income taxes:

- Make less money? No thanks.
- Increase deductions – business, personal.
- Shift income to lower tax brackets.
- Establish a tax-free earnings environment – municipal bonds, insurance, annuities.

Conclusion

- Have a **B**uy-Sell Agreement.
- Create an **E**state Plan with a living trust to avoid probate. Include a limited power of attorney for business decisions.
- Protect your business **A**ssets with an LLC. Protect your non-exempt personal assets with an LLC or APT(s).
- Prepare a contingency plan for the business, and include **S**uccessors in minutes. Prepare a wealth transition plan using trusts or an LLC.
- Consider discounted gifting of business or of a family LLC. Shift income to lower **T**ax brackets – divert income opportunities. Maximize use of tax-advantaged accumulation vehicles (ERISA, insurance, annuities, etc.).

2016 Advisor Symposium

Issues of interest to advisors today.

Estate Planning Analysis for John and Jane Smith

Michael Piotrowicz, ChFC®, CLU®
Legacy Advisors, LLC

NEW YORK LIFE

Objectives

Estate Planning:

- Secure Jane's financial security at John's death.
- Preserve estate for Sean and Lori at death of John and Jane.
  - Maximum value per child: $20,000,000.
- Protect assets from creditors and divorce.
- Maintain children's family values and work ethic to encourage each to become productive members of society.
- Eliminate/minimize taxes in both John and Jane's and children's estates.

Objectives

Continuity:

- Maintain ownership interest in Atlas Partners during lifetime and at death.

Philanthropy:

- Determine lifetime plan for charitable giving.
- Coordinate charitable objectives with overall estate distribution.

Condensed balance sheet

Summary of taxable estate.

Assets	John	Joint	Jane	Total
Cash / Equivalents	$ -	$ 750,000	$ -	$ 750,000
Marketable securities	2,450,000	18,908,700	333,100	21,691,800
Real estate – personal	4,200,000	-	2,300,000	6,500,000
Business interests*	820,000	-	-	820,000
Retirement Accounts**	5,752,700	-	111,000	5,863,700
Notes receivable	-	823,300	-	823,300
Miscellaneous assets	681,800	170,000	600,800	1,452,600
Life insurance	706,500	-	-	706,500
Liabilities	(840,000)	-	-	(840,000)
Totals	$13,771,000	$20,652,000	$3,344,900	$37,767,900

* Equity in Atlas Partners based on a capital contribution of $250k.
** Includes present value of ABC Corp. deferred compensation.

Condensed balance sheet

Summary of non-taxable estate.

Assets	1995 Smith Family Trust	1999 Smith Family Trust	2006 Irrevocable Life Ins. Trust	Total
Cash / Equivalents	$ -	$ -	$ -	$ -
Marketable securities	-	1,130,900	-	1,130,900
Life insurance – John	1,000,000	-	-	1,000,000
Life insurance – Joint lives	-	-	10,728,000	10,728,000
Liabilities	-	-	(823,300)	(823,300)
Totals	$1,000,000	$1,130,900	$9,904,700	$12,035,600

Current plan

John's Death

John	
Cash/Securities	$ 2,450,000
Real Estate	4,200,000
Businesses	820,000
Retirement Plans*	5,752,700
Life Insurance*	706,500
Misc. Assets	681,800
Liabilities	(840,000)
Cash/Securities (Jt.)*	9,829,400
Note Receivable (Jt.)*	411,600
Misc. Assets (Jt.)*	85,000
TOTAL	$24,097,000

Jane	
Cash/Securities	$ 333,100
Real Estate	2,300,000
Retirement Plans	111,000
Misc. Assets	600,800
Cash/Securities (Jt.)	9,829,300
Note Receivable (Jt.)	411,700
Misc. Assets (Jt.)	85,000
TOTAL	$13,670,900

(4) Outright - $16,785,200

(5) $445,000**

(6)

(1)

1995 Family Trust	
Life Insurance	$1,000,000
(John's Life)	
TOTAL	$1,000,000

(2)

1999 Family Trust	
Cash/Investments	$1,130,900
TOTAL	$1,130,900

(3)

2006 Irrev. Insurance Trust	
Life Insurance	$10,728,000
(John and Jane's Lives)	
Note Payable	(823,300)
TOTAL	$9,904,700

Residuary Trust	
Cash/Securities	$430,000
Real Estate	4,200,000
Businesses	820,000
Tax	(445,000)
TOTAL	$5,005,000

Marital Trust	
Cash/Securities	$2,020,000
Misc. Assets	681,800
Liabilities	(840,000)
TOTAL	$1,861,800

Jane	
Cash/Securities	$19,991,800
Real Estate	2,300,000
Retirement Plans	111,000
Retirement Plans R/O	5,752,700
Cash (Life Insurance)	706,500
Note Receivable	823,300
Misc. Assets	770,800
TOTAL	$30,456,100

Income & Principal

ESTATE TAX LEGEND

- Taxable
- Non-taxable
- Income
- * Outright

**New York estate tax of $445,000 and federal estate tax of $0.
Hypothetical values provided for illustrative purposes only. Not indicative of any product nor a guarantee of performance.

Current plan

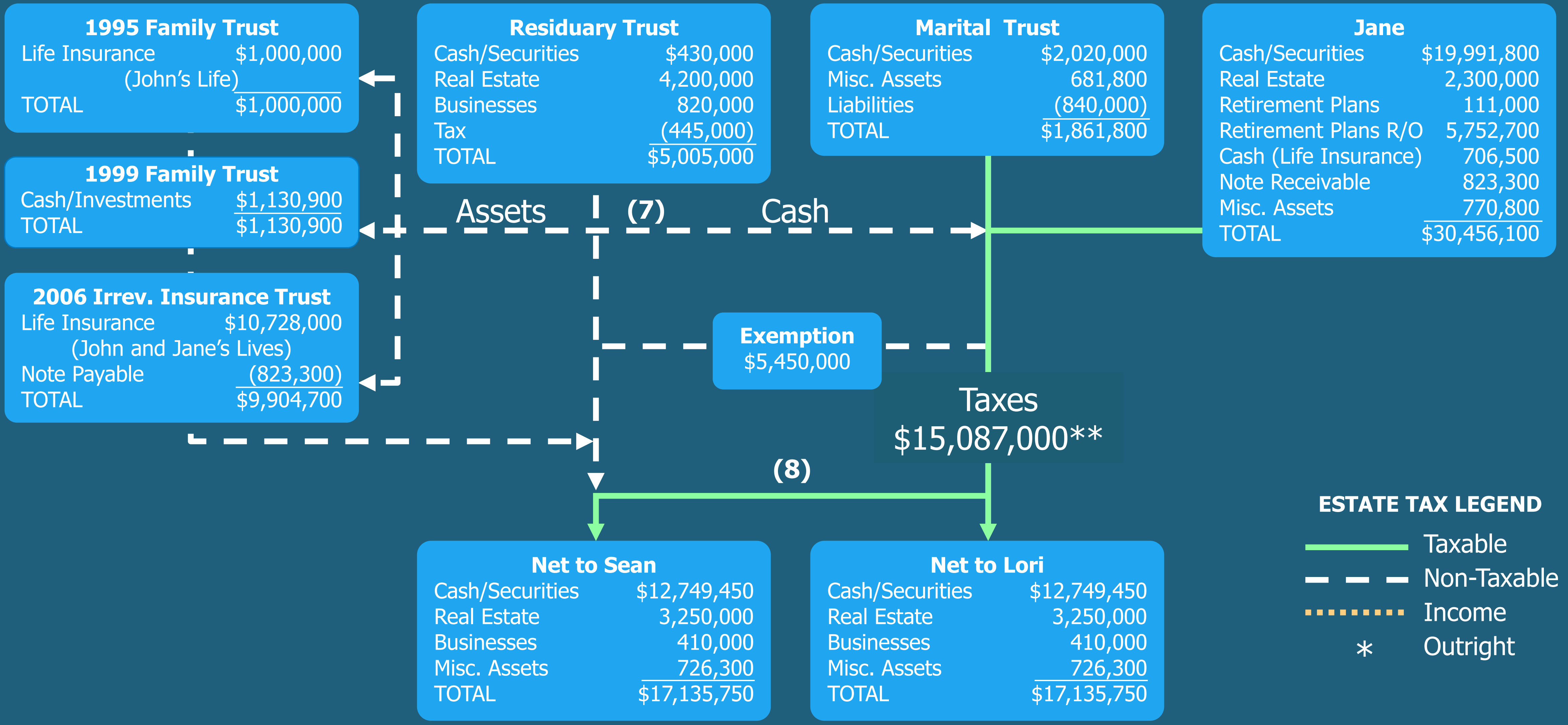
Sources of income for Jane's financial security at John's death.

Jane's assets	
- Cash / Securities	$19,991,800
- IRAs / IRA rollovers	792,700
John's marital trust	
- Cash / Securities	2,020,000
1995 Smith Family irrevocable trust	
- Cash / Securities	1,000,000
Total liquid assets	$23,804,500
Projected annual income @ 4%	**$952,180**

Note: Does not include income from business interests and annual deferred compensation benefits (projected $800,000/year for 15 years at age 65).

Current plan

Jane’s Death (as Surviving Spouse)



** New York estate tax of $4,638,000, federal estate tax of $8,892,000, and federal income tax of $1,557,000.

Alternative plan #2

John's Death

John

Cash/Securities	$ 2,450,000
Real Estate	4,200,000
Businesses	820,000
Retirement Plans*	5,752,700
Life Insurance*	706,500
Misc. Assets	681,800
Liabilities	(840,000)
Cash/Securities (Jt.)*	9,829,400
Note Receivable (Jt.)*	411,600
Misc. Assets (Jt.)*	85,000
TOTAL	$24,097,000

Jane

Cash/Securities	$ 333,100
Real Estate	2,300,000
Retirement Plans	111,000
Misc. Assets	600,800
Cash/Securities (Jt.)	9,829,300
Note Receivable (Jt.)	411,700
Misc. Assets (Jt.)	85,000
TOTAL	$13,670,900

(5) Outright - $16,785,200

(6)

(7)

(1) **1995 Family Trust**

Life Insurance	$1,000,000
(John's Life)	
TOTAL	$1,000,000

(2) **1999 Family Trust**

Cash/Investments	$1,130,900
TOTAL	$1,130,900

(3) **2006 Irrev. Insurance Trust**

Life Insurance	$10,728,000
(John and Jane's Lives)	
Note Payable	(823,300)
TOTAL	$9,904,700

Residuary Trust

Cash/Securities	$430,000
Real Estate	4,200,000
Businesses	820,000
Tax	(445,000)
TOTAL	$5,005,000

(4) **2016 Irrevocable GST Trust**

Life Insurance	$13,600,000
(John and Jane's Lives)	
TOTAL	$13,600,000

Marital Trust

Cash/Securities	$2,020,000
Misc. Assets	681,800
Liabilities	(840,000)
TOTAL	$1,861,800

Jane

Cash/Securities	$19,991,800
Real Estate	2,300,000
Retirement Plans	111,000
Retirement Plans R/O	5,752,700
Cash (Life Insurance)	706,500
Note Receivable	823,300
Misc. Assets	770,800
TOTAL	$30,456,100

Income & Principal

ESTATE TAX LEGEND

Taxable

Non-Taxable

Income

* Outright

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Alternative plan #2

Jane's Death (as Surviving Spouse)

1995 Family Trust

Life Insurance (John's Life)	$1,000,000
TOTAL	$1,000,000

Residuary Trust

Cash/Securities	$430,000
Real Estate	4,200,000
Businesses	820,000
Tax	(445,000)
TOTAL	$5,005,000

Marital Trust

Cash/Securities	$2,020,000
Misc. Assets	681,800
Liabilities	(840,000)
TOTAL	$1,861,800

Jane

Cash/Securities	$19,991,800
Real Estate	2,300,000
Retirement Plans	111,000
Retirement Plans R/O	5,752,700
Cash (Life Insurance)	706,500
Note Receivable	823,300
Misc. Assets	770,800
TOTAL	$30,456,100

1999 Family Trust

Cash/Investments	$1,130,900
TOTAL	$1,130,900

Assets (8) Cash

2006 Irrev. Insurance Trust

Life Insurance (John and Jane's Lives)	$10,728,000
Note Payable	(823,300)
TOTAL	$9,904,700

2016 Irrev. GST Trust

Life Insurance (John and Jane's Lives)	$13,600,000
TOTAL	$13,600,000

Exemption
$5,450,000

Taxes
$3,610,000**

(9)

Charities

Retirement Plans	$ 111,000
Retirement Plans R/O	5,752,700
Assets	14,136,300
TOTAL	$20,000,000

(11) (10)

Net to Sean

Cash/Securities	$$15,287,950
Real Estate	3,250,000
Businesses	410,000
Misc. Assets	726,300
TOTAL	$19,674,250

Net to Lori

Cash/Securities	$$15,287,950
Real Estate	3,250,000
Businesses	410,000
Misc. Assets	726,300
TOTAL	$19,674,250

ESTATE TAX LEGEND

- Taxable
- Non-Taxable
- Income
- * Outright

** New York estate tax of $1,438,000, federal estate tax of $2,172,000, and federal income tax of $0.

Asset distribution and estate taxation

Comparison at varying levels of insurance and charitable bequests:

Beneficiaries	**Current**	**Alternative #1**	**Alternative #2** (as shown)	**Alternative #3**
Family	$34.3 mill	$39 mill	$39.3 mill	$37 mill
Charity	---	6 mill	20 mill	32 mill
Government	15.5 mill	11 mill	3.6 mill	0.5 mill
Totals	$49.8 mill	$56 mill	$63 mill	$70 mill
Additional life insurance	$ ---	$ 6 mill	$13.6 mill	$20 mill

Wills and revocable trusts

- Maximize protection of assets from creditors, divorce and taxes.
  - Retain assets in long term trusts.
  - Maximize generation skipping tax exemptions.
- Distribute income and principal to beneficiaries in Trustee's discretion.
- Provide limited power of appointment to beneficiaries in favor of issue and charities.

Wills and revocable trusts

- Confirm desired executors and trustees.
  - Surviving spouse.
  - Successors:
    - Executor: Bill Jones
    - Trustees: Bill Jones
      - Each child can become co/sole trustee for their share at specified ages with right to appoint successor(s).
- Include provisions to complete desired bequests to charities.
  - Outright vs. Charitable Lead Annuity Trust.

Asset management and health care POA

- Select desired agents and successor agents.

Asset titling

- Title separate property assets to each of John and Jane’s revocable trusts to simplify estate administration and to provide privacy.
- Review jointly titled assets to provide asset protection to surviving spouse.

Asset shifting

- Identify rapidly appreciating assets:
  - Atlas Partners.
  - Other.
- Determine appropriate strategy to shift value out of taxable estate.
  - Analyze gift and sale strategies.

Asset shifting

- Coordinate with financial security and estate distribution objectives.
- Review opportunities to leverage value of existing assets in 1999 trust.
- Coordinate with John's parent's planning.
  - John's father to create GST trust f/b/o John, Jane and descendants.

Gifting

- Maximize annual exclusion gifts (then $28K/yr per beneficiary).
  - Sean $ 28,000
  - Lori 28,000
  - John's Parents (2) 56,000

  $ 112,000

- Consider gifts to siblings.
  - Finalize objectives.
- Coordinate with gifts to irrevocable trusts.

Continuity

Atlas Partners:

- Review agreement for consistency with control and ownership objectives.
  - John’s retirement.
  - John’s death.
- Confirm ability to transfer interest during lifetime to trust for benefit of John, Jane and descendants.

Philanthropy

- Coordinate with estate distribution objectives.
- Distribute qualified plan assets to charity at the death of surviving spouse.
  - Review taxation at death of surviving spouse.
    - Current value: $5,863,700
    - Less federal/state estate taxes: (2,908,000)
    - Less federal/state income taxes: (1,557,000)
    - Net to Sean and Lori: $1,398,700 (24%)
  - Change the beneficiary of all retirement plan accounts to charity.
    - Consider on John's death vs. death of survivor of John and Jane.

Action steps

Estate planning:

- Confirm desired distribution.
- Determine desired fiduciaries.
- Identify assets to shift.
- Obtain appraisals/valuations of assets to be shifted.
- Begin medical underwriting.
- Confirm legal counsel.
  - Review planning strategies.
  - Prepare documents; re-title assets to revocable trusts.

Action steps

Continuity:

- Review copies of current agreement.

Philanthropy:

- Confirm objectives.
  - Lifetime
  - Estate
- Coordinate qualified plan beneficiary.

Family information

Name	Date of birth	Relationship / Occupation
John Smith	1/1/1964	Client, Married Two children
Jane Smith	1/1/1967	Client
Children:		
Sean Smith	1/1/1996	Son, Single College student
Lori Smith	1/1/1998	Daughter, Single College student
Domicile: New York		

2016 Advisor Symposium

Issues of interest to advisors today.

Top Ten Charitable Planning Ideas for 2016

Kathryn W. Miree, JD
Kathryn W. Miree & Associates, Inc.

Current challenges

Many factors impact charitable planning:

- Fluctuating stock values.
- Low interest rates.
- High income tax rates/low estate tax rates.

Current challenges

Many factors impact charitable planning:

- Rising healthcare costs.
- Uncertainty about future economic trends.

All donors, at all wealth levels, have been affected.

Current challenges

Congress changes the rules on a regular basis in a way that impacts planning decisions.

- Pension Protection Act of 2006
- American Taxpayer Relief Act
- Affordable Care Act
- American Taxpayer Relief Act of 2012
- PATH Act of 2015

Current challenges

Donors (or donors' families) are filing lawsuits to enforce charitable intent.

- The Robertsons and Princeton University
- Tulane and Newcomb College
- The Barnes Foundation
- Fisk University and O'Keeffe Foundation

Yet, donors keep giving

Giving USA 2016

Source	Amount in billions	Percentage of total
Individuals	$264.6	71%
Foundations	$58.5	16%
Bequests	$31.8	9%
Corporations	$18.5	5%
Total	$373.25	100%

Yet, donors keep giving

State	Number of returns	Number of taxpayers itemizing deductions	Of those who filed returns, number taking charitable deductions	Amount deducted
United States	146,542,500	44,559,850 30.41% of all who filed	36,654,190 82.26% of all who itemized	$195.801 billion

Source: IRS Statistics of Income Bulletin, 2013 tax year

Idea #1: Accelerate charitable gifts

Accelerate testamentary charitable gifts to lifetime gifts:

- Estate gifts destined for charity that generate no income.
- A testamentary gift of a home or farm that becomes a retained life interest gift.
- A bequest that becomes a current-pay charitable gift annuity.

Idea #2: Use IRD property in estate to make charitable gifts

Income in Respect of Decedent (IRD) assets generate income tax in estate or to the recipient.

- Retirement plan assets (untaxed, not Roth)
- Savings bonds with accrued income
- Deferred compensation

Idea #2: Use IRD property in estate to make charitable gifts

Income in Respect of Decedent (IRD) assets generate income tax in estate or to the recipient.

- Accounts receivable
- Unrecognized income from annuities
- Remaining installment sale payments
- Accrued interest/dividends on securities

Idea #2: Use IRD property in estate to make charitable gifts

Three lifetime giving options:

- Withdraw assets, pay ordinary income tax (and penalty if applicable); make gift to charity.
- Charitable IRA Rollover.
  - Now permanent.
- Lump sum distribution from profit sharing plan to charitable remainder trust (CRT).
  - See Letter Ruling 200202078.
    - NOTE: A Private Letter Ruling (PLR) applies to a single taxpayer's specific set of facts and cannot be relied on as authority by other taxpayers.

Idea #2: Use IRD property in estate to make charitable gifts

Testamentary charitable options are almost unlimited:

- Outright gift to public charity.
- Outright gift to private foundation.
- Gift to fund CRT or Charitable Gift Annuity (CGA) for family member.

Idea #2: Use IRD property to make testamentary charitable gifts

	$250,000 Bequest of Retirement Plan to Family	$250,000 Bequest of Retirement Plan to make 5%, 20-Year CRAT
Total estate	$4,000,000	$4,000,000
Total taxes on $250,000 retirement plan	$87,500	$0
Effective tax rate (federal taxes only)	35%	$0
Net bequest	$162,500	$250,000
Net savings vs. bequest		$87,500

Idea #3: The family business as a gift

- The family business may be the single most important asset held by the donor.
- Family businesses represent 80% to 90% of all business entities.
- The generational transfer rate is low:
  - 70% do not make it to 2nd generation;
  - 88% do not make it to the 3rd generation; and
  - 97% do not make it to the 4th generation or beyond.

Idea #3: The family business as a gift

- Yet, 19% of family business participants have no estate plan other than a will.
- Only 37% have strategic plans.
- Of those who identify successors, 85% look to family.

Idea #3: The family business as a gift

STEP ONE $500,000, 5% NIMCRUT with FLIP Provision	STEP TWO Sale of remaining shares to purchaser	STEP THREE
$500,000 Gift	$4,500,000 Sale	Purchaser buys stock from CRUT
$100,000 Tax basis	($900,000) Tax basis	
$178,290 CD	$3,600,000 Gain	
$25,000 First year's income	$720,000 Tax at 20%	

Idea #4: Another way to use the family business as a gift

- The company has accumulated earnings.
- The gift has the same gift structure as Idea #3.
- The company makes a tender offer for all outstanding shares.
- The CRT tenders, and the company buys, the shares held in the CRT with accumulated earnings; shares are converted to treasury stock.

Networking break

Idea #5: A gift for special needs

- Use a charitable gift annuity to fund an existing special needs trust.
- Create a spray power for the trustee of a charitable remainder trust to make special needs payments:
  - First to the special needs child;
  - Remainder to remaining beneficiaries.

Idea #6: A gift for parents

Two Life Charitable Gift Annuity Ages 78 & 82	Amount
Principal amount	$100,000.00
Charitable deduction	$41,195.95
Annual income to parents (5.7%)	$5,700.00
Tax-free portion	$4,558.45
Ordinary income portion	$1,141.55

Idea #7: A gift to fund retirement

Two Life Charitable Gift Annuity Ages 70 & 71	Amount
Principal amount	$25,000.00
Charitable deduction	$7,395.80
Annual income to parents (4.6%)	$1,150.00
Tax-free portion	$875.83
Ordinary income portion	$274.17

Idea #7: A gift for younger clients to fund retirement

Age at Date of Gift	Amount of Contribution	CGA Rate	Charitable Deduction	Annual Payment Single Gift
45	$25,000	8.9%	$5,256.02	$2,225
49	$25,000	7.8%	6,166.66	$1,950
53	$25,000	6.9%	$6,771.06	$1,725
54	$25,000	6.6%	$7,151.46	$1,650
Total/10 years	$250,000		$62,471.89	$19,250

Idea #8: Selecting the right asset

- Marketable securities
- Privately held securities
- Real estate
- Life insurance
- Tangible personal property

Idea #8: Selecting the right asset

What to consider in selecting the asset:

- The recipient of the charitable gift;
- The donor's goals for the asset;
- The donor's goals for the gift; and
- The asset's basis.

Idea #9: Partial interest gifts

- Few individuals are impacted by estate tax.
- In 2000, when $675,000 was excluded from estate tax, 4.5% of all decedents were subject to the tax, and 2.16% paid tax.
- Center on Budget and Priorities estimated that only 0.25% of decedents who died in 2009 ($3.5 million exclusion) were subject to estate tax.

Idea #9: Partial interest gifts

These partial interest gifts do not qualify for a charitable income tax or estate tax deduction:

- Gifts of future interests;
- Gifts divided for the purpose of transfer; or
- Work of art separated from copyright.

Idea #9: Partial interest gifts

Testamentary options for donors:

- Make a gift of income from stocks to a family member, then transfer the asset/income to charity - or the reverse;
- Devise surface right to charity, mineral rights to heirs; or
- Transfer a percentage of interest in a business's profit.

Idea #10: Trusts with mixed beneficiaries

- It is possible to combine personal and charitable goals in testamentary complex trusts.
- Revocable trusts with testamentary provisions also are an option.
- Watch for:
  - Unintended consequences in drafting;
  - Income tax consequences inside the trust.

Final thoughts

- Effective planning is about meeting client goals.
- Talk to your clients about their charitable goals when you are doing financial, retirement, and estate planning.
- Look for ways to combine personal and charitable goals.
- Charitable gift planning adds dimension, leverage, and impact in the current environment.

2016 Advisor Symposium

Issues of interest to advisors today.

Why Every High Net Worth Family Should Consider an FLLC

James M. Duggan, MBA, JD
DUGGAN BERTSCH, LLC

Redefining the "core" estate plan

- The HNW "core" estate planning formula is new and improved:

HNW Core Plan =

LT + POW + POAs + LW + LLCs

Redefining the "core" estate plan

- The old formula fails for many reasons. Among them:
  - Wills/Trusts are inadequate to meet the broad and often competing objectives of the HNW client.
  - Trusts are rarely fully funded.
  - Wills/Trusts create an inheritance, which is fleeting – goal is to create a long-term investment opportunity.
  - Wills/Trusts are rarely maintained and become outdated.
- Corporate law provides the perfect enhancement – the LLC.

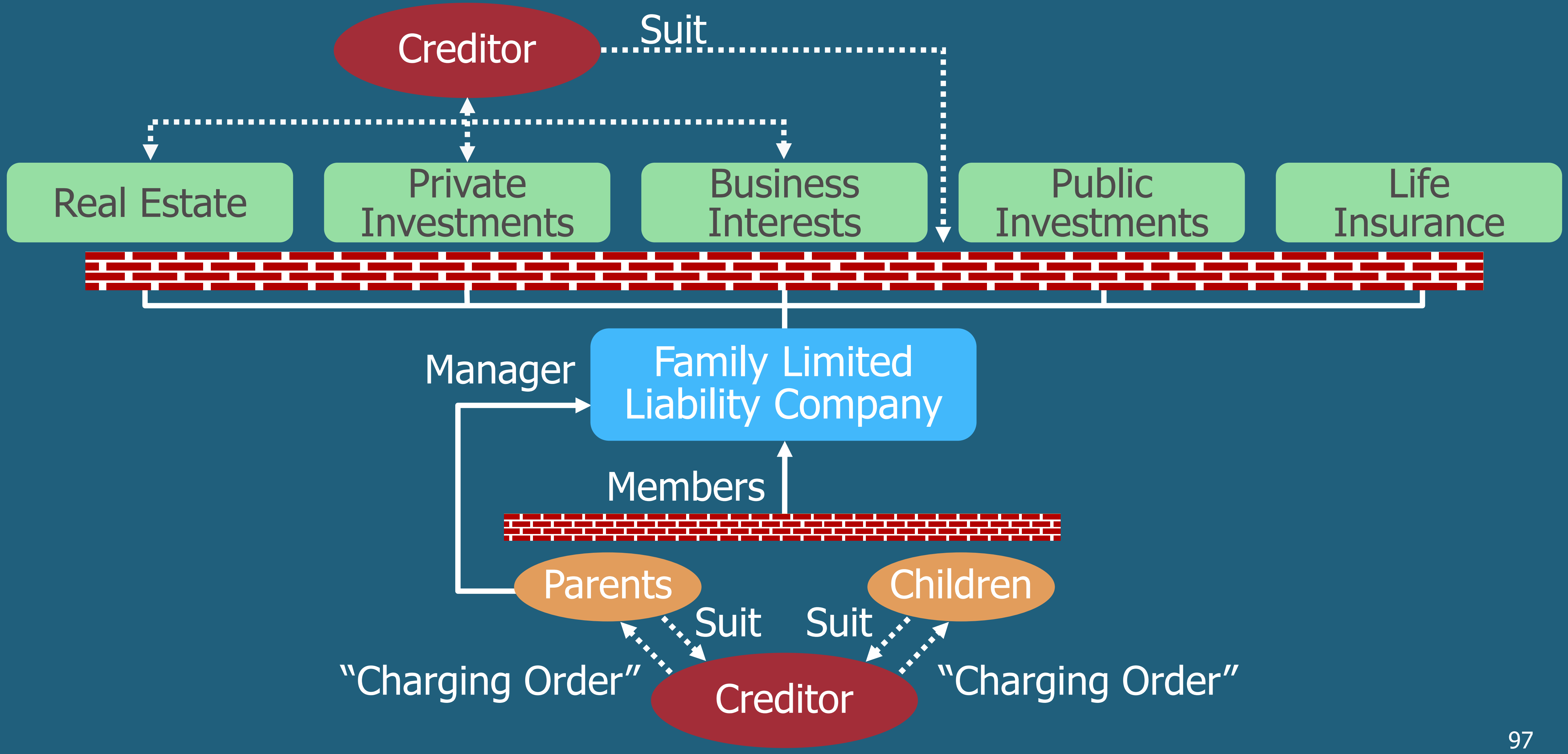
Planning opportunities with Family LLC

Inserting an LLC into the family wealth planning structure (the "family LLC" or "FLLC") can provide a wide variety of opportunities/benefits:

- Asset protection
- Centralization of assets
- Centralization of control
- Simplification of gifting
- Rearing tool for descendants
- Creation of "family office"
- Minimization of income taxes
- Minimization of estate taxes
- Pre-/post-nuptial planning
- Simplification of trust funding
- Simplification of estate admin.
- Alternative to ILIT planning

HNW clients with these objectives should consider an FLLC.

Asset protection

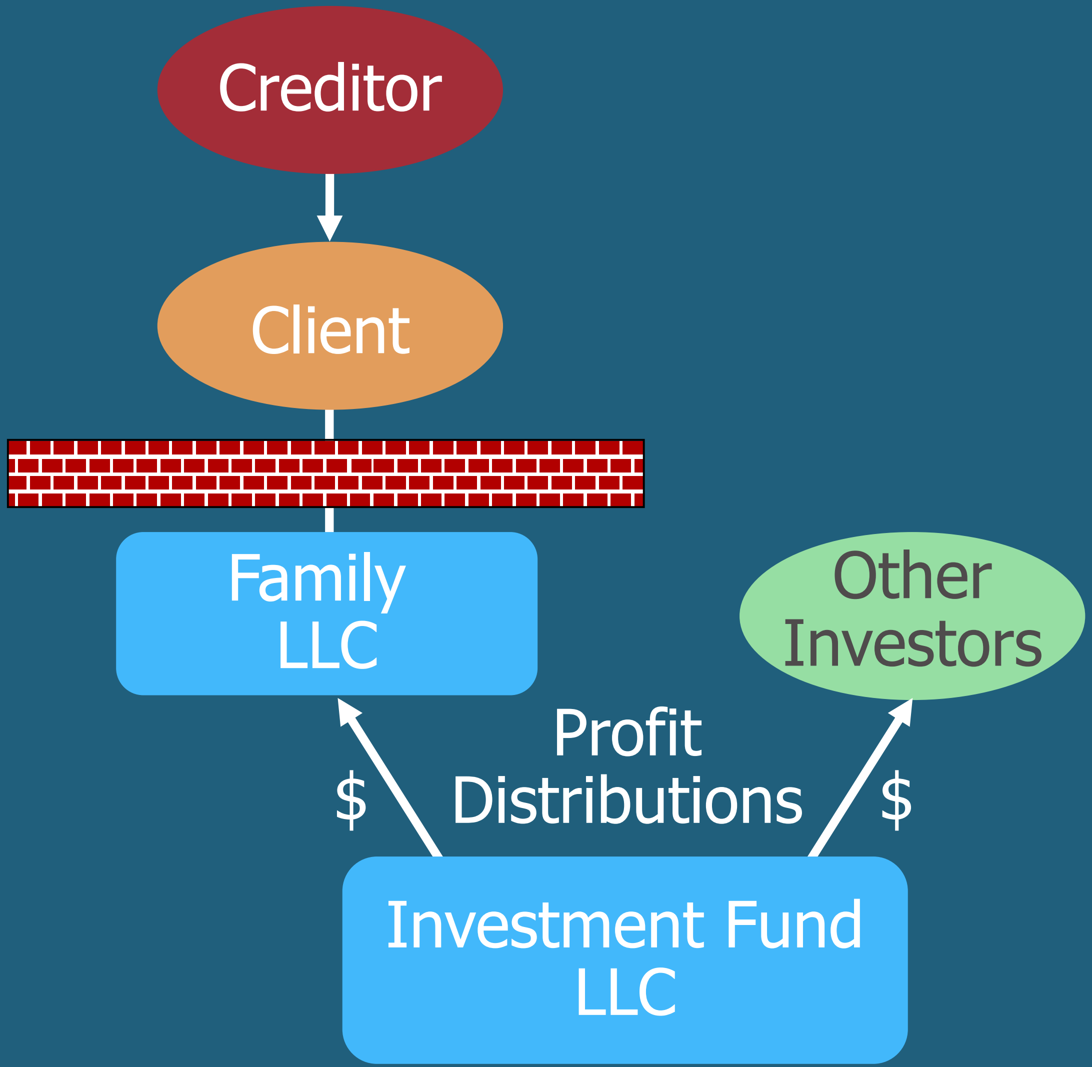


Asset protection

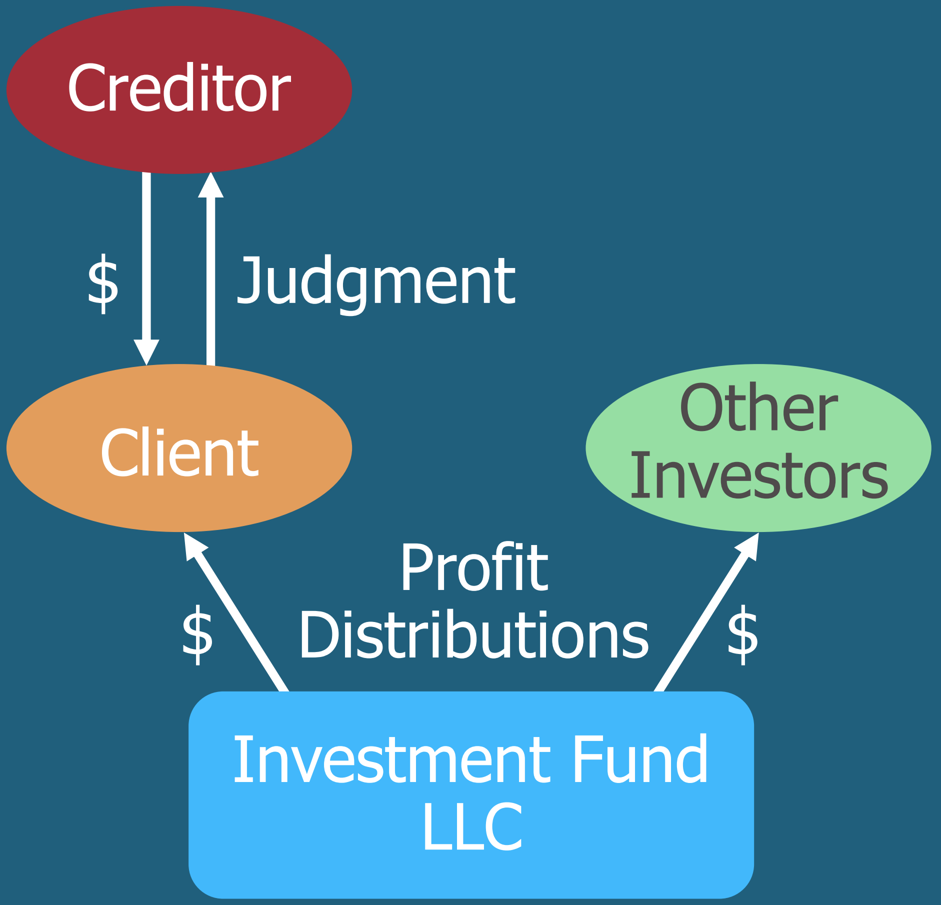
- Prefer jurisdictions with charging order “exclusivity” (e.g., AK).
- Multi-member LLC > Single-Member LLC.
- SMLLC legislation is emerging – WY, NV.
- Charging Order case law varies – *LLC Charging Order Case Table (Dec. 2010) By: Carter G. Bishop. Professor of Law, Suffolk University Law School. http://papers.ssrn.com/so13/papers.cfm?abstract_id=1565595*
- Layer in spendthrift trusts as owners for further protection.
- Assets also protected through proper management and centralization.

The Investment Holdco

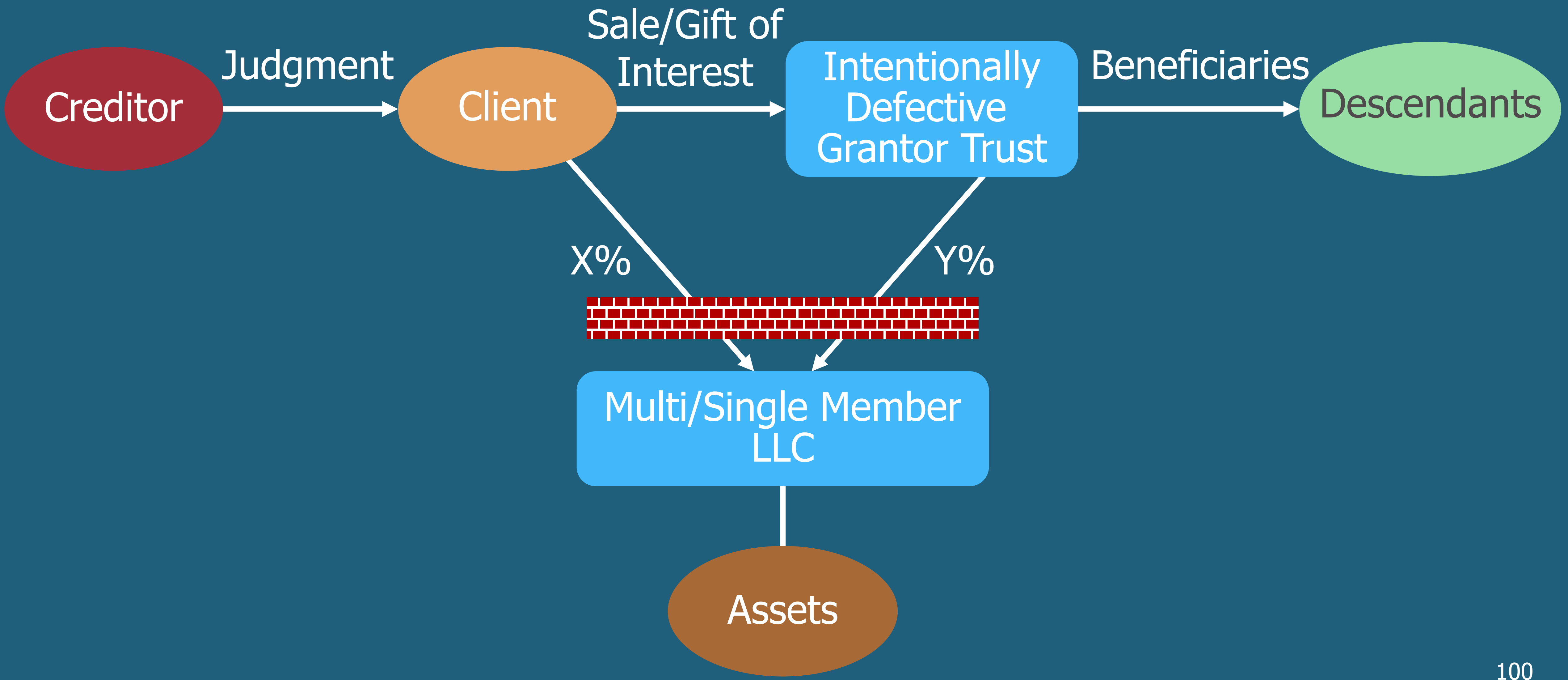
“The Investment Holdco”



...without Holdco

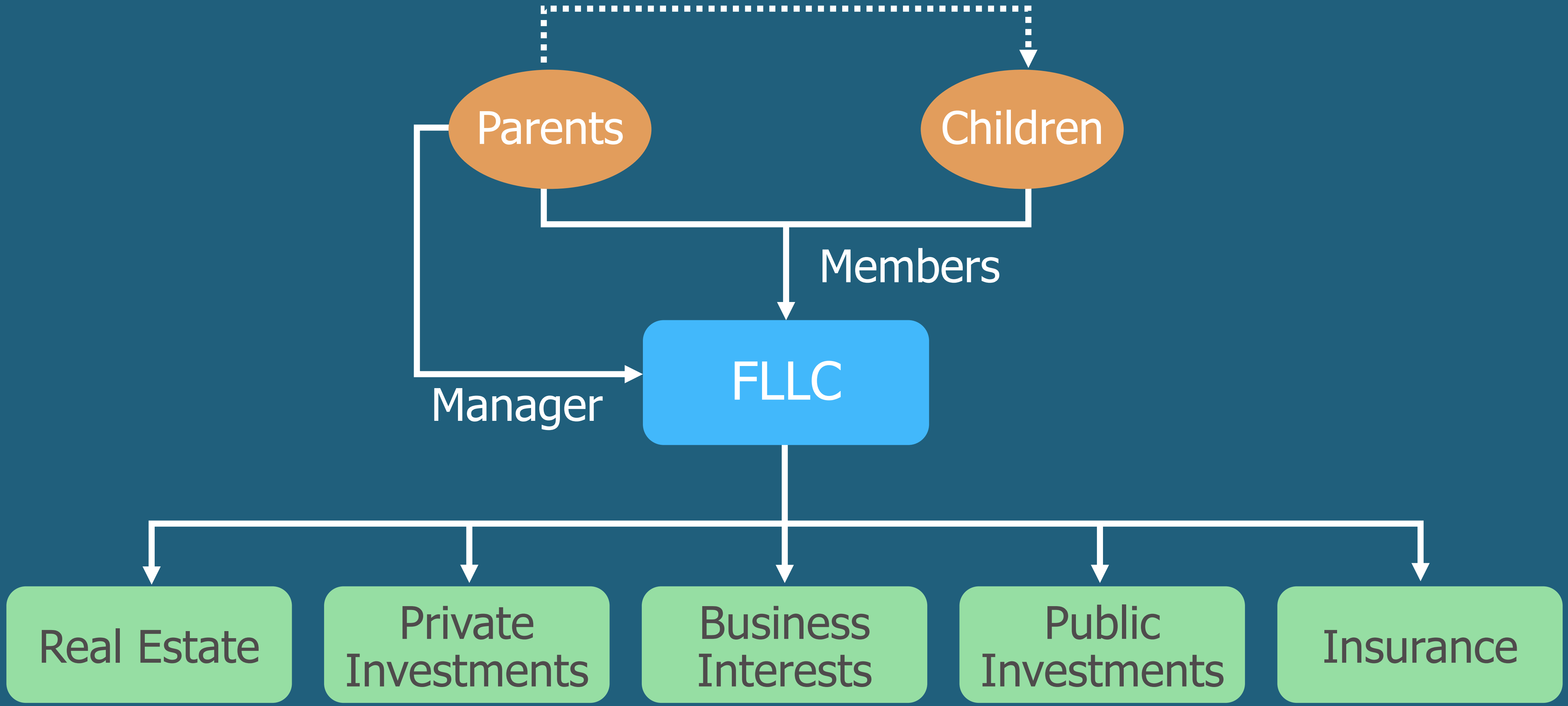


The Multi/Single-Member FLLC

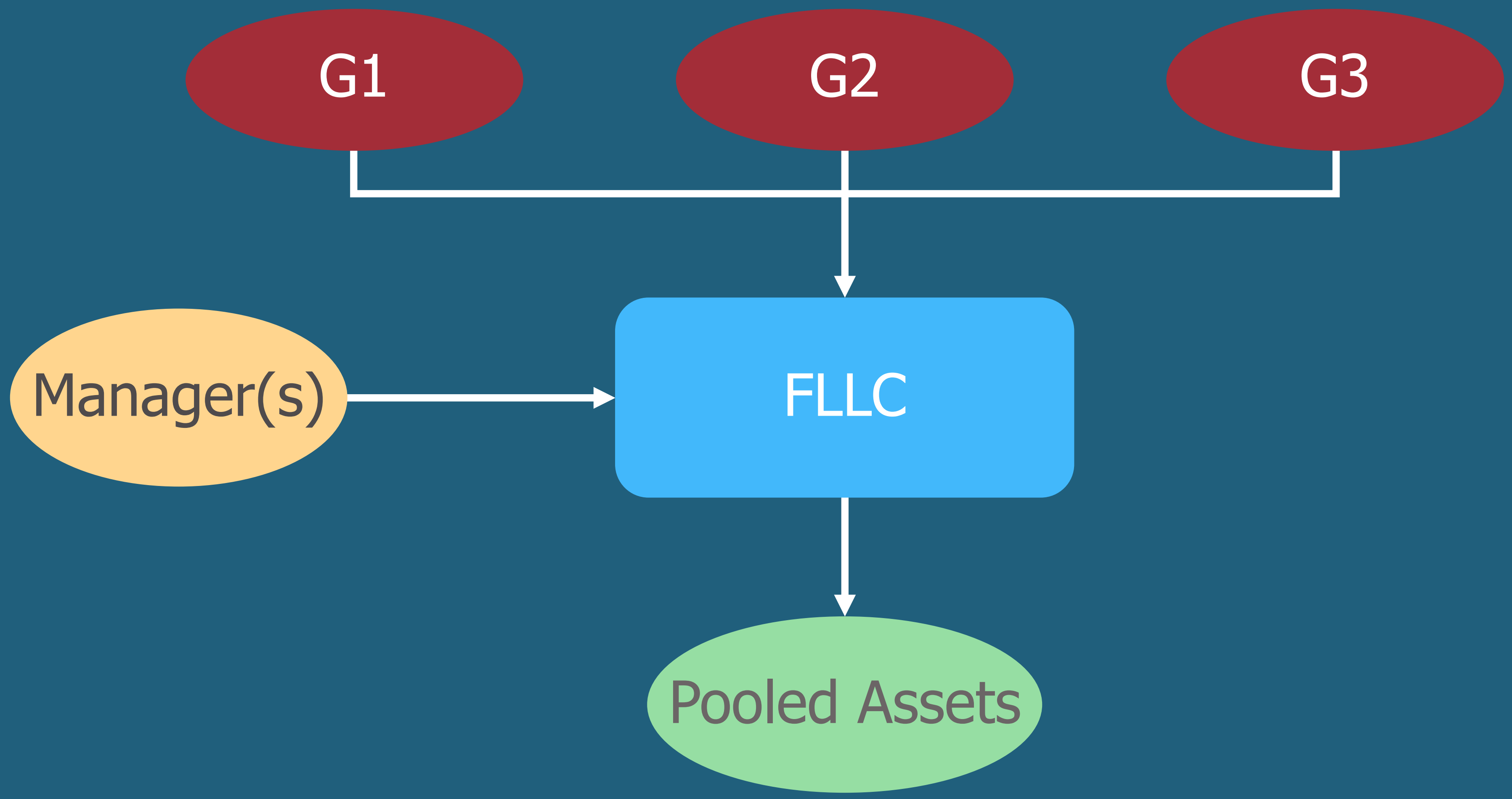


Simplification of gifting

Transfer of FLLC membership interest, NOT asset itself.



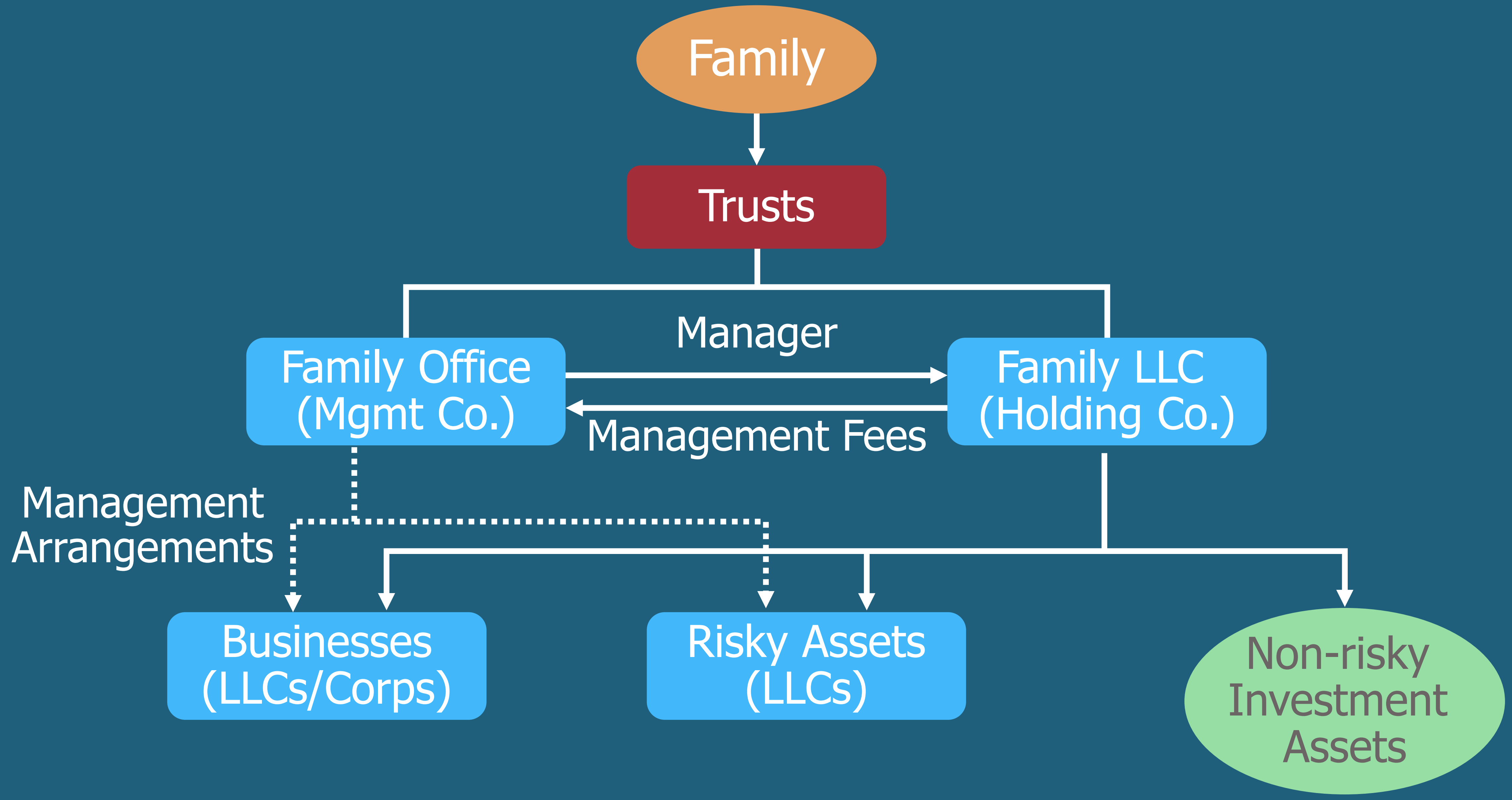
Centralization of asset ownership & management



The FLLC as a rearing tool

- Need to combat “entitlement” syndrome.
- Lack of involvement = lack of knowledge/responsibility.
- FLLC provides internal mechanism to train/include.
- Designation as manager(s).
- Inclusion of descendants in member meetings.
- Involved descendants embrace wealth plan as their own.
- Earlier inclusion is better to avoid surprise/resentment.
- Better-equipped descendants = greater permanence of wealth.

The FLLC as the "Family Office"



Benefits of Family Office

A well-conceived Family Office structure can:

- Institutionalize personal wealth management;
- Formalize asset ownership investment and access;
- Centralize management, bookkeeping, and administrative activities;
- Organize and consolidate reporting, financial statements, and compliance;
- Crystallize long-term family planning objectives;

Benefits of Family Office

A well-conceived Family Office structure can:

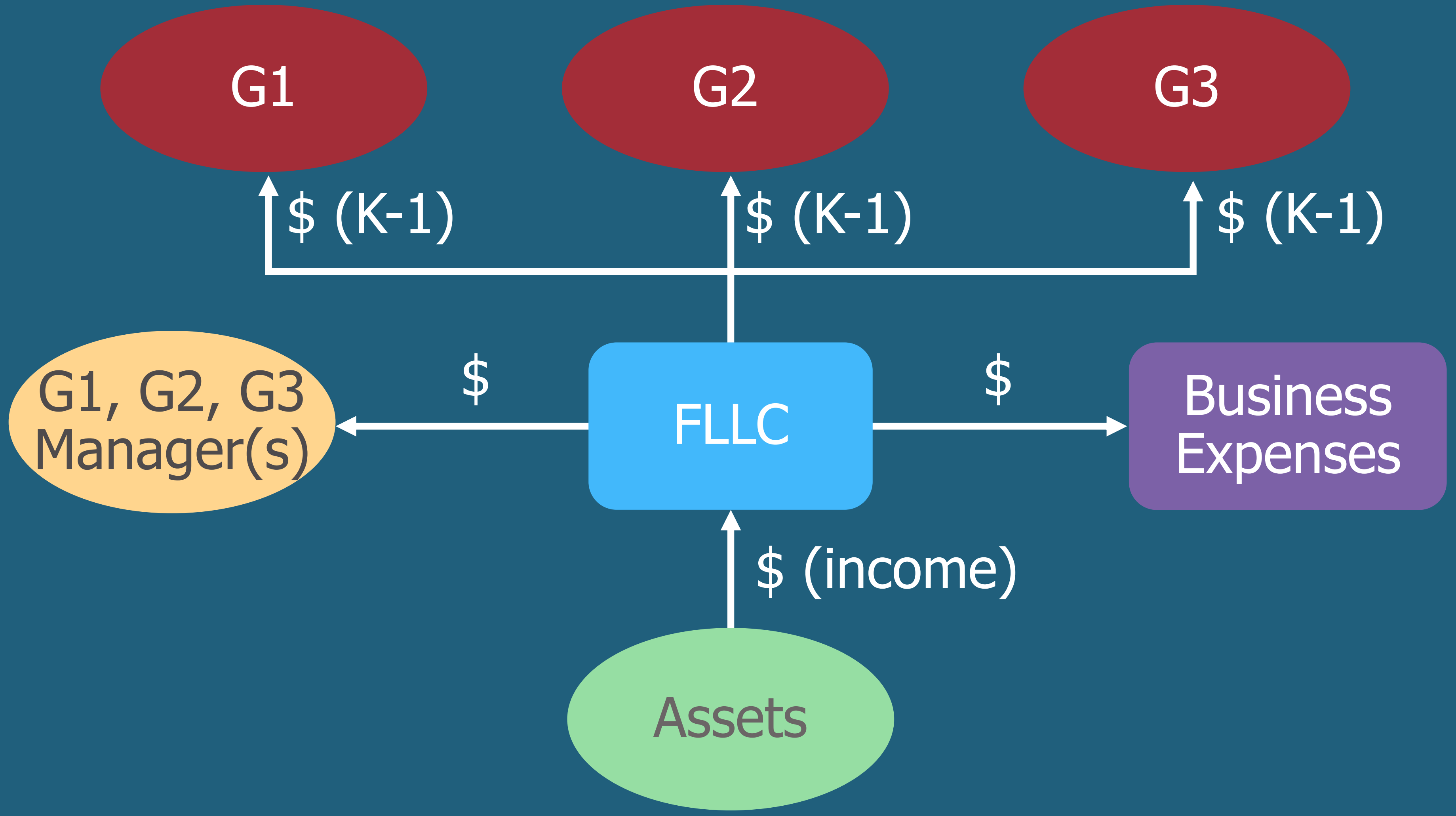
- Formalize the rearing of future generations and elevate respect for wealth;
- Prioritize between for-profit and philanthropic goals;
- Maximize input, understanding, and collaboration among professional advisors;
- Minimize costs and areas of exposure to loss; and
- Realize the legacy the senior generation intended.

Types of Family Offices

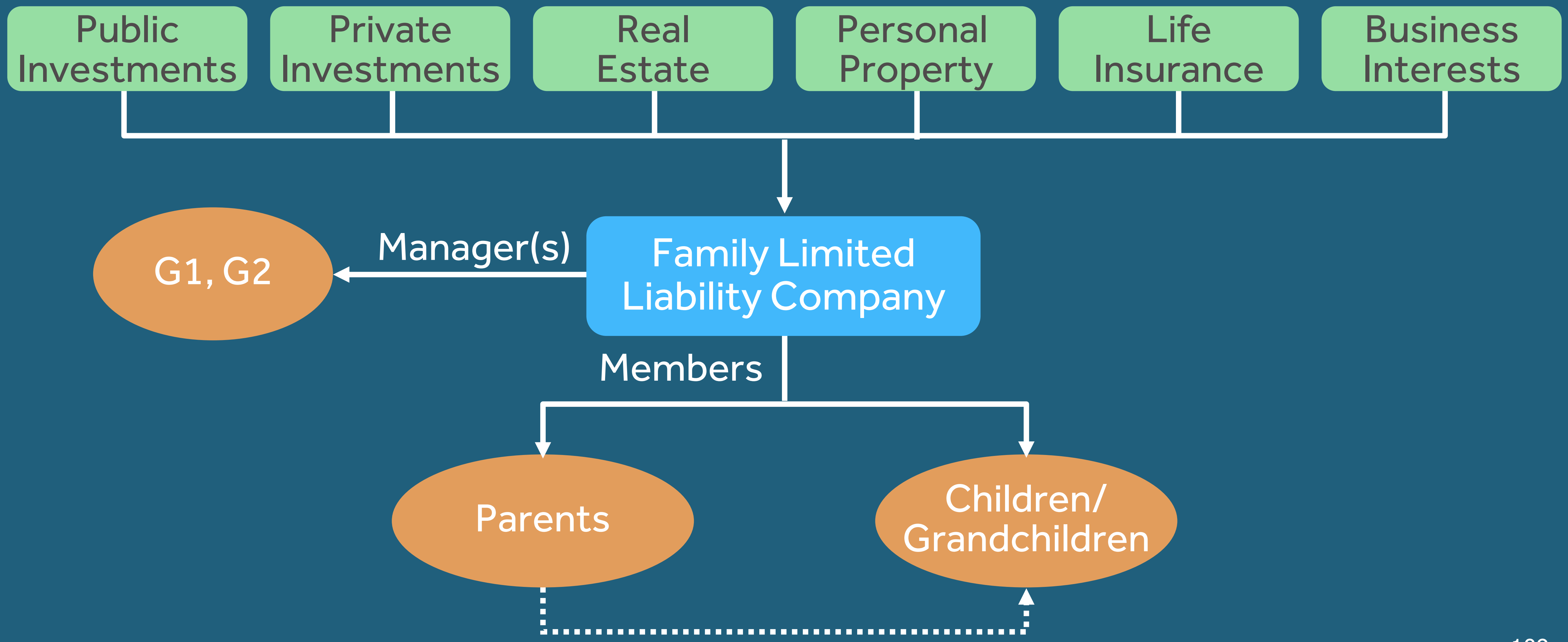
Based on a client's level of wealth, complexity, and objectives, a family office structure generally falls into one of three categories:

- Virtual Family Office ("VFO") – outsourced.
- Single Family Office ("SFO") – in-house.
- Multi-Family Office ("MFO") – combined.

Income tax minimization with FLLCs

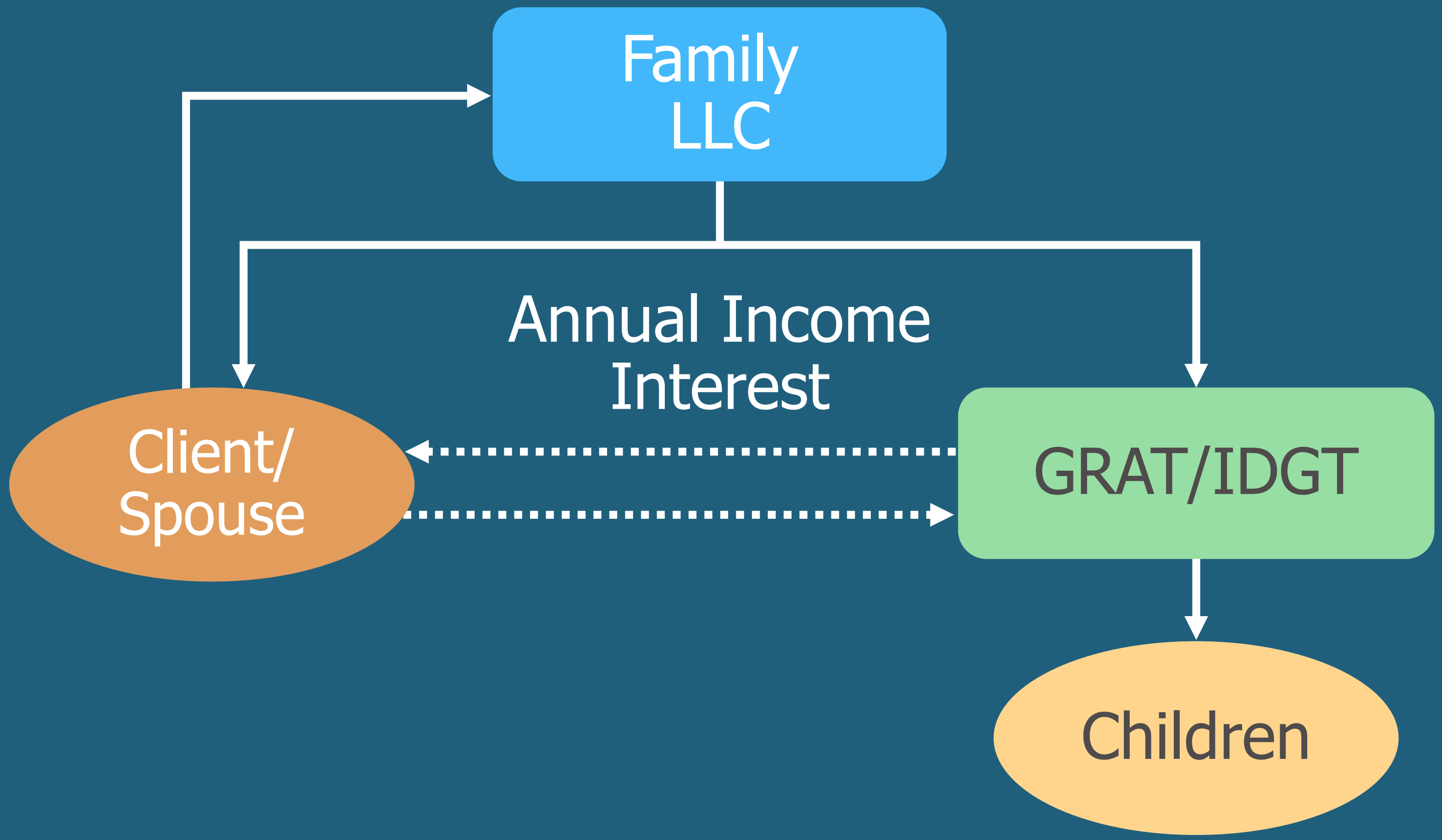


Estate tax minimization with FLLCs

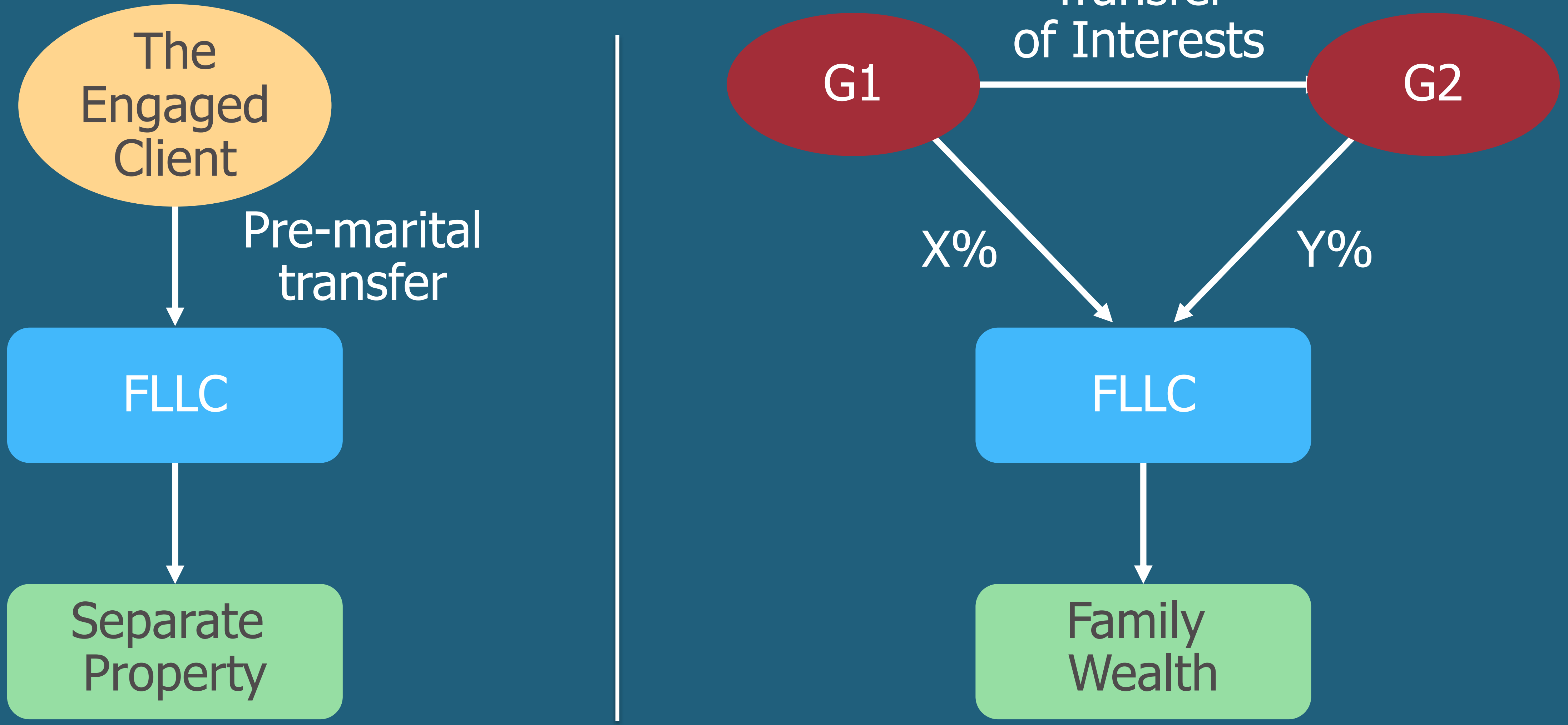


Reduce estate tax through freeze techniques

Freezing asset values with GRATs and IDGTs.



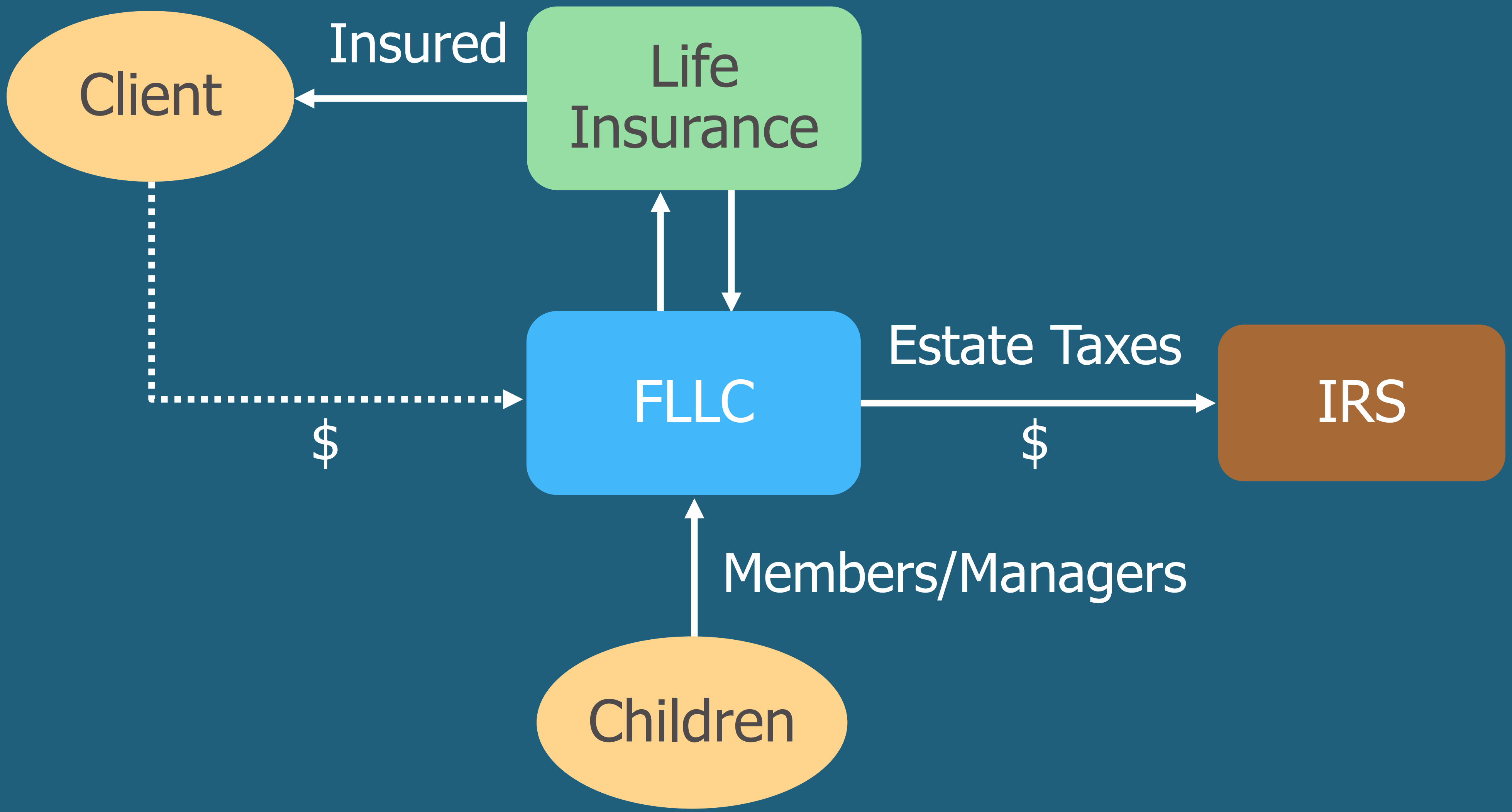
A pre- and post-nuptial planning alternative



Simplifying trust funding & administration with FLLCs

- Clients don’t fund trusts.
- Clients do fund LLCs.
- By listing living trust as member of FLLC, living trust is funded by default.
- Living trust may likely have LLC interest as only significant asset, or one of a few.
- Minimizes costs, complexity and time needed for administration.

FLLC as an ILIT alternative



2016 Advisor Symposium

Issues of interest to advisors today.

Networking break

Buy Sell Planning: Issues and Solutions

Gregory W. Holmgren, CLU®, ChFC®

Buy-sell fundamentals

Buy-sell agreement:

- It is an agreement between two parties – buyer and seller – to transfer a business interest upon death, disability, retirement, or some other disposition event.

Buy-sell fundamentals

The agreement can be:

- Between the business and separate owners (entity purchase).
- Among or between the owners themselves (cross purchase).
- Between an owner and an outside party (one way buy-sell).
- A combination of the above.

Trigger events

- Death of an owner.
- Disability of an owner.
- Retirement of an owner-employee.
- Owner's desire to sell interest.
- Divorce of an owner from spouse.
- Insolvency or bankruptcy of an owner.

Valuation

Agreement generally provides methodology for valuing the business interest to be sold.

- Agreement between owners.
- Professional business valuation.
- Method for valuing the business.
  - Book value of company.
  - Discounted future earnings.
  - Multiple of past revenues.
- Some combination of above.

Method of payment

The agreement typically describes procedures by which payments may be funded and made; for example:

- Promissory note with terms.
- Requirement to obtain life insurance policies.

Why a buy-sell agreement?

"The answer boils down to protection."

Protection comes by removing uncertainty.

Buy-sell issues and problems

- No agreement.
- No funding.
- Addressing owners’ concerns:
  - Asset protection.
  - Administrative complexity.
  - Conversion to personal use.

Case study: No agreement

- XYZ, Inc. is a business worth $2 million.
- Bob owns 60%, Ali owns 40%.
- Bob dies with no buy sell agreement in place.

Bob's wife:

- Reduces Ali's salary.
- Increases her own salary.
- Maximizes dividend by refusing to put profits back into business.

Result:

- Bob's heirs inherit Bob's stock and control XYZ, Inc.
- Bob's wife becomes the new CEO.

Case study: Buy-sell in place

Same facts except:

- Bob and Ali have cross purchase buy-sell agreement funded with life insurance.
  - Bob dies.
  - Ali receives $1.25 mil in death proceeds.
  - Using proceeds, Ali purchases Bob's shares.
  - Ali owns 100% of business and expands.
  - Bob's wife and children, who need income, receive $1.25 mil.

Conflicts between heirs & surviving owners

Issue	Heirs want...	Surviving owners want...
Sale to surviving owners	Top dollar for their share. Prompt payment.	To pay the minimum. Prompt transfer but stretched payment.
Business profits	Maximum income out.	Reinvest to grow.
Business risk	Little or no business risk.	Prudent risk to grow.
Decisions	Equal say in business decisions.	Full control of business decisions.

What happens …
Without life insurance?

Case study: Buy-sell without funding

Let's say the business is worth $2.5m and owned 50/50.

Bob and Ali have cross purchase buy-sell agreement without any life insurance.

- Bob dies.
- Ali purchases Bob's shares.
- Ali owes Bob's family $1.25m for his share.
- Ali owns 100% of business.

Ali has some choices to raise the money.

Installment sale

Loan Amount	Number of Payments	Annual Interest Rate	Annual Payment Amount	Total Payments
$1,250,000.00	8	6.00%	$201,294.93	$1,610,359.42

Year	Total Annualized Payment	Annualized Interest Payment	Annualized Principal Payment	Remaining Loan Balance
1	$201,294.93	$75,000.00	$126,294.93	$1,123,705.07
2	$201,294.93	$67,422.30	$133,872.63	$989,832.44
3	$201,294.93	$59,389.95	$141,904.98	$847,927.46
4	$201,294.93	$50,875.65	$150,419.28	$697,508.18
5	$201,294.93	$41,850.49	$159,444.44	$538,063.74
6	$201,294.93	$32,283.82	$169,011.11	$369,052.63
7	$201,294.93	$22,143.16	$179,151.77	$189,900.86
8	$201,294.91	$11,394.05	$189,900.86	$0.00

Example: “Real” cost of buying a business

$1,250,000	Purchase Price
@ 35%	Tax Rate
$1,923,077	Pre-Tax Cost
10%	Profit Margin
$19,230,770	Total New Sales

All achieved just after the loss of a key person!

Example: “Real” cost of buying a business

How many years of revenue is $19m?

- If business sells for 5 x pre-tax earnings
- Annual earnings = $250,000
- Annual Sales = $2,500,000

Answer = almost 8 years of sales

Payoff by drawing double salary?

While both owners alive:	Before
Double income of surviving owner	$250,000
Itemized deductions	($50,000)
Taxable income	$200,000
Less estimated income tax	($43,000)
Net income	**$207,000**

Payoff by drawing double salary?

After death of one owner:	Before	Surviving owner
Double income of surviving owner	$250,000	$500,000
Itemized deductions	($50,000)	($32,300)
Taxable income	$200,000	$467,700
Less estimated income tax	($43,000)	($131,100)
Net income	**$207,000**	**$368,900**
Installment payment		$201,300
Net income available		**$167,600**

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What are the chances?

1 Person	
Age	Chances of death
35	14.4%
40	13.8%
45	13.0%
50	11.6%

2 People	
Age	Chances of death
35	25.7%
40	25.2%
45	24.2%
50	21.8%

3 People	
Age	Chances of death
35	37.3%
40	36.0%
45	34.1%
50	30.9%

Source: 2001 CSO Ultimate Table Male Composite (Unismoke)

Alternatives to fund a buy-sell agreement

- Bank loan
- Existing cash flow method
- Installment payments
- Sinking fund

Why life insurance?

My family gets cash now.

- Existing cash flow and installment payments.
  - Stretch out payments.
  - Pay in dollars discounted by inflation.
  - Are dependent on the business continuing.
- Bank loan gives my family cash now.
  - If the business can get the loan.
- Sinking fund may not be completed.

Why life insurance?

If I want to protect my business:

- Cash flow, installment, bank loan:
  - Unpredictable when cash flow demands may start.
  - May be insufficient to meet payment obligation and business needs.
  - Payments may hurt growth or destabilize business.
  - Installments with interest may be more expensive than insurance.

Owners' additional concerns

Traditional buy-sell arrangements and possible shortcomings

- Funds designated or set aside to meet the purchase obligation under the contract could be subject to the claims of creditors.
  - Cross purchase – policies owned by another owner.
    - Subject to their creditors.
  - Entity purchase – policies owned by company.
    - Subject to the company's creditors.

Traditional buy-sell arrangements and possible shortcomings

- Administrative complexity caused by multiple life insurance policies on each business owner.
- Lack of premium flexibility.
  - Differences in age, ownership interests, and health can cause inequities in the payment of life insurance premiums.

Traditional buy-sell arrangements and possible shortcomings

There also may be undesired tax consequences with traditional plans.

- No basis step-up.
- Transfer-for-value.
- Recognition of gain when insurance policy is transferred to retiring owner.

LLC buy-sell solution

How it works:

- Business owners establish a buy-out LLC.
- Members of the LLC will be owners of Operating Company.
- The LLC elects to be taxed as a partnership.
- The LLC is typically not the Operating Company; its revenue comes from capital contributions made by its members; or,
  - The LLC could be capitalized with income-producing property or assets.

LLC buy-sell solution

How it works:

- LLC revenue is used to pay premiums on the insurance policies.
- At an owner's death, insurance proceeds are paid to the LLC.
  - Proceeds used to purchase deceased member's interest.

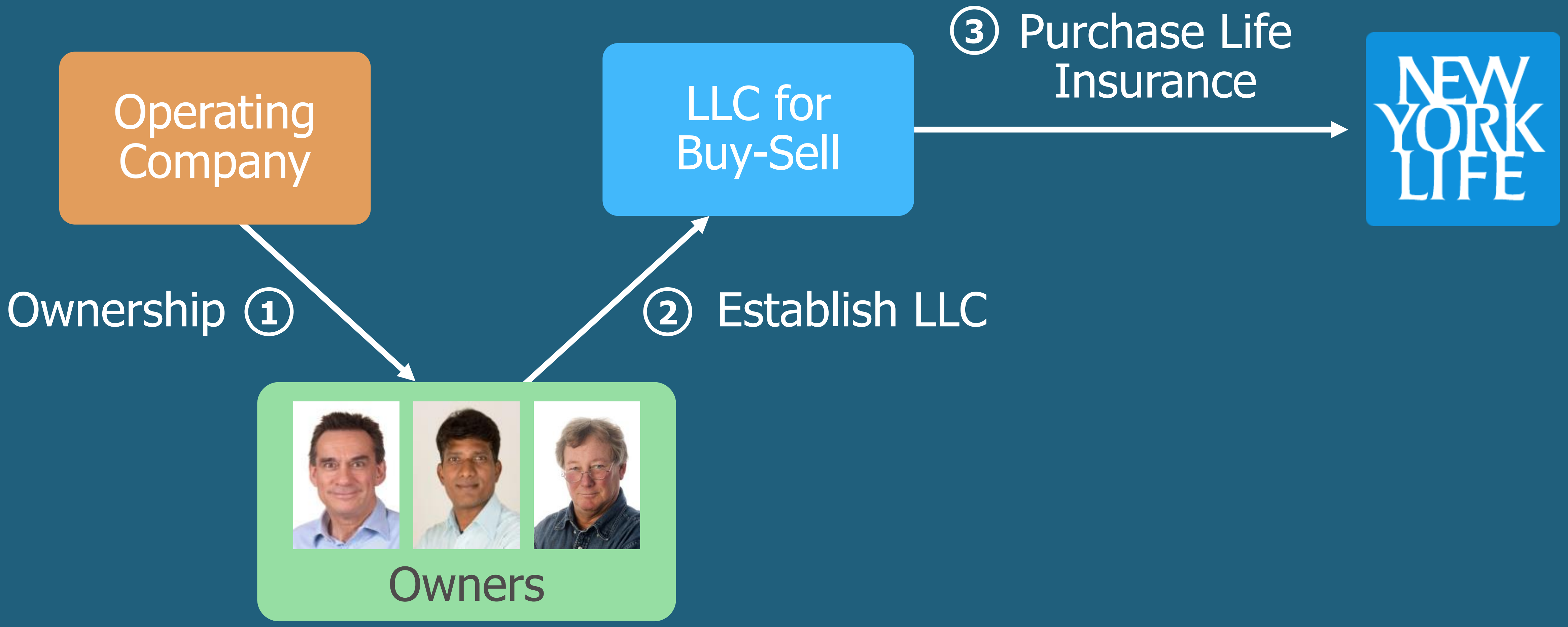
LLC buy-sell solution

How it works:

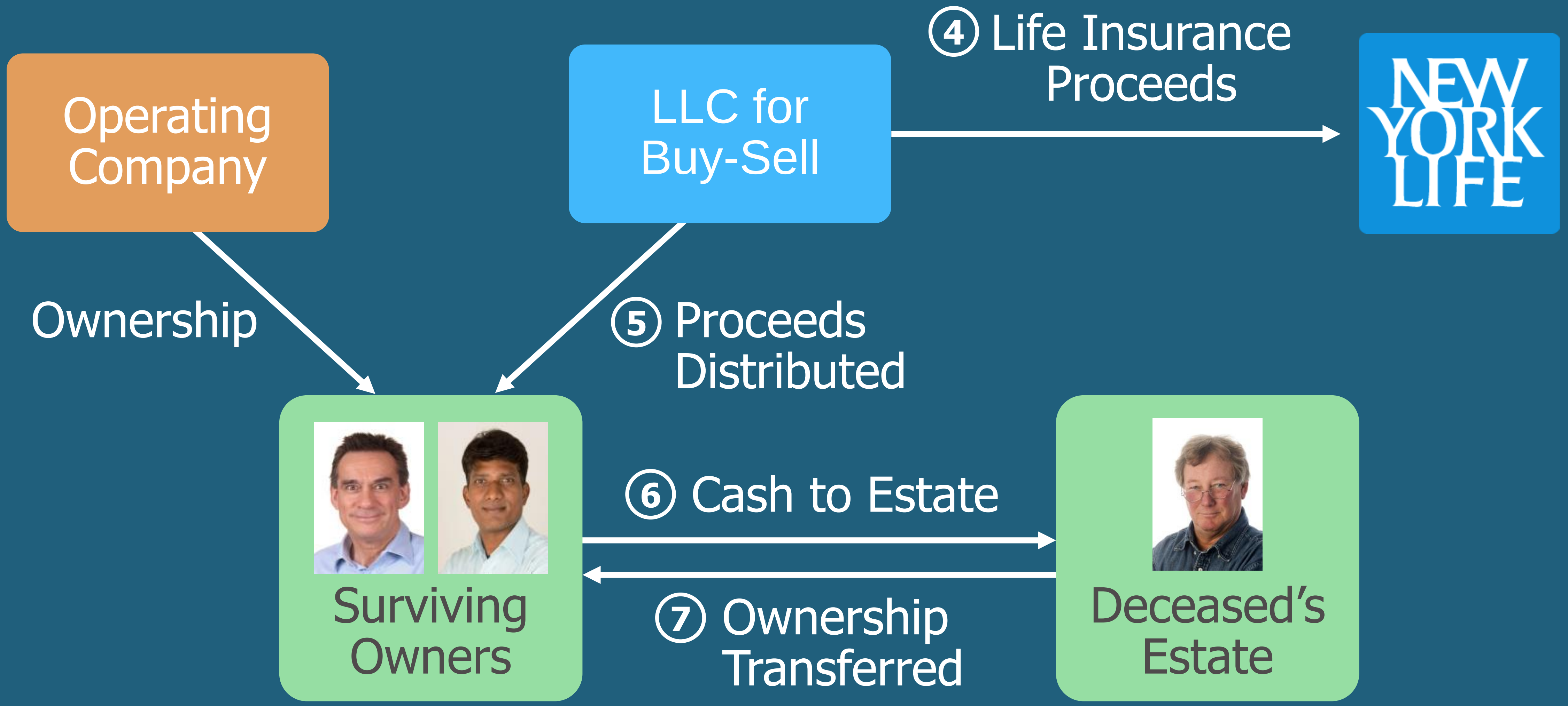
- At owner’s retirement, the cash value policy insuring her life will be transferred to her in exchange for her interest in the LLC.
  - This could provide retirement cash flow.*
- At death or retirement of an owner, the interest in the Operating Company could be purchased over time on an installment note.

* Loans accrue interest and are generally not taxable. Withdrawals may be taxable under some circumstances. Loans and withdrawals will reduce policy cash values and death benefit.

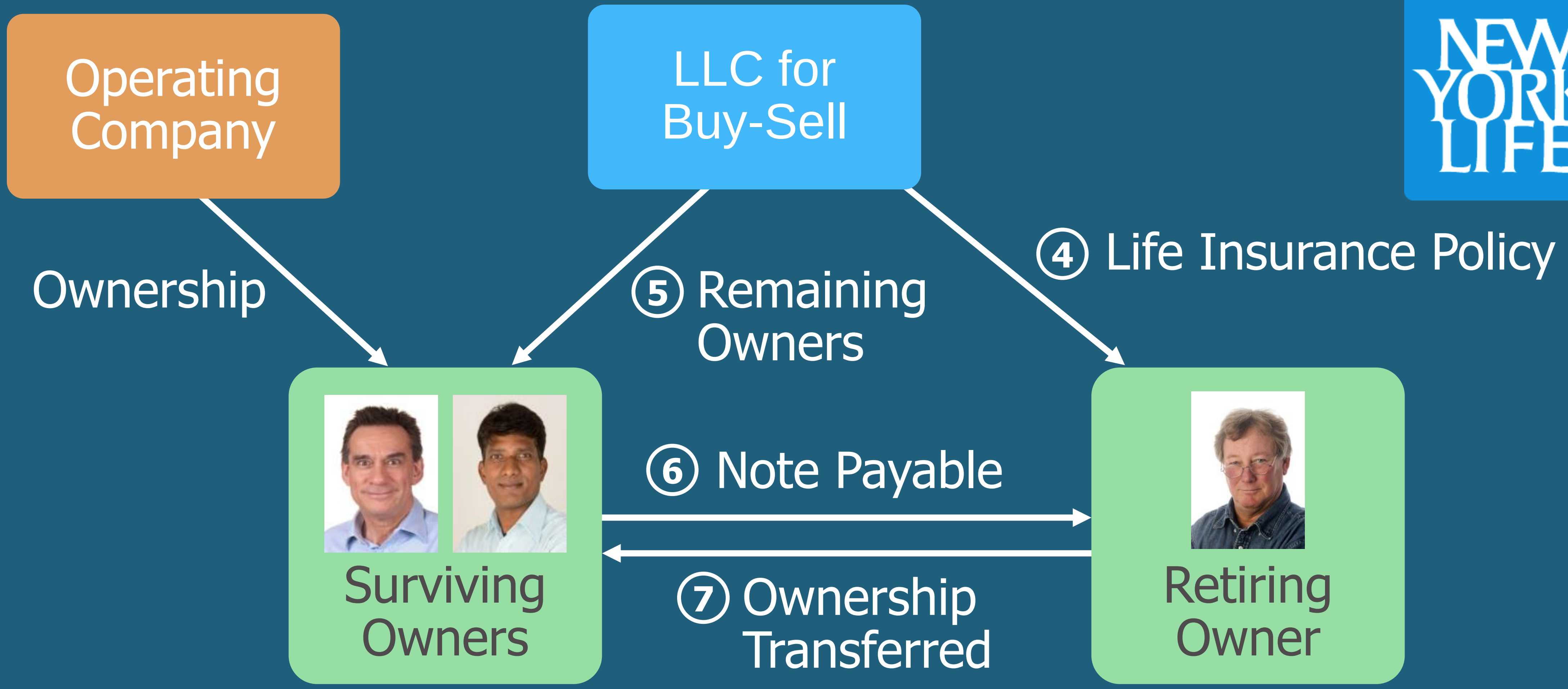
LLC buy-sell set up



LLC buy-sell at death



LLC buy-sell at retirement



Potential benefits of an LLC buy-sell plan

- Retention of control.
- Creditor protection.
- Efficient basis increase at owner’s death.
- One policy per owner.
- Avoiding transfers for value.
- Use of policies for retirement.
- Centralized policy management.
- Managing premium disparities.

2016 Advisor Symposium

Issues of interest to advisors today.

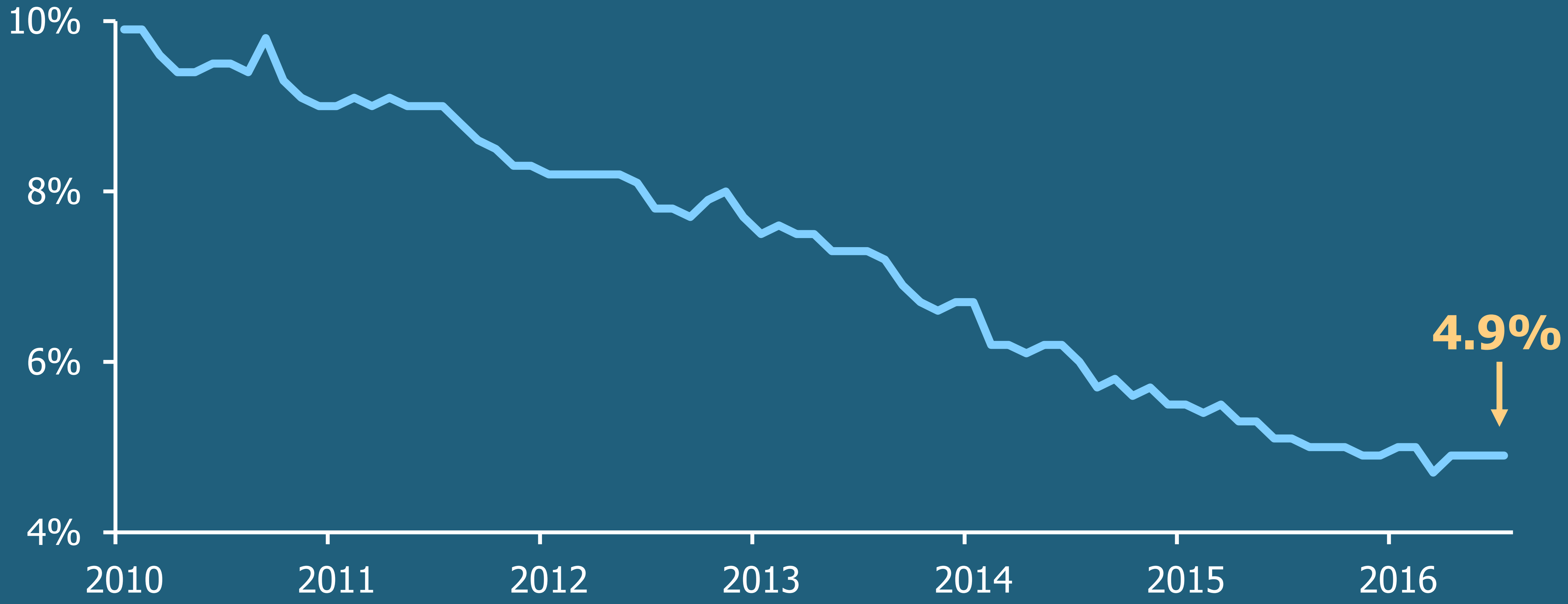
NEW YORK LIFE

The Economy and Financial Markets – 2016 and Beyond

John Y. Kim, CFA, President & Chief Investment Officer, New York Life Insurance Company

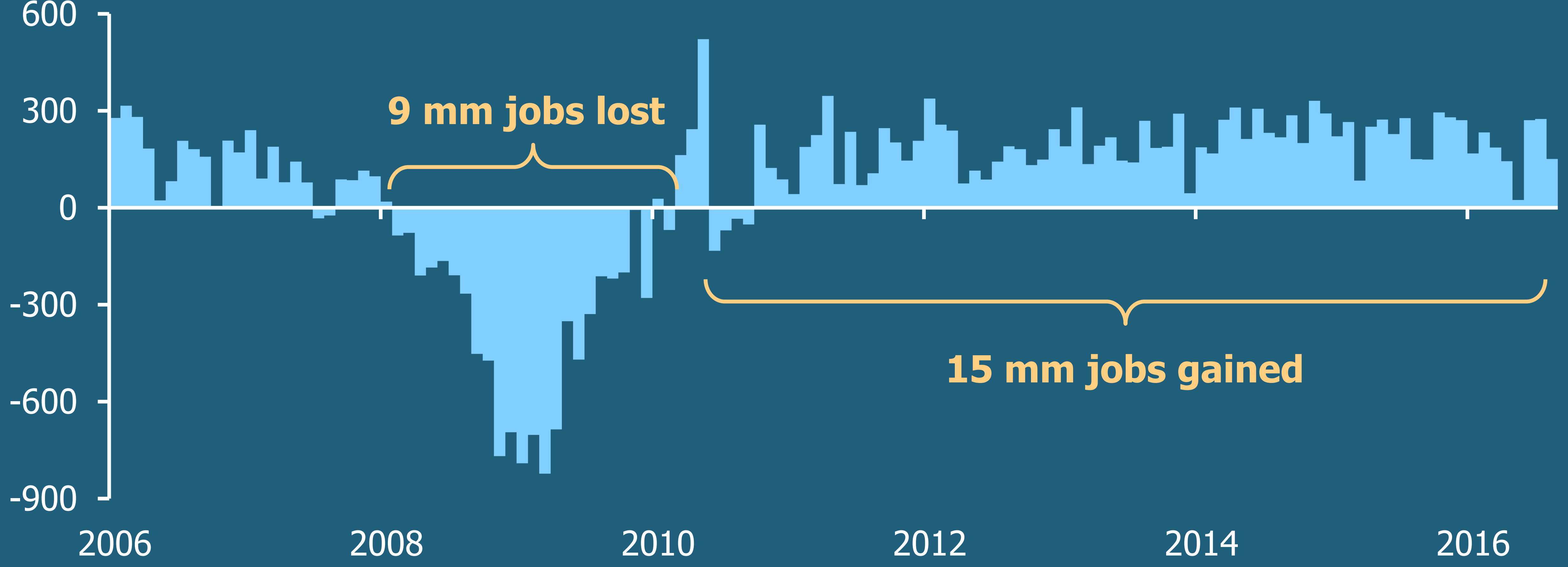
Favorable employment trends

Unemployment rate



Source: Bureau of Labor Statistics; seasonally adjusted, October 2016

Solid job growth



Note: Non-farm payroll ('000s), total job gain / loss
Source: Bureau of Labor Statistics, October 2016

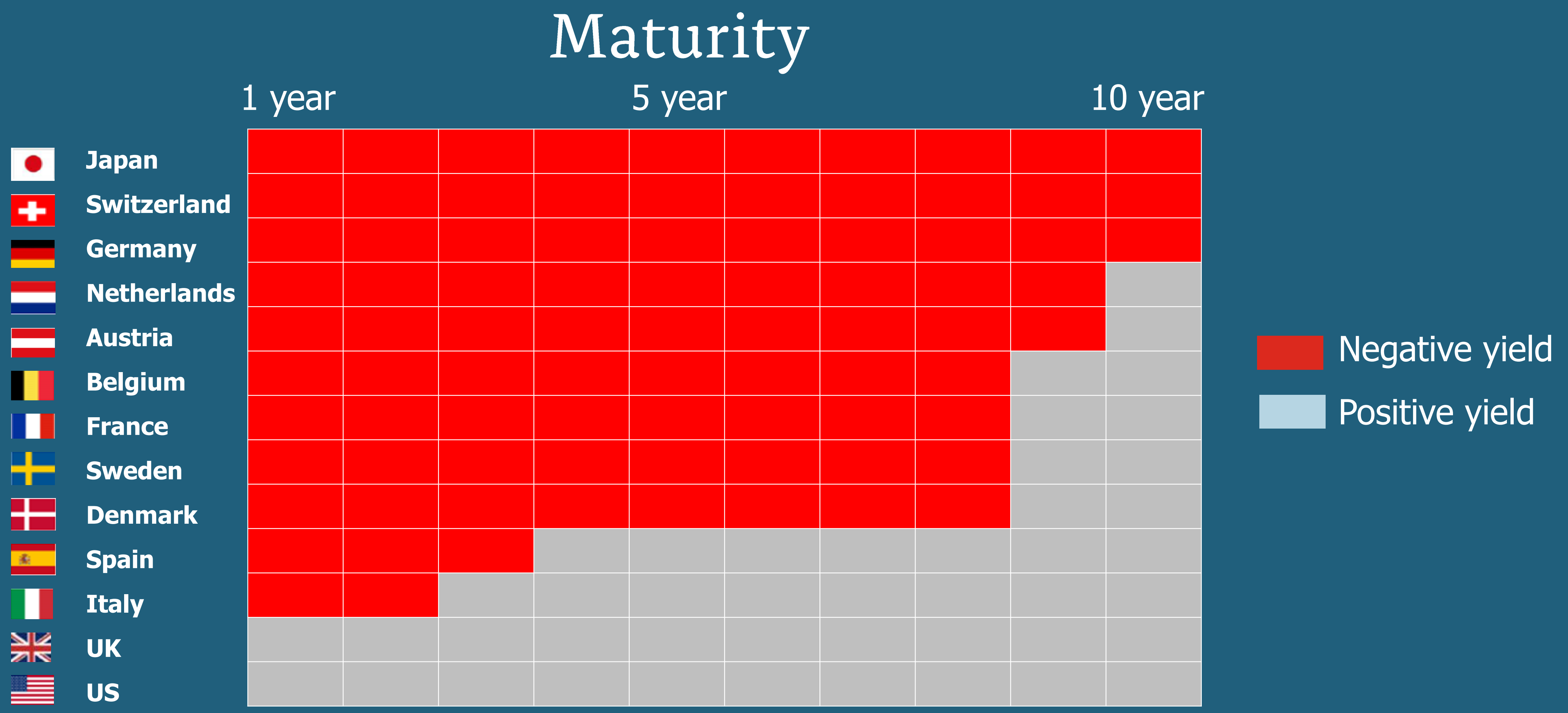
Interest rates… lower for longer

10-year Treasury yields

Source: Department of Treasury, October 2016

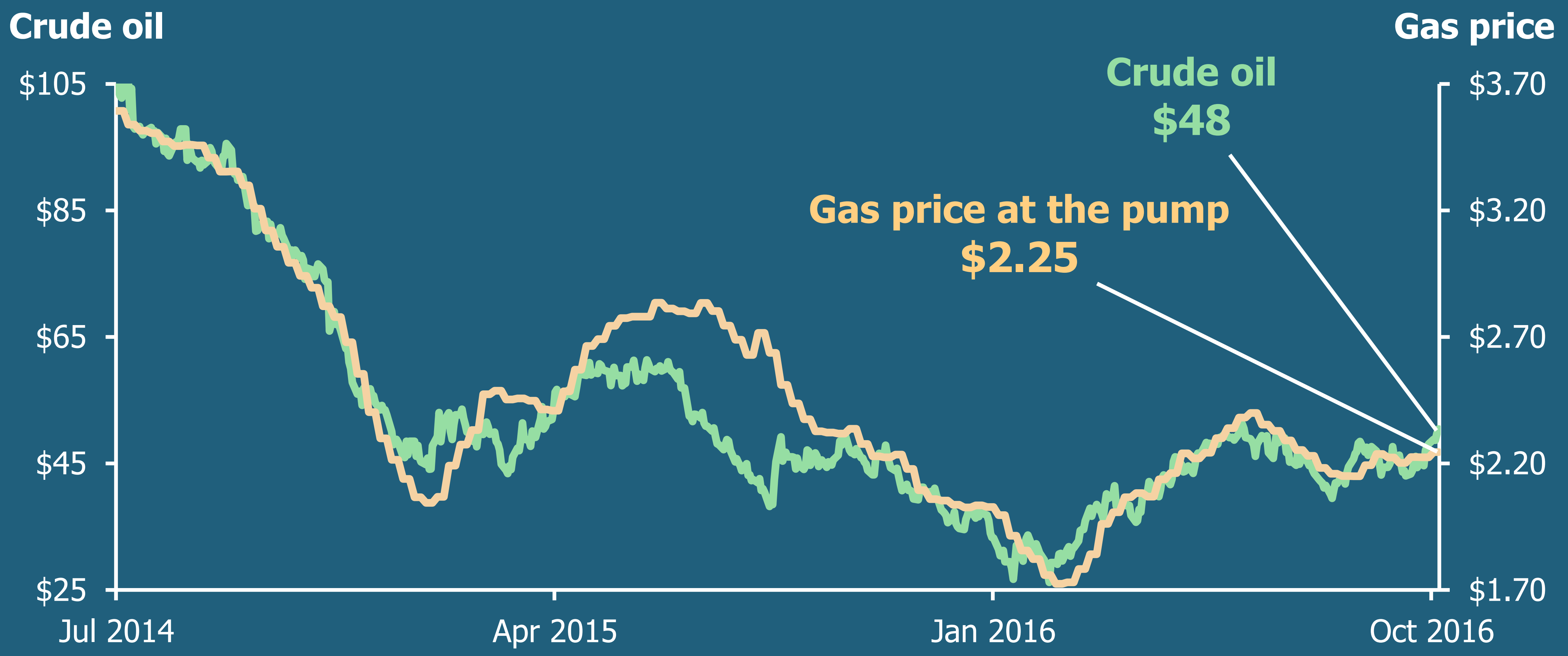
Past performance is no guarantee of future results, which will vary. Treasuries are backed by the full faith and credit of the US Government.

Global bond rates



Source: Bloomberg Finance LP, DB Global Markets Research, September 2016

Oil prices... a volatile recovery



Note: Crude oil prices shown based on West Texas Intermediate (WTI), a grade of crude oil used as a benchmark in oil pricing.
Source: Energy Information Administration, October 2016

Risk asset returns:
Six years of feast…. Six years of…?

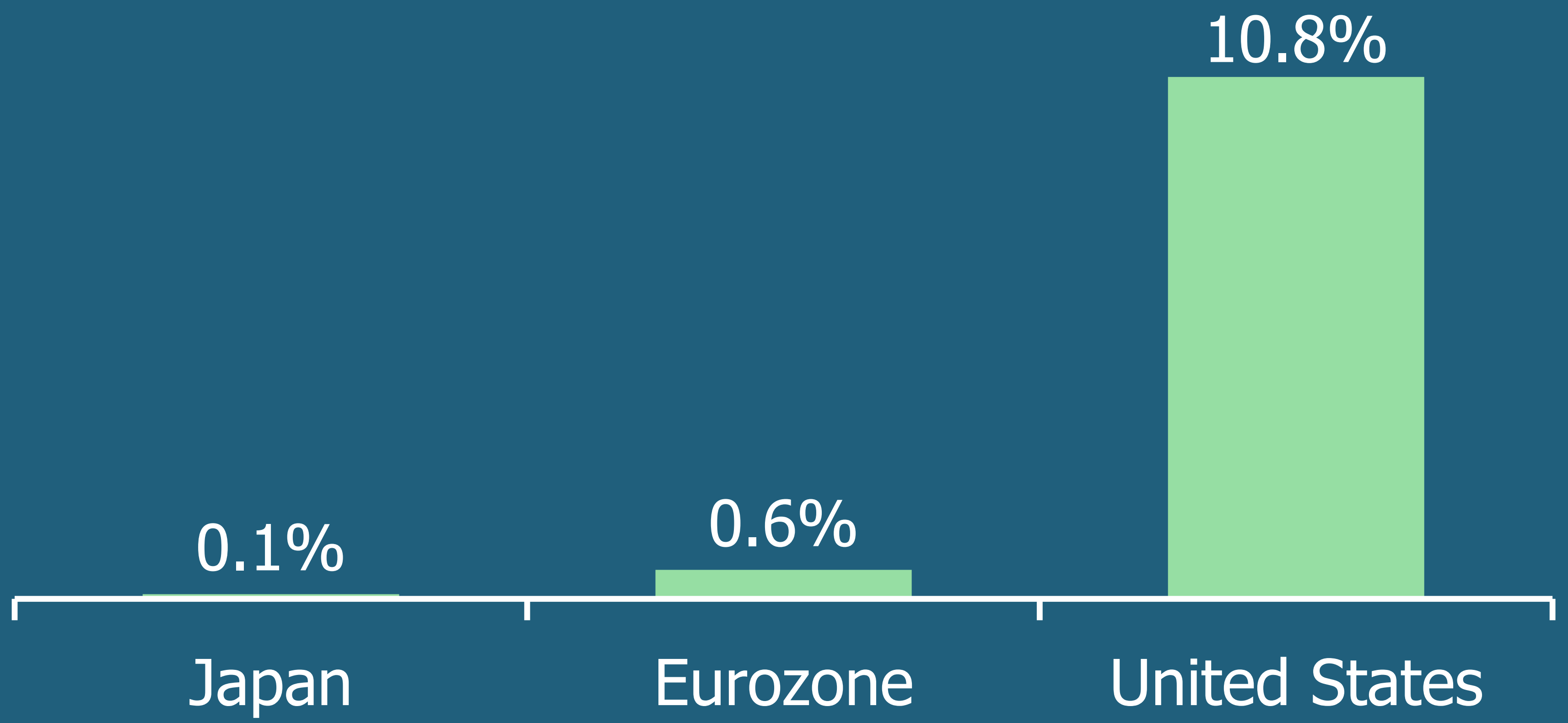
Average annual returns

	2009 – 2014	2015 – today
S&P 500	17.2%	5.0%
High Yield (BAML)	15.8%	5.7%

Performance shown for BAML High Yield and S&P 500 total return indices. Past performance is no guarantee of future results, which will vary. It is not possible to invest directly in an index.
Source: Thomson Reuters Datastream, October 6, 2016

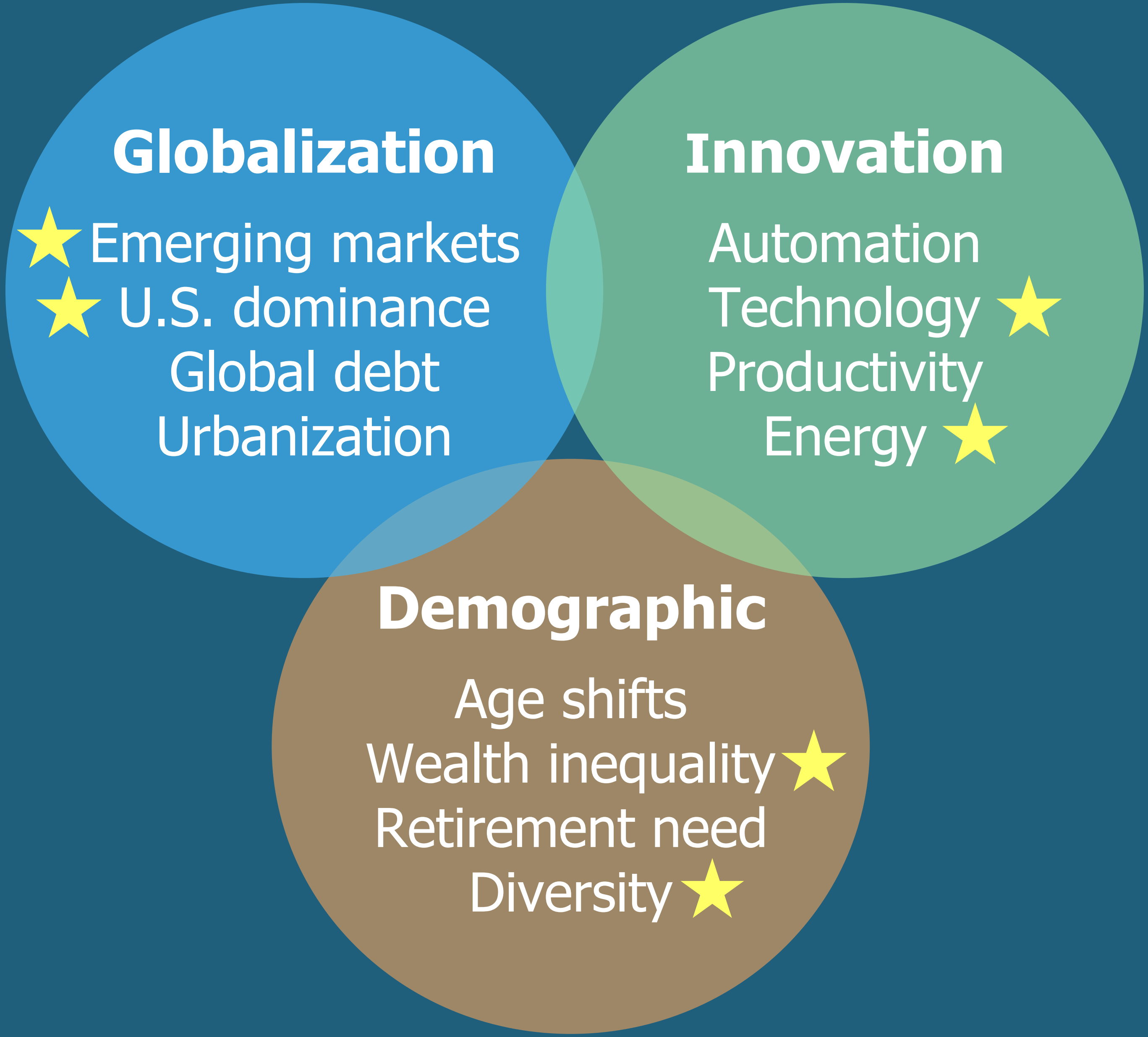
United States still a relative bright spot

Change in GDP, Q1 2008 – Q4 2015



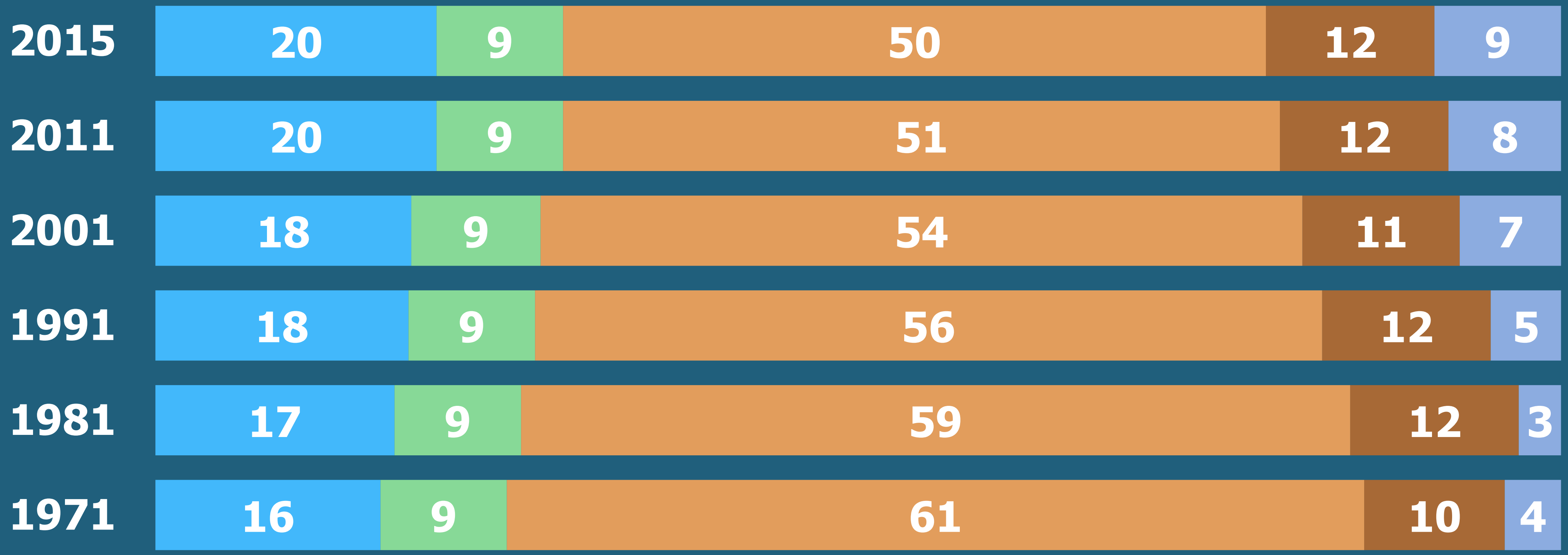
Source: Organization for Economic Cooperation and Development, June 2016

Long-term macro trends



Shrinking middle class

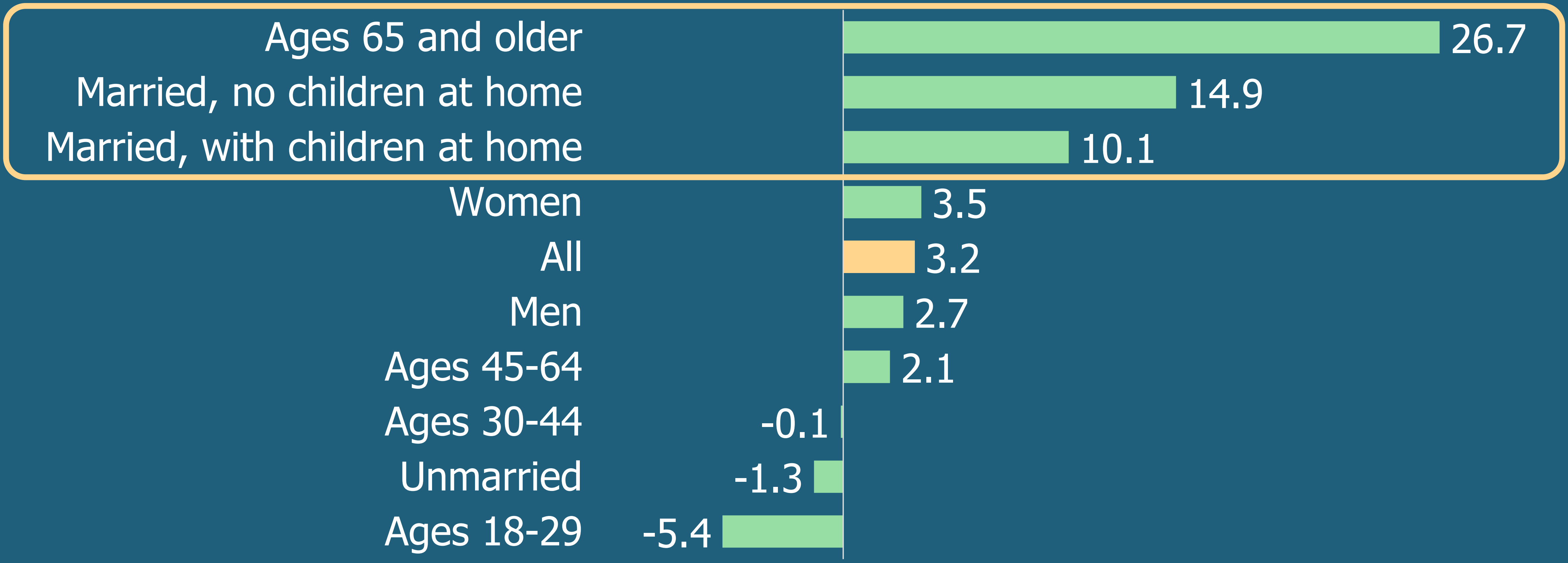
Percentage of adults in middle-income households is falling



Note: Adults are assigned to income tiers based on their size-adjusted household income in the calendar year prior to the survey year.
Source: Pew Research Center analysis of the Current Population Survey, Annual Social and Economic Supplements

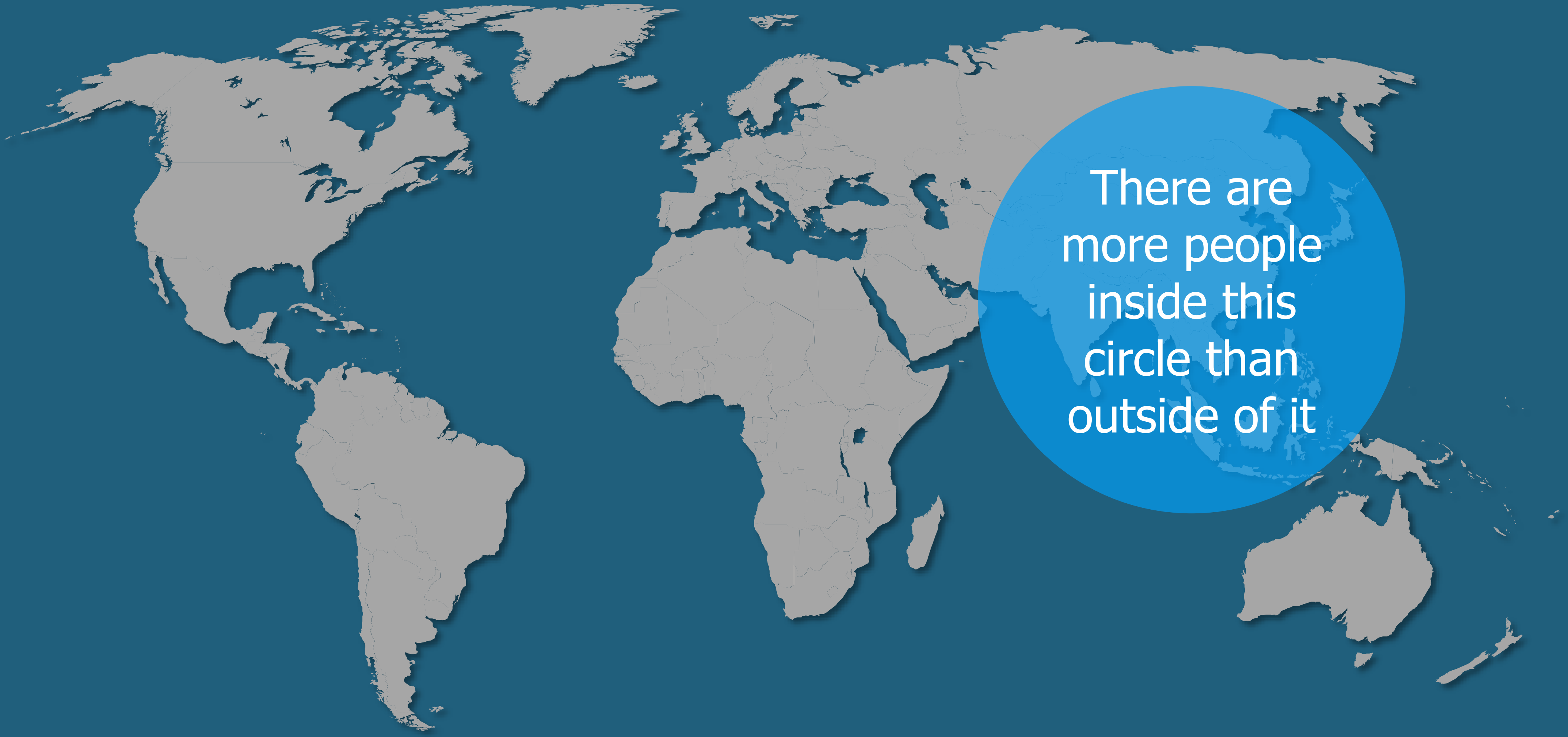
Demographic gains

Improved income status, 1971-2015 (% points): Older & married people



Note: Change in a group's share that is upper income minus change in share that is lower income
Source: Pew Research Center analysis of the Current Population Survey, Annual Social and Economic Supplements

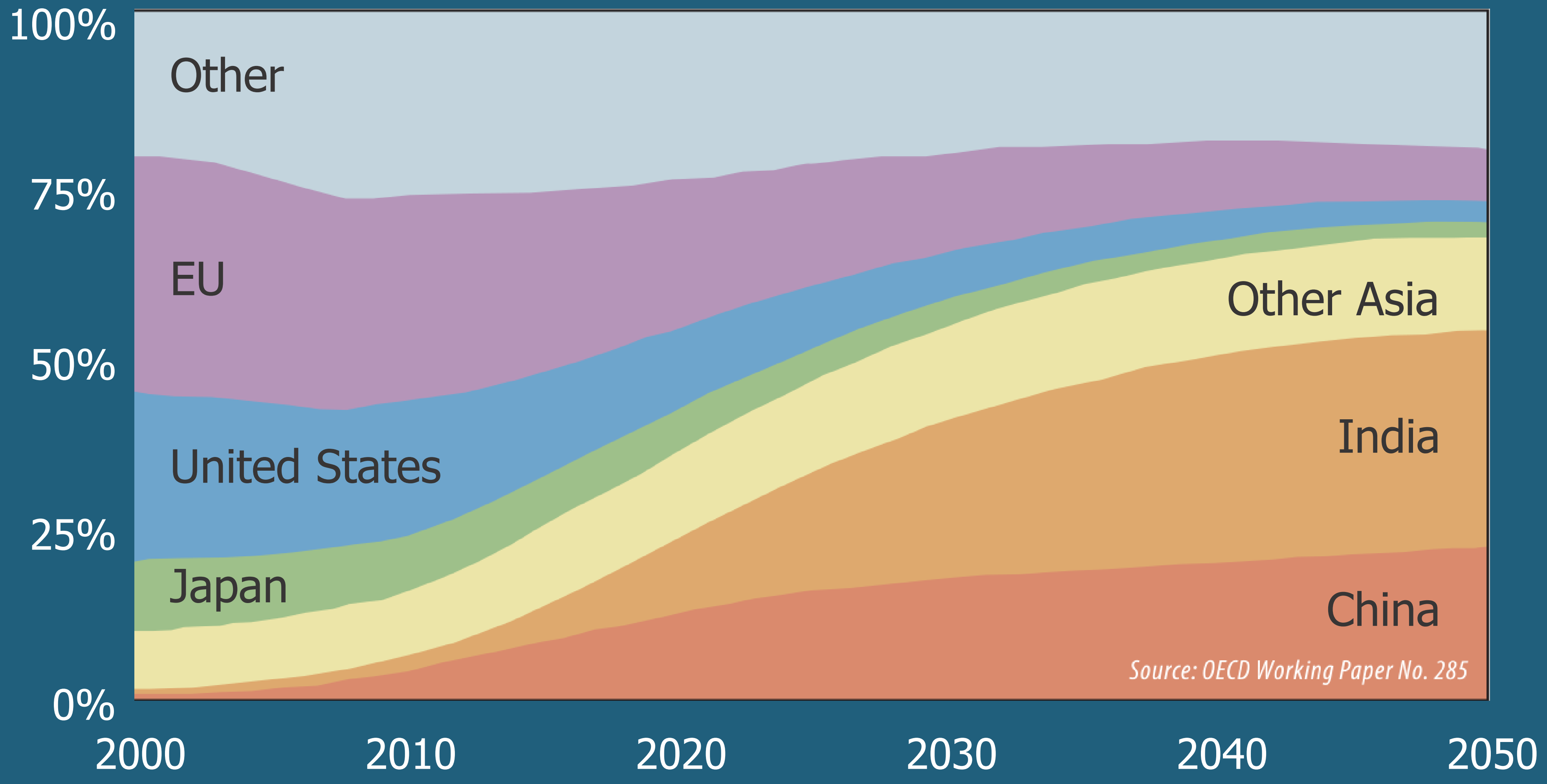
Emerging middle class



Source: United Nations, Credit Suisse Emerging Consumer Survey 2013

India & China lead middle class growth

Share of global middle class consumption, 2000-2050

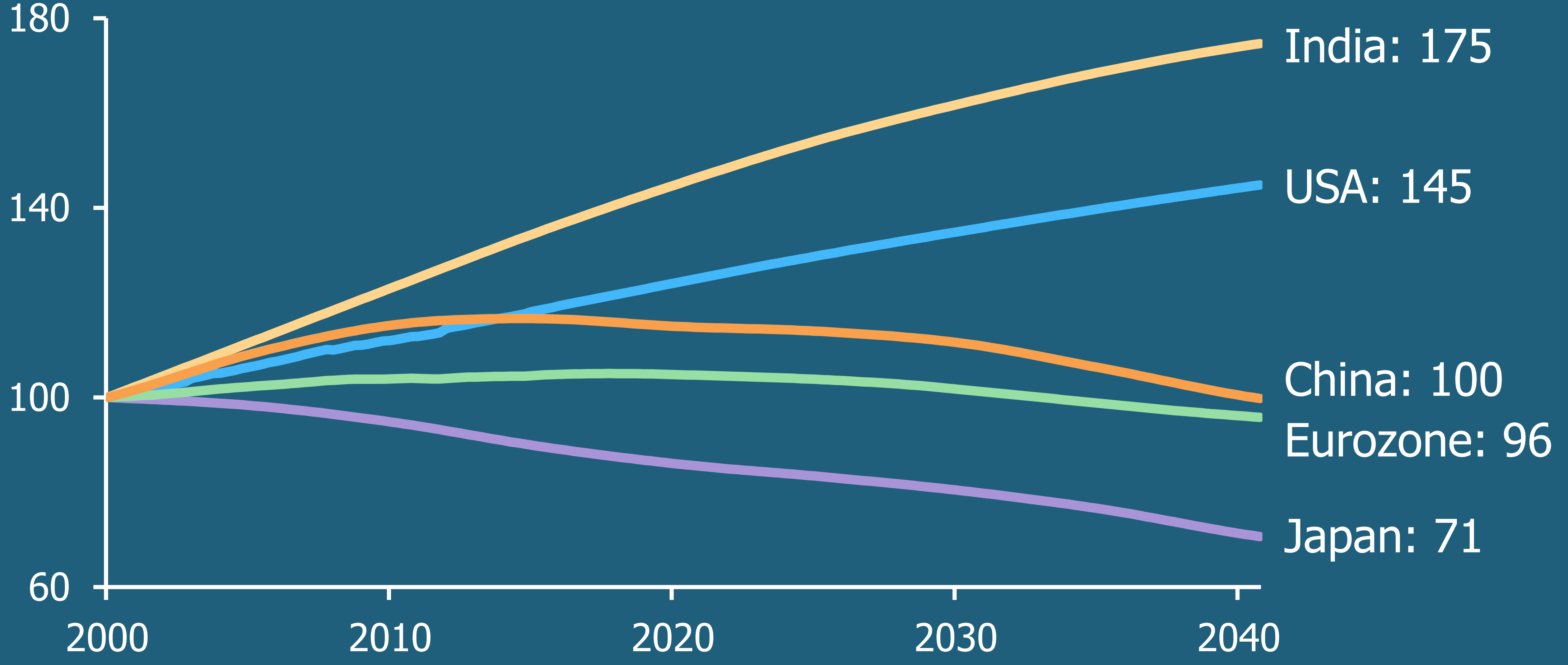


Source: Brookings Institution; OECD, 2011

World labor force growth

Working age population forecast to 2040

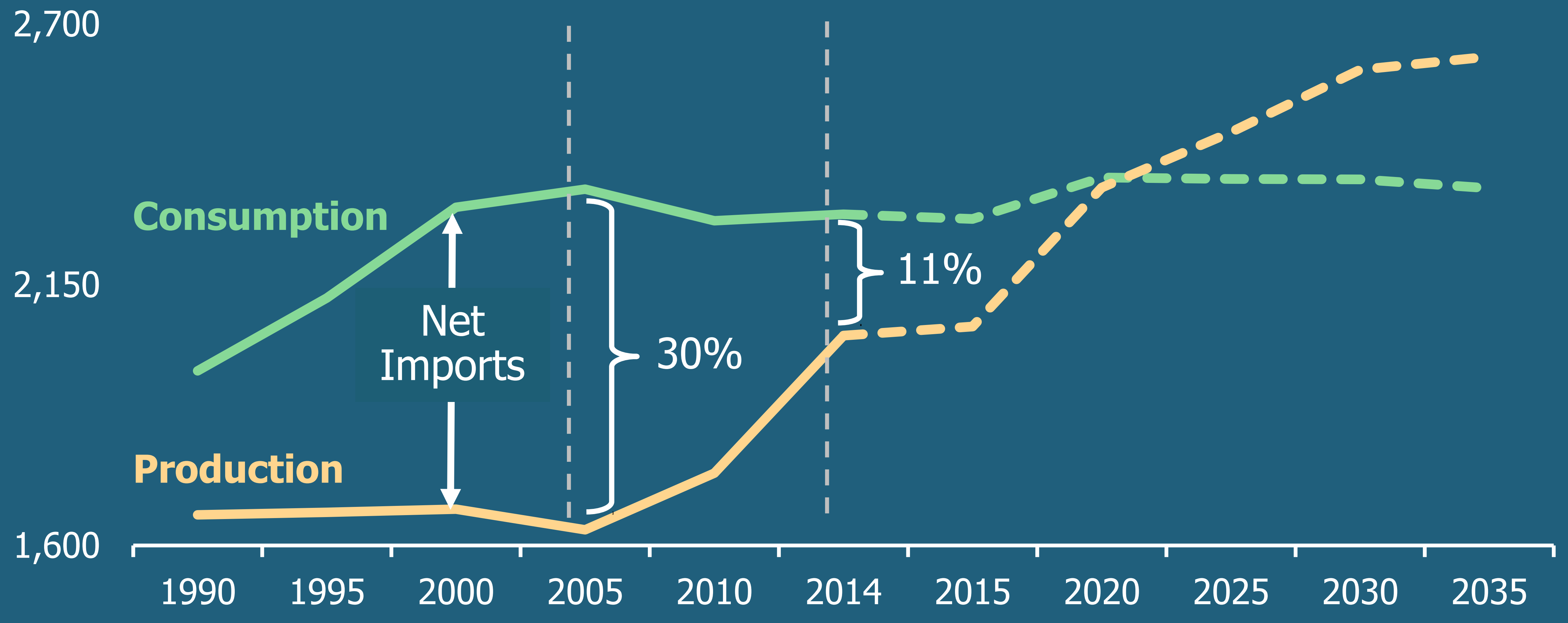
(Indexed to year 2000)



Source: Oxford Economics, October 2016

U.S. path toward energy independence

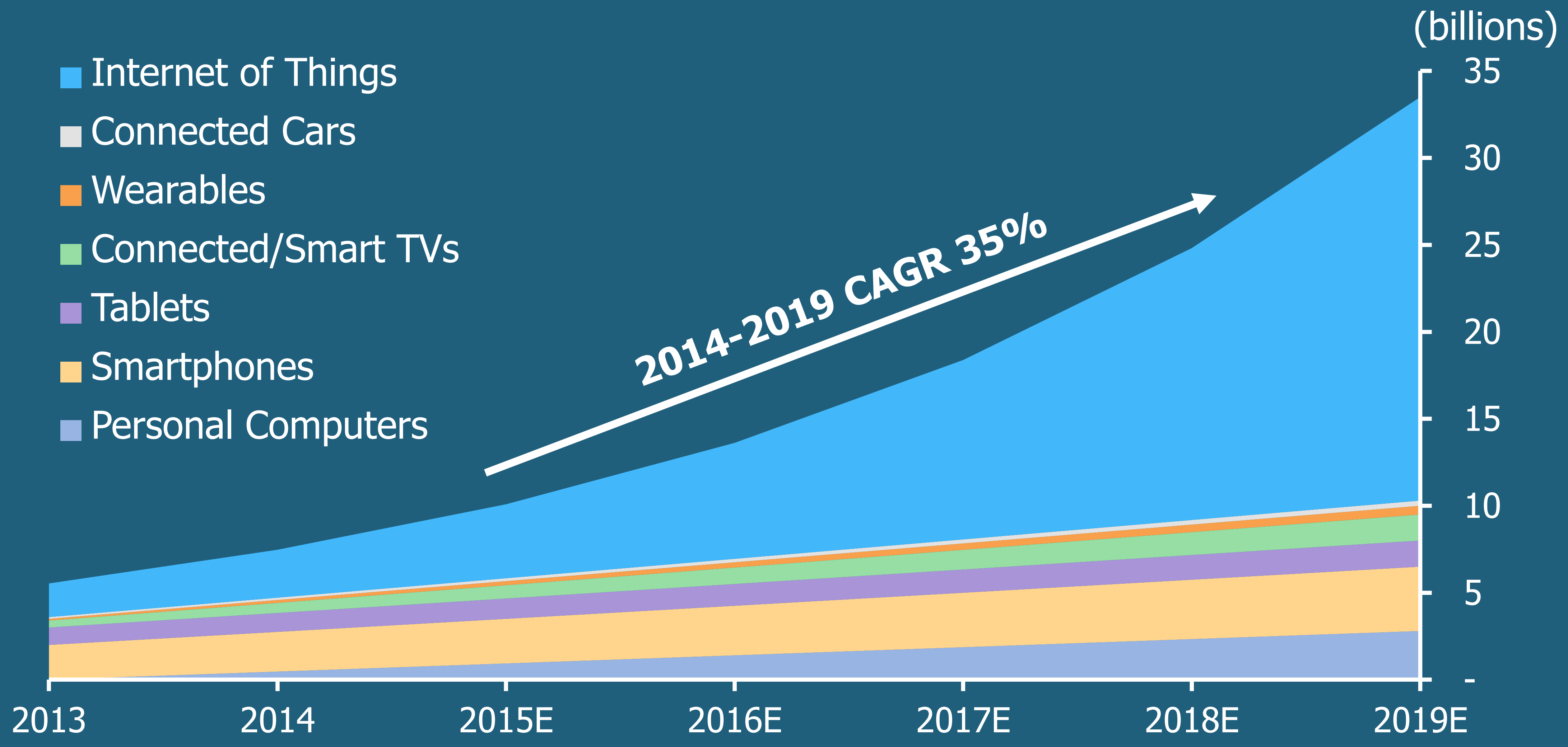
Total U.S. energy consumption & production



Source: BP plc, February 2016, million tons oil equivalent

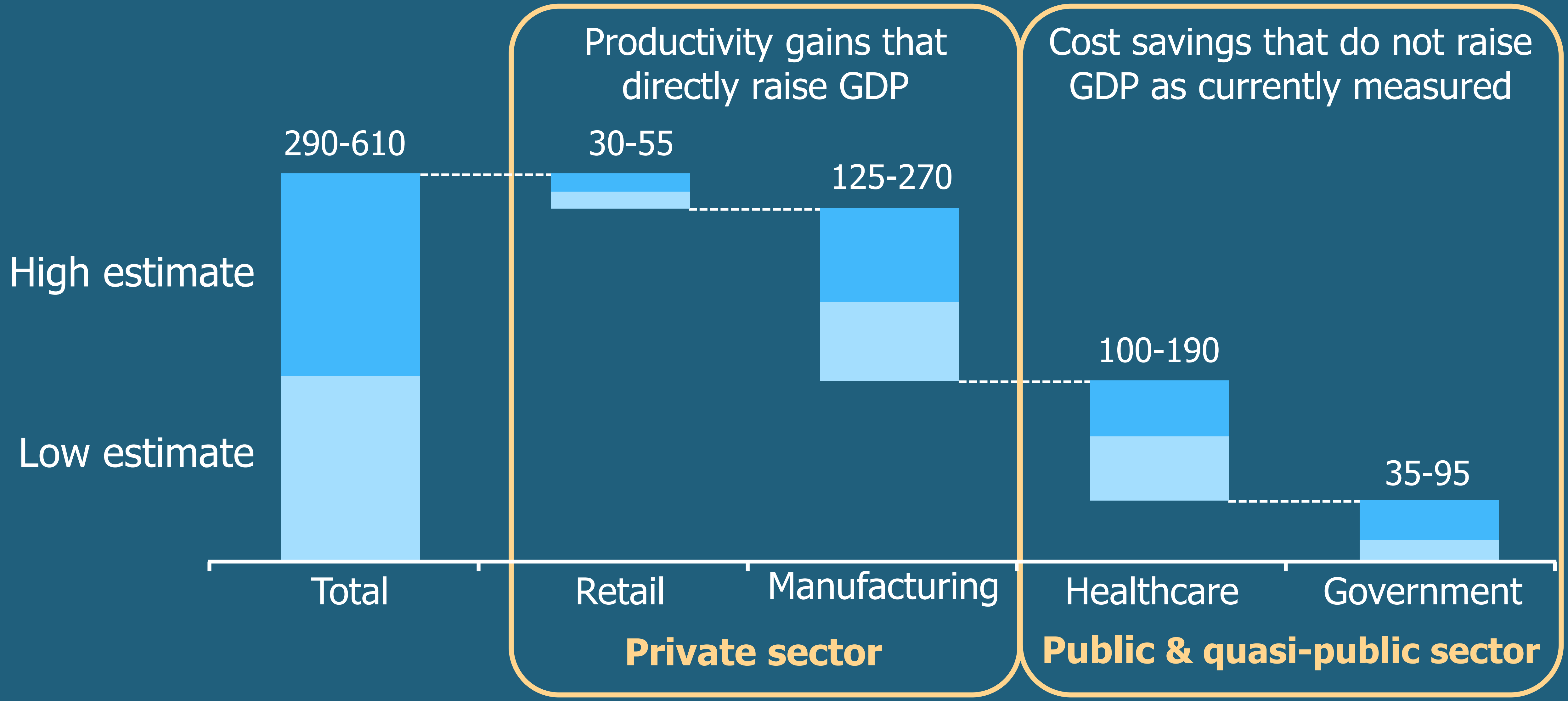
A surge of technological trends

Number of devices in the Internet of Everything



Source: Business Intelligence estimates, April 8, 2015

Big data driving GDP



Source: McKinsey, Game Changers: Five Opportunities for US growth and renewal, July 2013

An Uber for everything

Concluding thoughts

- Economy and markets should perform but see slower growth.
- Key long-term economic mega-themes to watch:
  - Globalization.
  - Innovation.
  - Demographics.
- Global demand and innovation will drive long term U.S. growth.

2016 Advisor Symposium

Thank you.

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